

## SCHOOLS FORUM AGENDA ITEM

For Action ☐For Information ☒

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

This report shows the position of revenue balances held by maintained schools at 31 March 2018. The report also provides information on schools' reporting of surplus balances and a further 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 Forum received information on the position of school balances held at 31 March 2017 on 5 July 2017.

**Background / Context**

The financial year for maintained schools runs from 1 April to 31 March. At the end of each financial year, schools are required to 'closedown' their accounts and to finalise the values of revenue and capital 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 schools that hold (or forecast to hold) deficit revenue balances.

Maintained schools are permitted to carry forward surplus revenue balances. However, maintained schools with revenue balances of a value 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 values of excess balances to spend on permitted schemes.

**Details of the Item for Consideration**

Please see Appendix 1 for a full list of school balances at 31 March 2018. Unfortunately, we are not able at this time to separate within the figures the values of balances held by each school that relate to collaborative arrangements. This information will not be available until final CFR returns have been submitted by schools in early June. The table below summarises the overall positions for each phase and gives a comparison against the absolute positions at 31 March 2017.

	March 2018	March 2017	£ Difference
Nursery	£853,790	£658,544	+ £195,246
Primary	£6,693,814	£8,579,706	- £1,885,892
Secondary	- £1,537,811	- £634,646	- £903,165
Special	£654,155	£354,372	+ £299,783
PRUs	£457,141	£666,466	- £209,325
<b>Total</b>	<b>£7,121,089</b>	<b>£9,624,441</b>	<b>- £2,503,352</b>

Please note that the totals above are affected by the reduction in the number of maintained schools as schools convert to academy status. Balances held by academies are not included within the Authority's reporting. At 31 March 2018, 8 fewer schools were maintained by the Local Authority than at 31 March 2017 (including the amalgamation of 2 maintained schools at September 2017). The 7 schools that have converted to academy status during 2017/18 held revenue balances in total of £0.518m at 31 March 2017.

**Surplus Balances Protocol**

The current Surplus Balances Protocol, which has been in place since March 2014, has been implemented with the main purpose of further supporting / encouraging schools to maximise the spending of their resources in support of raising standards. The two key aspects of the Protocol are:

- a) Thresholds of 4% (Secondary) and the greater of 6% or £60,000 (all other phases, but with additional flexibility for high needs providers) apply.
- b) The types of expenditure for which balances above the thresholds can be held are restricted to the following:
  - A revenue contribution to an agreed capital scheme, only where capital resources are not sufficient.
  - A revenue contribution to a 'spend to save' scheme, including energy efficiency schemes.
  - Balances earmarked to support the costs incurred by the review of contracts of a significant value, where expenditure is not even year on year, including Building Schools for the Future.
  - Managing the costs of expansion of pupil numbers.

### Details of the Item for Consideration

- Managing financial difficulties associated with a budget reduction in the following financial year, resulting from either a significant reduction in pupil numbers or a loss or significant reduction of a specific funding stream.
- Managing exceptional circumstances in such a way as to avoid significant financial turbulence that may impact on standards. This may include, for example, outcomes of HR processes.

In terms of impact, firstly we might expect to see a reduction over time in the values of revenue balances held by schools. The table below shows an analysis of the balances positions by phase, having removed the 'distorting' effect of the conversion of maintained schools to academies during 2017/18:

	March 2018	March 2017	Difference
Nursery	£853,790	£658,544	+ £195,246
Primary	£6,693,814	£8,128,811	- £1,434,996
Secondary	- £1,537,811	- £634,646	- £903,165
Special	£654,155	£287,686	+ £366,469
PRUs	£457,141	£666,466	- £209,325
<b>Total</b>	<b>£7,121,089</b>	<b>£9,106,861</b>	<b>- £1,985,772</b>

The gross value of total surpluses held at 31 March 2018 is £10.441m (vs. £11.467m at March 2017). The gross value of deficits is £3.320m (9 schools) (vs. £2.360m and 8 schools at March 2017).

The table above, and Appendix 1, show a mixed picture:

- The gross value of surplus balances at March 2018 held by the secondary sector is roughly the same as held at March 2017. However, this sector is in deficit overall, due to the position of 1 school. 2 further maintained secondary schools hold deficit balances. £0.6m of the total gross surplus for this sector is held in IUB Schemes in support of contractual costs settlement (BSF).
- A reduction in the total value of balances held by primary schools, but a mixed picture, with 60 schools reducing and 40 schools increasing their balances. 6 schools hold a revenue deficit (compared with 4 schools at March 2017).
- A reduction overall in the value of balances held by the PRUs, mostly explained by the reduction in the balance at 1 PRU with the progression of building works (and the related revenue contribution to capital).
- An increase overall in the total value of balances held by special schools, largely the result of the decision to support the deficit position of 1 school from the DSG.
- An increase overall in the total value of balances held by nursery schools, with 5 schools increasing and 2 schools decreasing their balances.

