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 forecasted position of school and academy budgets over the 2021-2024 3 year period. The report also includes continued consideration of the financial impact of COVID-19 on education budgets.

Date (s) of any Previous Discussion at the Forum

The Schools Forum received a similar report this time last year on 11 March 2020.

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 revenue 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 and 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 13 January, and that were agreed by Council on 18 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 2021/22. 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 2021-2024 from maintained schools is 15 May 2021. It is these submissions that give the Authority a clearer view of the positions of school budgets going forward. A report on budget positions and balances held by maintained schools at the end of the 2020/21 financial year will be presented to the Schools Forum on 19 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 2021/22, and converts on 1 September 2021, 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 2020/21 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 numbers 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 and only time a charge has been made against the DSG's de-delegated funds related to deficits from academy conversion.

Details of the Item for Consideration

Summary Position - Academy Conversions

- At 1 March 2021, we have 87 maintained schools and 123 academies and free schools.

- The Local Authority has fully completed the financial close of 6 maintained primary schools that have converted to academy status between 1 April 2020 and 1 March 2021. 8 additional primary schools have also converted during this period and their financial closedowns are currently in progress. So there have been 14 conversions in total during 2020/21. All of these conversions have been primary schools.

- All the 6 conversions that have taken place in 2020/21, where the financial close has been fully completed, have resulted in surplus or zero balances. Surplus balances have been transferred across to their respective academy trusts. It is expected that the 8 closures currently progressing will result also either in surplus or zero balances. However, as all 8 of these closures are for converter academies, the Authority will be reimbursed by the ESFA should any of these hold deficit balances.

- We have immediate sight of 4 'converter' schools that are planning conversion by or at 1 September 2021. The position is moving regularly, but we do expect the number of conversions during 2021/22 to be lower than in 2020/21. None of the 4 planned schools are showing immediate signs of financial challenge (in terms of holding small or deficit balances), based on latest monitoring information. However, as these all will be converter academies, the Authority will be reimbursed for any deficits they might hold on financial close (with the deficits then transferring to the new trusts to be repaid to the ESFA).

- In terms of the financial positions of currently maintained schools, more generally, 4 schools held deficit revenue balances at the end of 2019/20. Based on quarter 3 budget monitoring information, we currently forecast that 3 schools will be in revenue deficit at 31 March 2021. However, we would stress that the current COVID-19 situation is producing significant uncertainty and we may find that the final balances positions of schools at the end of this current financial year may vary significantly from forecasts. The Schools Forum will receive a full report on 2020/21 final balances, deficits and surpluses, held by maintained schools on 19 May 2021.

COVID-19 Financial Implications (For continued discussion)

Reports on the implications of the COVID-19 situation for the budgets of schools, academies and other providers, were presented to the Schools Forum in July, September and December 2020. The Authority will continue to monitor the situation and will raise any matters of significant concern for the Forum's discussion. Members should also continue to present to the Forum feedback or concerns raised with them directly for the Forum's awareness.

The next section of this report includes consideration of some implications of COVID-19 on 2021/22 financial year budget setting at individual school, academy and provider level. The COVID-19 situation has created, and is continuing to create, an exceptional level of financial uncertainty for schools to manage.

Continuing to pick up on some specific matters that have been highlighted within previous discussions:

Details of the Item for Consideration

- Recognising the exceptional levels of financial uncertainty, the Authority's Surplus Balances Protocol has been suspended for balances held by maintained schools at 31 March 2021.

- Following the closedown of our maintained schools for the 2020/21 financial year at the end of March, and the collection of 2021/22 governing board approved budgets in May, the Authority will have a more complete view of the impact of COVID-19 since April 2020 on the budgets of maintained schools. We expect to provide reports for the Forum in the May (balances) and July (budgets) meetings.

- In the budget agreed on 18 February, the Council has made provision for additional catch up resources for children and young people across the District. Further information on this will be communicated. The Government announced on 24 February additional and continued catch up / recovery funding into 2021/22, some of which is attached to specific programmes e.g. summer schools. The DfE has also confirmed the continuation of the National Tutoring Programme.

- We expect that the Government's Budget, to be delivered on 3 March 2021, will include further information about national financial support schemes and that some of these announcements will relate to schools, academies and other providers, and possibly may include:
    - The transitional extension of the Coronavirus Job Retention Scheme (furloughing).
    - The status of other COVID-19 related financial support, which may be applicable to schools. We are not aware at this time however, of any extension of any national schemes that would provide additional financial support for "exceptional spending" specifically incurred by schools.
    - The status of food and fuel poverty (holiday) funding streams.
    - Changes to employer National Insurance contributions.
    - Business rates relief and business support grants (supporting early years providers).

