

Report of the Strategic Director, Childrens Services to the meeting of the Corporate Overview and Scrutiny Committee to be held on 10 October 2019

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Subject:

HANSON SCHOOL'S FINANCIAL POSITION

Summary statement:

The Committee, at its meeting held on 11 April 2019, requested a report on the financial circumstances relating to Hanson School's overspend.

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Portfolio:

Corporate

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Overview & Scrutiny Area:

Corporate

1. SUMMARY

- 1.1 At the meeting held on 11 April 2019, the Committee requested a report on the financial circumstances relating to Hanson School's overspend. This is a report for information.
- 1.2 The School recorded a cumulative revenue and capital overspending of £3.503m at 31 March 2019 (at the end of the 2018/19 financial year). This is 31% of the school's 2019/20 forecasted in year income.

2. BACKGROUND

- 2.1 The table below summarises the year end positions of Hanson School since 2013/14 and the timescale for the growth of the cumulative overspending of £3.503m:

Year	In Year Spending Position	Cumulative Deficit
2013/14	+ £33,993	- £185,370
2014/15	+ £13,370	- £172,000
2015/16	- £668,000	- £840,000
2016/17	- £1,020,000	- £1,860,000
2017/18	- £1,124,000	- £2,984,000
2018/19	- £519,000	- £3,503,000

- 2.2 A cumulative overspending of £4m was forecasted within the School's original 2018/19 budget. The £0.5m improvement against this forecast was the result of additional funding announced during the year, the majority allocated on a one off basis (additional capital, teacher pay grant and post 16 funding), as well as the release, again on a one off basis, of a proportion of the prior year accrual held within the School's accounts for the settlement of the current BSF (PFI) contractual dispute. Without the benefit of these amendments, the School's overspending in 2018/19 would have been in the region of £0.965m.
- 2.3 The governance timeline for the School over this period is as follows.
- The Department for Education made an order to convert Hanson School into an academy in 2011 after Ofsted first put the school into special measures in November 2010.
 - The Department for Education appointed Schools Partnership Trust (SPTA) as the academy sponsor. Issues at a national level regarding the financing of Building Schools for the Future initially delayed the School's conversion. SPTA withdrew their sponsorship in early 2015.
 - Wakefield Academies Trust (WCAT) was then nominated by the Regional Schools Commissioner (RSC - who became responsible for academies from 2014 onwards) to sponsor the School. WCAT supported the School from autumn 2015 up to their withdrawal in December 2016.
 - An Interim Executive Board (IEB) governed the School between June 2015 and

May 2017, when a full governing board was re-established.

- The Gorse Academies Trust (TGAT) supported the School (specifically school improvement, finance and HR) between March 2017 and July 2019 under an SLA agreed with the RSC.
- Hanson School came out of Special Measures in January 2018 and is now Requires Improvement.
- Hanson School is a still foundation school maintained by the Local Authority. The Governing Board has financial powers / responsibilities as delegated under the Scheme for Financing Schools.

2.4 The following background information is also helpful:

- Hanson School is part of the Building Schools for the Future (PFI) programme (Bradford's phase 2) and is required to pay annually £934k (in 2019/20) under this contract for premises related costs as well as a proportion of contractual repayment capital liabilities. It is now somewhat well understood that PFI, compared against the premises costs that a non-PFI secondary school would have, is a more expensive and inflexible premises solution. The School's annual charge is essentially fixed for 25 years, increasing each year for inflation (RPIX) and subject to triennial benchmarking, but not adjusting for changes in school circumstances, including in pupil numbers.
- The Governing Board has a contractual responsibility relating to the provision of sports facilities on site. The Council is not party to that contract and therefore, due to commercial confidentiality is not able to discuss in detail. Should the Committee need to discuss this matter further it will need to do so having excluded the public from the meeting.
- Hanson School is a 10 form of entry school with post 16 provision. Pupil numbers significantly reduced in October 2015 and again in October 2016. This resulted in a significant reduction in funding. The School's formula funding allocation in 2018/19 was £1m lower than it received in 2014/15.

Census	Pre 16	Post 16	Total	Gap to PAN (pre 16)	Vs. Previous Year (pre-16)
October 2013	1,450	298	1,748	- 50	n/a
October 2014	1,431	275	1,706	- 69	- 19
October 2015	1,382	210	1,592	- 118	- 49
October 2016	1,305	208	1,513	-195	- 77
October 2017	1,301	287	1,588	- 199	- 4
October 2018	1,331	290	1,621	- 169	+ 30

The School's year 7 intake this September is over 300 compared with 284 in September 2018, which strongly indicates that pupil numbers are now beginning to improve to the benefit of the School's funding; c. £0.432m in pre-16 funding growth between October 2017's and October 2019's numbers.

