

## 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 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 2019-2022 period.

**Date (s) of any Previous Discussion at the Forum**

The Schools Forum received a similar report this time last year on 14 March 2018 and a report on the position of maintained school balances on 23 May 2018.

**Background / Context**

The Authority's 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 spending on permitted schemes.

Academies and Free Schools are responsible to the Education and Skills Funding Agency (the ESFA) for their financial reporting on an academic year basis. 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 on 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. We have de-delegated arrangements in place for the primary phase.

Forum Members are reminded:

- An identified sum of £0.65m is still held within the DSG Schools Block (within balances carried forward) to support the cost of the deficit of a secondary school converting to academy status.
- Within the recommendations that were made by the Schools Forum on 9 January, and that were agreed by Council on 21 February 2019, is the continuation of the de-delegated fund for deficit provision for sponsored conversions in the primary phase. A new budget value of £110,600 has been retained in 2019/20. A de-delegated fund for this purpose is not held in the secondary phase.
- Of the information that has previously been presented to the Schools Forum on how the Local Authority supports and challenges schools on their budget positions. 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 2019-2022 from maintained schools is 15 May 2019. It is these submissions that give the Authority a clearer view of the position of school budgets going forward. A report on budget positions and balances held by maintained schools at the end of the 2018/19 financial year will be presented to the Schools Forum on 22 May.

## **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 2019/20, and converts on 1 September 2019, may respond to this in year, but savings from curriculum 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 2018/19 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 the Forum previously established "a formal 'Panel' of Forum Members with the remit to discuss in detail the financial implications of academy conversions and any 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 larger number of academy conversions and as budgets become tighter following the continued fall in the real terms value of funding. As previously reported to the Forum, the National Audit Office and the Institute for Fiscal Studies (IFS) have calculated that spending per pupil has and will continue to fall in real terms. The pressure in school and academy budgets resulting from this reduction in the value of funding per pupil in real terms is still very present over the 2019-2022 financial period.

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

### Summary Position - Academy Conversions

- The Local Authority has fully completed the financial close of 10 maintained primary schools that have converted to academy status between 1 April 2018 and 31 March 2019. A further 6 primary schools and 1 PRU have converted during 2018/19 and the financial closure of these is still taking place. So there have been 17 conversions in total during 2018/19.
- At 1 April 2019, we have 108 maintained schools and 103 academies and free schools.
- Of the 17 conversions that took place during 2018/19, 4 of these have closed or are expected to close with deficit balances. 3 of these deficits will be presented to the next Forum meeting within the report on closing balances and the cost of these is to be met by the Schools Block primary-phase de-delegated fund. The 4<sup>th</sup> is a converter academy and the Authority has already been reimbursed by the ESFA for the value of their deficit.
- We have immediate sight of around 10 schools that are planning conversion / may convert / are likely to convert over the next 12 months. The position is still moving regularly and we expect the number of conversions during 2019/20 to be higher than 10. We would expect 3 of the immediate 10 to be regarded as sponsored academies and, on current information, there is risk of deficits in 2 of these. The Authority is currently working with these schools.
- In terms of the financial positions of currently maintained schools, more generally, 8 schools held deficit revenue balances at the end of 2017/18. We currently forecast that 6 schools will be in revenue deficit at 31 March 2019, which is 6% of our total number of maintained schools. We continue to see some reduction in the total value of revenue balances held. The schools that are still maintained on 1 March 2019 held total gross revenue surpluses of £9.36m at March 2018. These schools currently forecast to hold £9.28m of surpluses at March 2018. The scale of reduction in gross surplus during 2018/19, on this forecasted data, does appear to be lower than in 2017/18. 52% of our maintained schools forecast to have in year deficits in 2018/19 (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 2018/19 final balances, deficits and surpluses, on 22 May 2019.

### 2019-22 Budget Challenge

The Forum has previously received information 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 2019/20. The introduction to this guidance is summarised below to support awareness and discussion.

The vast majority of schools have taken positive action 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 3-5 year planning is not sufficient to deliver a balanced budget across 2019-2022. Critically, schools

### Details of the Item for Consideration

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 income in year.

Financial pressure across all sectors has been driven primarily by salary costs rising whilst values per pupil of formula funding, high needs funding, and other grants such as Pupil Premium have remained broadly static ('cash flat'). 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 2019-2022 as salary costs continue to rise.

Critically, there are also a number of uncertainties that add to the challenges that schools face in their budget planning. It is important that schools retain an awareness of these going forward:

- Two key matters, which are expected to quite significantly affect school spending in 2019/20, are still to be confirmed. Firstly, the pay award for teachers at September 2019 (estimated at 2%). Secondly, the final confirmed rate of employer's contribution to teacher pensions from September 2019 (indicatively to increase from 16.48% to 23.60%) alongside the details of the DfE's additional grant to be allocated in support of this cost. Schools will need to review their budget assumptions, when these two matters are confirmed during 2019, and take necessary action to manage any adverse impact.
- Looking slightly further into the future, the support staffing (NJC scale) pay award at April 2020 is not yet known nor is the extent of any change in employer's contributions to the Local Government (West Yorkshire) Pension Fund for these staff, which is anticipated in maintained schools from April 2020.
- Education and school funding nationally from April 2020 is to be determined by the Government's spending review at autumn 2019. At this time, we have no confirmed insight into how school funding will develop; this includes the further transition to National Funding Formula, the continuation of existing grants including Pupil Premium Grant, early years and high needs funding, and the Minimum Funding Guarantee for primary and secondary schools. The autumn 2019 spending settlement could result in quite significant changes in the funding framework. For example, Pupil Premium could cease as a separate grant and be merged into formula funding from April 2020.
- A critical uncertainty for maintained nursery schools is whether the protection that they currently receive through the DSG (protecting on average a 1/3<sup>rd</sup> of their funding for the 3&4 year old entitlement delivery) will continue after the 2019/20 academic year. The Authority has begun discussions with the maintained nursery schools on this issue.
- The DfE has announced that two additional grants will be allocated to schools in 2019/20 to support staffing cost increases a) the Teacher Pay Grant, which is already confirmed and is allocated purely to support the full year cost of the September 2018 teachers' pay award and b) an additional grant to support the increase in the cost of the employer's contribution to teacher pensions from September 2019. This latter grant is still to be confirmed. We do not currently know whether these two grants will continue after April 2020 or, if they do, the form they will take. It is possible / probable that these grants, if they do continue, will be 'mainstreamed' into formula funding.

Schools should take the time now to assess the implications of different scenarios, for example, to identify how much an additional x% in pay award or pensions would cost, and should begin to explore options for managing variations where the assumptions made about costs in 2019/20 and beyond may need to be revised. For example, how would you manage the scenario during 2019/20 where your cost of teachers increases at September 2019 by 1% or 2% more than you have originally planned for? What action would you take within your 2020/21 budget where your cost of support staff increases at April 2020 by 1% or 2% more than you have originally planned?

*Intended as an estimated guide only for discussion - making some assumptions about funding levels remaining static and salaries costs increasing, and also assuming that additional grants for salaries continue and fully cover costs - it is estimated on a very general basis that the average pressure on expenditure in schools and academies across 2019-2022 could fall around 10% (between 9% - 11%); roughly between 3% and 3.5% a year. 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 current budget that a school or academy has now could buy £100,000 less (between £90,000 and £110,000 less) activity in 2021/22.*

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 holding smaller values of revenue reserves.

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](mailto:andrew.redding@bradford.gov.uk)