

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 provides 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 general position of school and academy budgets over the 2020-2023 period.

Date (s) of any Previous Discussion at the Forum

The Schools Forum received a similar report this time last year on 13 March 2019 and a report on the position of maintained school balances on 22 May 2019.

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, but with regulations in place governing the treatment of balances where schools close and amalgamate. 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 is typically transferred to the 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 8 January, and that were agreed by Council on 20 February, is the continuation of the de-delegated fund for deficit provision for sponsored conversions in the primary phase. However, no new budget value has been retained in 2020/21. A de-delegated fund for this purpose is not held in the secondary phase.
- Of the information that has previously been presented on how the Local Authority supports and challenges schools on their budget positions. The Authority also publishes 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 2020-2023 from maintained schools is 15 May 2020. 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 2019/20 financial year will be presented to the Schools Forum on 20 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 2020/21, and converts on 1 September 2020, 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 2019/20 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 did 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.
- That it was reported to the Schools Forum on 22 May 2019 (Document KJ) that 3 sponsored primary schools were determined to hold deficit balances totalling £252,432, with this value charged to the de-delegated fund in 2019/20. This is the first time a charge has been made against the DSG related to deficits from academy conversion.

Details of the Item for Consideration

Summary Position - Academy Conversions

- At 1 April 2020, we have 101 maintained schools and 109 academies and free schools. These numbers incorporate the closure of Ellar Carr PRU and the closure of the two Education in Hospital provisions as separate PRUs (with these provisions merged into an Authority-managed service). The balances associated with these closures are being deployed in line with the Regulations that govern amalgamations.
- The Local Authority has completed the financial close of 3 maintained schools that have converted to academy status between 1 April 2019 and 31 March 2020; 1 primary, 1 secondary and 1 special. 1 further primary school has also converted during this period and its closedown is currently in progress. So there have been 4 conversions in total during 2019/20, which is a lower number than the 17 conversions that took place during 2018/19.
- All the 3 conversions that have taken place in 2019/20, where the financial close has been completed, have resulted in surplus balances, which have been transferred across to their respective academy trusts. It is expected that the closure currently progressing will result also in a surplus balance.
- We have immediate sight of around 17 'converter' schools that are planning conversion / may convert / are likely to convert over the next 12 months. The position is moving regularly but we do expect the number of conversions during 2020/21 to be higher than in 2019/20. A small number of these schools are showing signs of financial challenge (in terms of holding small balances), and 1 is currently forecasting a small deficit at the end of 2019/20. The Authority is currently working with this school. As these are all converter schools however, all deficits would transfer to their new trusts.
- In terms of the financial positions of currently maintained schools, more generally, 5 schools held deficit revenue balances at the end of 2018/19. We currently forecast that 6 schools will be in revenue deficit at 31 March 2020, which is 6% of our total number of maintained schools. We continue in the forecasts to see some reduction in the total value of revenue balances held. The schools that are still maintained on 1 March 2020 held total gross revenue surpluses of £7.61m at March 2020. These schools currently forecast to hold £5.05m of surpluses at March 2020, with 60% of our maintained schools forecasting to have in year deficits in 2019/20 (where in year spending exceeds in year income and the school's budget is supported by the use of carry forward balances). However, these figures are based on quarter 3 forecasts and typically the values of balances held by schools overall increases between quarter 3 and the final position on 31 March. The Schools Forum will receive a full report on 2019/20 final balances, deficits and surpluses, on 20 May 2020.

2020-23 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 2020/21. Key paragraphs from this guidance, as well as from the report to the Executive on 18 February, are

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extracted here to support awareness and discussion. These are matters that the Schools Forum will wish to further consider and monitor.

Intended as an estimated guide only for discussion - *making some assumptions about pay awards at a high level* - it is estimated *on a very general basis* that costs overall in schools and academies in 2020/21 may increase by between 2.3% and 2.8%, before individual school circumstances come into play (such as changes in pupil numbers and incremental pay point progression).

Against this, the increases provided by the 2020/21 DSG settlement are improved on those in previous years. We would highlight in particular that the primary and secondary schools / academies funded on the mandatory minimums will see significant (up to 7.10% per pupil) growth. Two thirds of secondary schools / academies will broadly see 4% per pupil. The Teacher Pay and Pensions Grants will support all schools / academies in continuing to meet a large proportion of the growth in the employer's costs of teacher salaries that has taken place across 2018 and 2019. Through our new Banded Model, we are substantially increasing funding allocated to schools and providers in support of EHCPs. This will improve the position of all providers and of special schools in particular. But there are points to note.

Firstly, although funding is increasing generally, and in headline per pupil, schools will not see the same % increases. We highlight the following obvious areas:

- Increases for primary and secondary schools will depend significantly on the school's relationships to both the Minimum Funding Guarantee (MFG) and the Government's new mandatory minimum funding levels. The 2020/21 settlement for three quarters of primary schools / academies, and a third of secondary schools / academies, is at the level of the Minimum Funding Guarantee, which, although enhanced in Bradford at + 2.34%, is lower than the Government's 'NFF headline' of + 4%. Schools that remain on the MFG across 2020-2023 will likely continue to see lower levels of increases in per pupil funding than the 'headlines' of the national settlements on which key national decisions, such as the teacher pay award, will be taken and will be calculated to be affordable.
- The combined overall settlement for early years providers, including for maintained nursery schools, in 2020/21 is lower than inflation, between 1.3% and 1.5%. The settlement for post 16 provision is also lower than the main school settlement.
- The increases in Pupil Premium Grant rates in 2020/21 are only at inflation c. 1.85%. Schools in receipt of larger values of PPG that spend this significantly on additional staffing will likely feel pressure.