The table below shows the number of schools by phase by revenue balance as a % of funding at March 2018:

	Nursery	Primary	Secondary	Special	PRUs
Deficit	0	6	3	0	0
Up to 1%	0	9	1	0	1
1% - 2%	0	11	0	0	0
2% - 4%	0	18	1	1	1
4% - 6%	0	37	1	1	1
6% - 8%	0	14	0	0	0
8% - 10%	0	2	1	2	0
10% - 20%	5	3	0	0	3
> 20%	2	0	0	0	1

This table shows how this position has changed from that at March 2017 (adjusted for academy conversions):

	Nursery	Primary	Secondary	Special	PRUs
Deficit	no change	+ 2	no change	- 1	no change
Up to 1%	no change	+ 7	+ 1	no change	+ 1
1% - 2%	no change	+ 1	- 1	no change	no change
2% - 4%	no change	- 5	- 1	no change	- 1
4% - 6%	no change	- 2	+ 1	+ 1	+ 1
6% - 8%	- 1	+ 3	no change	- 1	- 1
8% - 10%	- 1	- 5	no change	+ 1	no change
10% - 20%	+ 3	- 1	no change	no change	+ 1
> 20%	- 1	no change	no change	no change	- 1

### Details of the Item for Consideration

The table below shows the median average value of net balance by phase:

	<b>Median Mar 2018</b>	<b>Median Mar 2017</b>	<b>Change</b>
Nursery	£117,050	£89,738	+ £27,312
Primary	£61,546	£63,769	- £2,223
Secondary	£20,178	£99,928	- £79,750
Special	£159,132	£89,947	+ £69,185
PRUs	£56,076	£58,099	- £2,023
<b>Total</b>	<b>£63,361</b>	<b>£64,108</b>	<b>- £747</b>

At 31 March 2017 (last year), 30 maintained schools held balances above their Intended Use of Excess Balances Thresholds, with a total value of balances above these Thresholds of £1.83m. After legitimate adjustments, such as for balances held on behalf of other schools, external ring-fenced grants and later notification of funding payments, 20 maintained schools held what the Council's Surplus Balances Protocol defines to be an 'excess' balance, at a total value of £1.36m. 23 schools returned schemes, with the total value of schemes adding up to £1.91m.

The equivalent position at 31 March 2018 is 27 schools (-3) are holding balances above their Thresholds, at total value of £1.40m (-£0.43m). After legitimate adjustments have been made, 15 schools (-5) are holding what the Council's Surplus Balances Protocol defines to be an 'excess' balance, at a total value of £0.71m (-£0.65m). 15 schools (-8) have returned 17 schemes, with the total value of schemes adding up to £0.98m (-£0.93m). A breakdown of schemes by type is shown in the table below:

<b>Type of Scheme</b>	<b>No. of Schemes</b>	<b>Total Value of Schemes</b>
1 Revenue Contribution to Capital Scheme	8	£210,157
2 Revenue Contribution to Spend to Save	0	£0
3 Contracts Review (including BSF)	3	£678,237
4 Managing Places Expansion	1	£13,000
5 Managing Budget Reduction	5	£82,313
6 Managing Exceptional Circumstances	0	£0
<b>Total</b>	<b>17</b>	<b>£983,707</b>

All schemes are planned to be completed by 31 March 2018. Of the 15 schools holding an excess balance at 31 March 2018, all appear to have properly assigned the value of excess and therefore, there are currently no proposals for clawback.

Our initial conclusions from a simple analysis of the balances and Intended Use of Balances reporting positions at 31 March 2018 are that the Council's revised Surplus Balances Protocol continues to have an impact:

- No schools have breached their Thresholds without having assigned an appropriate value of balance to schemes, continuing to evidence that the quality of financial planning and monitoring is continuing to improve.
- The number of schools above their Thresholds at 31 March 2018 has reduced from 30 to 27 and the value of balances held by these schools above their Thresholds has also reduced.
- The total value of balances held by schools has reduced. It is expected that balances will reduce further during 2018, especially where the sums currently being held for specific commitments are spent.

We must recognise however, that the tighter financial climate is a very significant factor behind the reduction in the values of balances and in the numbers of maintained schools holding balances above Threshold. 57% of maintained schools reduced the sizes of their balances during 2017/18 (had 'in year' deficits) compared with 60% during 2016/17.

The continued conversion of maintained schools to academy status will also continue to reduce the values of balances held by schools recorded within the Council's financial accounts.

### Academy Conversions / School Closures / IUB - General Context and Framework (reminder)

- 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.

### **Details of the Item for Consideration**

- On the conversion of a maintained school to academy status:
  - a deficit of a maintained school that is a 'converter' academy is transferred to the academy trust (so there is no liability on the Local Authority nor the DSG). Any surplus balance is also transferred.
  - 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. Where the Secretary of State issues an Academy Order following an application from the maintained school's governing body, the law requires that the surplus balance must transfer to the academy trust. However, where the Secretary of State issues an Academy Order in respect of a school eligible for intervention, the surplus remains with the Local Authority, though the surplus can be transferred to the academy trust.

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

Members received an update on the position of balances in relation to academy conversions on 14 March 2018. An update on the position presented then is as follows:

- The Local Authority has now completed the financial close of all the 6 maintained schools that converted to academy status between April 2017 and March 2018. 1 of these closed with a small deficit balance. This is a converter academy and the Authority has processed this as such with the ESFA and the value of this deficit has been repaid.
- The Local Authority is now processing the financial closures of 3 more conversions that took place at 1 May 2018. All 3 of these schools are expected to close with surplus balances.
- There have been 49 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. There have only been 3 conversions so far in 2018/19.
- We have 122 maintained schools at 1 May 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 6 of the 20 to be regarded as sponsored academies, where any deficit would be retained by the Local Authority. 2 of these schools held revenue deficit balances at 31 March 2018 and there is risk that these deficits will be present on conversion. Forum members are reminded that a de-delegated fund of £150,000 has been established to be available to cover the values of deficits in the primary phase.

Further information will be presented verbally on the early 'risk' messages and trends coming from the Authority's analysis of 2018/19 budget submissions from maintained schools in advance of more detailed report to be tabled at the July Forum meeting.

### **How does this item support the achievement of the District's Education Priorities**

Schools maximising their resources in support of raising standards.

### **Recommendations**

**The Schools Forum is asked to note the information provided on maintained school balances.**

### **List of Supporting Appendices / Papers (where applicable)**

Appendix 1 – Summary of Maintained School Revenue Balances at 31 March 2018

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

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