2.5 The School's £3.503m overspending is currently supported in cash terms by Bradford Council. Bradford's Scheme for Financing Schools sets out the process

and basis for the licensing of deficits held by maintained schools. Hanson's position however, is exceptional and will need to be managed by the Council as such. Deficits held by maintained schools are ultimately the responsibility of the Council. There are Regulations, which govern what happens to any deficit balance upon the closure of a school or on its conversion to academy.

Deficit budgets on the closure of a maintained school revert back to the Local Authority. These may be charged to the Dedicated Schools Grant if 'de-delegated arrangements' operate to enable this. 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). However, 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.

There is a sum of £0.65m within our DSG budget, set aside some time ago, to support the management of the School's deficit. The Schools Forum has given a clear steer that the Council should not seek to charge the DSG any further than this for the School's deficit.

On this basis, monitoring reports on the Council's budget have begun to include the potential use of Council contingency.

3. OTHER CONSIDERATIONS

- 3.1 The beginning of the School's overspending in 2015/16 can be explained with reference to a school in Special Measures, with overspends in key related budget areas, including in teaching supply costs and pupil alternative provision. Schools in special measures, especially for an extended period of time, typically spend more due to staffing, leadership and pupil behaviour issues as well as in seeking to invest to recover standards.
- 3.2 Whilst the contractual issues faced by the School are a factor, these do not in themselves explain the School's financial position. With reference to BSF (PFI), this cost was present in the School's budget in 2014/15 when its budget balanced. This being said, BSF (PFI) schools that do not have a full cohort of children will clearly struggle more with the affordability of fixed charges.
- 3.3 As stated above, Hanson's pupil numbers significantly reduced in October 2015 and 2016. These drops resulted in the reduction of formula funding in 2016/17 and again in 2017/18. Such a reduction in pupil numbers and funding would necessitate significant restructure of staffing, which needed time for planning and transition. This came about over a period when the School was held under an academy order, when the School's conversion to academy was permanently 'imminent', and when two sponsors pulled out of the School. The most significant factor behind the growth of deficit in 2016/17 (+ £1m) and 2017/18 (+£1.1m), and one of the main legacy issues that the School is now seeking to recover from, is that the School's spending did not reduce sufficiently to balance the reduction in funding that came from a reduction in pupil numbers in October 2015 and October 2016.

It is important to identify that Hanson School faced these circumstances over a period when the real terms value of funding has been heavily eroded in particular by the growth in salaries costs.

Benchmarking has also highlighted that the cost per capita of teachers in the School is higher than the average. The main reasons for this are the number of middle leaders (with TLRs) and the impact of the restriction on employing NQTs that is put on schools in Special Measures.

- 3.4 Over the period of TGAT's SLA, March 2017 to July 2019, the School has enacted two large managed staffing restructures and has achieved savings in non-staffing costs. It has been understood by the Authority that pay protection has so far reduced the material impact on the budget of these staffing restructures. However, despite this activity, Hanson's Governing Board on 30 April 2019 formally agreed the School's 2019/20 budget, which overspends by £0.654m, meaning that the School's deficit at March 2020 is forecasted on this basis to be £4.16m. The School's formally submitted 3 year budget also indicates that the School will continue to significantly overspend in future years.
- 3.5 Following the end of TGAT's SLA, since the beginning of September, the Local Authority has been working with the School and its Governing Board to better understand the detail of the managed staffing restructures to assess their material impact and the timescale for the delivery of savings. Work is also taking place to identify further savings that can be made with the aim of bringing the in year spending position of the School into balance as quickly as possible. The outcomes of this work – at what point the School's budget will balance and what action is needed to deliver this – are not yet established but will be as soon as possible. It is suggested that an update on this is provided to the Committee early in the new calendar year.

In support of this work, a DfE Advisor is scheduled shortly to audit the School. The purpose of the Advisor is to help identify key areas of efficiency and saving. Bradford Council's internal audit has also been asked to carry out an audit the School's financial management, processes and procedures.

Supporting this work also is that the School's pupil numbers are rising and the School is out of Special Measures, enabling the employment of NQTs.