Secondly, it is now anticipated that salaries costs will rise more than previously estimated across 2020-2023. The first call on additional formula funding and grant income will be meeting this additional cost.

- The DfE's proposals on the pay award for teachers between September 2020 and September 2022 is probably the biggest single factor to consider. The DfE has written to the STRB to set out its proposals for the implementation of a differentiated pay award for teachers, with the intention to increase the minimum (MPS 1) starting salary of a qualified teacher in incremental steps to reach £30,000 by September 2022. The final position of the immediate pay award for September 2020 is unlikely to be confirmed until late summer. Schools will therefore, need to budget initially on estimates and then review these once the confirmed position is known. The Authority has recommended that maintained schools budget on the DfE's preferred 'Option B'. The DfE has modelled that the cost of its proposed pay award approach in 2020/21 nationally is 3%. The DfE has also stated that this must be afforded within existing core formula funding allocations. Given that the proposed changes in teachers' pay affects MPS, UPS and leadership scales and allowances differently, the cost of the proposals to an individual school (whether this is more or less than 3% at September 2020) will be influenced by that school's staffing profile. Whether that school can fully meet the additional cost from the additional funding it has received, without having to make savings, will also depend on how the funding settlement has affected them. This will not be a uniform position.

Thirdly, schools must continue to take balanced decisions understanding that there is uncertainty for the future.

- The future core formula funding and grants settlements for schools are largely unknown. More pressingly, there are still aspects of the grants settlements for 2020/21 that are unclear.
- We anticipate that the DfE will make a significant announcement during 2020 on the development and implementation of the 'hard' National Funding Formula for primary and secondary schools.
- It is not possible at this time to predict how the national SEND funding system may change after 2020/21.
- Although more positive assurances have now been provided by Government, the actual position of the funding of maintained nursery schools after 2020/21 is not known.

Details of the Item for Consideration

The vast majority of schools have taken positive action to manage their budget positions. Schools must now take the time to assess the implications of different scenarios, for example, to identify how much an additional x% in pay award would cost, and should begin to explore options for managing variations where the assumptions made about funding and costs in 2020/21 and beyond may need to be revised.

Other points to highlight and to consider:

- We refer Members to the information provided in Document LM, which overlaps matters relating to school and academy budgets, including on the extension of the Risk Protection Arrangement to maintained schools from 1 April 2020.
- The DfE has stated in its evidence to the STRB that the Teacher Pay Grant will cease at April 2021 and will be transferred into the National Funding Formula. This means that schools and academies will not receive a separately calculated allocation in 2021/22 and 2022/23. We would expect that specific provision will be made within the 2021/22 NFF settlement to ensure that schools and academies continue to receive funding, but how much a school or academy will actually get once the Grant is amalgamated into NFF will be influenced by the transfer process and any prescribed protections. When similar transfers have happened previously, the DfE has required authorities to protect allocations for primary and secondary schools and academies via the Minimum Funding Guarantee. We are currently unclear how this amalgamation would affect the current block grant arrangements for high needs providers.
- There is some 'degree of risk' more generally in the continuation after 2020/21 of the main recurrent grants. Their basic status, with the exception of the Teacher Pensions Grant, is still to be determined within the Government's spending review. The risks are that these grants could reduce in value, could cease entirely or could cease as separate grants to be merged into core formula funding (creating a different distribution and 'winners and losers') as has been clearly signalled for the Teacher Pay Grant.
- At the time of writing this report, we are unclear about the immediate pay award for NJC scale staff at April 2020. The Local Government employers on 5 February 2020 made an offer of 2% (across all points), which was rejected by the Unions. Further discussion is taking place.
- Council on 20 February 2020 voted to set a "real living wage" for all Bradford Council employees, meaning that all Council staff, including those who work in maintained schools, will be paid a minimum of £9.30 per hour. Council officers are carrying out the necessary work to implement this as soon as practicable and further guidance will be provided.

DfE Financial Transparency Changes

Maintained schools will already be aware of the changes in the Schools Financial Value Standard (SFVS), which are aimed at improving financial management. Both schools and academies should also be aware that the Government is currently exploring the development of criteria for the assessment of a school's financial management and decision making within Ofsted inspections.

The DfE has now completed a consultation on other changes aimed at improving the transparency of financial arrangements relating to maintained schools. The outcomes of this consultation have not been published at the time this report has been written. However, it is expected that changes will be introduced for the 2020/21 financial year and that schools will need to respond.

New measures at individual school level may / are likely to include:

- The strengthening of business interest and Related Party Transaction arrangements (new authorisation requirements, inclusion in SFVS, increased monitoring, recording and follow up).
- Requiring schools to be subject to an internal audit (at least every 3 years).
- Requiring schools to publish on their websites the number of staff paid more than £100,000.
- Requiring schools to publish on their websites the school's latest budget out-turn statement.

These changes may also result in amendments, including directed amendments, to the Scheme for Financing Schools. If this is the case, we will present these to the Schools Forum at the earliest opportunity and, depending on the status of these changes, may be required to conduct a consultation.

Changes may also be made to the financial framework for academies.

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

This is a report for information.

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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