- 3.6 The current priority is to establish a plan to bring the School's budget into balance in year. Discussions will also need to take place around the management of the accumulated deficit and the extent to which this is repaid by the School and supported by the Council and the options for potentially incentivising swifter repayment.

4. FINANCIAL & RESOURCE APPRAISAL

As set out within the report.

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

As set out within the report.

6. LEGAL APPRAISAL

- 6.1 Hanson School is a Foundation school, which does not have a foundation or trust body. Foundation schools were set up under the [School Standards and Framework Act 1998](#) to replace [grant-maintained schools](#), which were funded directly by central government.
- 6.2 Foundation schools are maintained schools meaning that they are funded by central government via the [local authority](#). Like [voluntary aided schools](#), the governing board of foundation schools not the Council employs the staff and has responsibility for admissions to the school. The land and buildings are also owned by the governing board in foundation schools. At Hanson this is subject to the PFI contracts.
- 6.3 The School and Early Years Finance (England) Regulations 2018 requires local authorities to prepare a financial scheme to deal with the matters connected with the financing of schools maintained by the authority.
- 6.4 When a maintained school becomes an academy, the Academies Act 2010 and the Academy Conversions (Transfer of School Surpluses) Regulations 2013 set out a process for the transfer of any surplus the school may have at the point of conversion. The Act requires local authorities to transfer a maintained school's surplus balances when the school converts to an academy. The Academy Conversions (Transfer of School Surpluses) Regulations 2013 sets out the procedure that the local authority must follow in determining and paying the amount.
- 6.5 Department for Education (DfE) guidance sets out what happens to any surplus balance when a school ceases to be maintained by a local authority (LA) and becomes an academy under the Academies Act 2010. It also sets out what happens to any deficit a converting school may have. LAs have to ensure that any deficit or surplus balances are transferred within the statutory timescales.
- 6.6 Converter academies are those that convert (whether as a standalone academy or as part of a multi academy trust) by means of an academy order (AO) made after an application by the governing board of the school. Schools which are eligible for intervention, under the Education and Inspections Act 2006, and schools that have applied to become an academy but where the Regional Schools Commissioner (RSC), on behalf of Secretary of State (SoS), does not consider the school strong enough to convert without the additional support of a sponsor are treated as sponsored academies, even where their route to becoming an academy is through an application for an AO by the governing board
- 6.7 DfE Guidance provides that where a school with a deficit is to open as a sponsored academy, the deficit remains with the LA, to be funded from its core budget. School deficits are generally not an allowable charge on the LA's schools budget however,

if the Schools Forum has agreed to de-delegate a contingency provision, then the deficit may be funded from that contingency, depending on the criteria agreed for its use.

6.8 The Guidance further provides that LAs should work closely with schools becoming an academy to ensure that they manage the risk of an increasing deficit, and if a school is not managing its expenditure in a satisfactory manner, the LA may withdraw delegation of the school's budget share in order to limit the potential cost to the LA's budget. LA finance officers should also work closely with school improvement officers to provide additional financial monitoring prior to them becoming an academy.

6.9 The Council's Constitution, Part 3B Access to Information Procedure Rules provides that the public and the press may be excluded for all or part of an item of business before a committee meeting, where exempt information, as defined by Schedule 12A of the Local Government Act 1972 would be disclosed. Information relating to the financial or business affairs of any particular person (including the authority holding that information) is exempt information. This would include information regarding any contract or business affairs of the School's Governing Board.

7. OTHER IMPLICATIONS

7.1 EQUALITY & DIVERSITY

None

7.2 SUSTAINABILITY IMPLICATIONS

None

7.3 GREENHOUSE GAS EMISSIONS IMPACTS

None

7.4 COMMUNITY SAFETY IMPLICATIONS

None

7.5 HUMAN RIGHTS ACT

None

7.6 TRADE UNION

None

7.7 WARD IMPLICATIONS

None

7.8 IMPLICATIONS FOR CORPORATE PARENTING

None

7.9 ISSUES ARISING FROM PRIVACY IMPACT ASSESMENT

None

8. NOT FOR PUBLICATION DOCUMENTS

None

9. OPTIONS

None – this is a report for information.

10. RECOMMENDATIONS

10.1 The Committee is asked to consider and to note the information provided in the report.

10.2 An update on the School's financial position be presented to the Committee early in the new calendar year.

11. APPENDICES

None

12. BACKGROUND DOCUMENTS

None