  Relevant details from the Budget will be presented verbally to the Forum meeting.

- An update on early years entitlement funding for the spring term is provided in Document MX. We will continue to monitor early years entitlement numbers during 2021/22 and will provide information to the Schools Forum, which will give sight of whether & how quickly numbers are recovering following lockdown.

- An update on the proposal to use the reception uplift factor in 2022/23 in support of later autumn term 2020 intakes into reception year is also provided in Document MX.

<u>2021-24 Estimated Financial & Budget Climate and Context</u>

The Local Authority has recently published guidance to support maintained schools in their budget setting for 2021/22. Key paragraphs are extracted here to support awareness and discussion. These are matters that the Schools Forum will wish to further consider and to monitor.

The impact of the COVID-19 situation is possibly the biggest single immediate factor that schools and academies must consider in setting their 2021/22 financial year budgets. Looking across the 2021-2024 budget period, it is important that schools and academies continue to manage their budgets with an understanding of the general risks and opportunities. The Local Authority's budget setting guidance, written in previous years, has included the warning that schools are likely to find their budget setting increasingly challenging. We have highlighted the extent to which increases in funding have not matched growth in costs, especially in salaries, leading to schools being required to deliver structural budget savings. Support for high needs pupils has also become an area of increasing financial challenge. In these circumstances, it has been very important for schools and academies look to the future to consider their budgets over more than one year. This remains the case.

In contrast with the settlements received in prior years, per pupil funding in this current 2020/21 financial year was substantially increased and our budget setting guidance, written this time last year, reflected this changed position. Per pupil funding continues to increase in 2021/22 and is expected to increase again in 2022/23. To highlight immediate 'positives':

- The National Funding Formula (which the Authority is mirroring) provides for an overall increase of 3% in core formula funding per pupil for primary and secondary schools in 2021/22. The Chancellor, in the November Spending Review, confirmed the Government's commitment to complete in 2022/23 the £7.1bn increase (over 3 years) in national school funding. This means that the National Funding Formula in 2022/23 may deliver a similar per pupil increase to that which primary and secondary schools and academies have received overall in 2021/22.

- The transfer into core formula funding of the Teacher Pay and Teacher Pensions Grants at April 2021 secures this funding for primary and secondary schools and academies for the longer term and ensures that this funding will continue to be uplifted in line with the annual school funding settlements. These grants for high needs providers are also secured for the longer term through the high needs funding model.

Details of the Item for Consideration

- Primary schools and academies funded on the increased mandatory minimum of £4,180 per pupil will see a significant above inflationary (up to 6.7% per pupil) growth in core formula funding in 2021/22.

- Through the Authority's Banded Model, the top up funding allocated in support of Education Health and Care Plans (EHCPs) continues to substantially increase in 2021/22. This will continue to improve the position of all schools and of special schools in particular. The PRU Day Rate also continues to substantially increase.

- For 2021/22, the Authority has strengthened our SEND Funding Floor arrangement, which will support mainstream primary and secondary schools and academies in meeting their responsibilities for the first £6,000 of the cost of the additional needs of all pupils. We remind schools and academies that this new arrangement is in place for one year in trial, pending review for April 2022.

- School and academy budgets will still be required to absorb the impact of pay award, incorporating employer contributions to staff pension costs and the national and real living wages, as well as increases in the prices of goods and services. However, the overall headline pay pause for teachers at September 2021 should positively benefit school and academy budgets and should mean headroom (budget surplus) is available to be re-deployed in 2021/22, albeit likely available only in the short term and will be used for COVID-19 impact management.

To highlight some 'challenges':

- The COVID-19 situation is likely to have some impact on school and academies budgets in this current 2020/21 financial year. This is due to additional and different expenditure that has been incurred, as well as potential losses of normal levels of some funding streams (including in early years entitlement funding) and of private income streams, that may not be fully covered in all circumstances by national support schemes. COVID-19 is likely to continue to have some financial impact into 2021/22. Schools and academies will need to take focused decisions on how they use the totality of their resources, including the Government's COVID-19 Catch Up Premium and other catch up monies, to support their pupils. This is likely to include re-prioritising budget allocations in line with a re-focused School Development Plan, as well as continuing to manage other financial implications related to additional and uncertain expenditure and reduced and uncertain funding and income.

- The health of the budgets of individual schools and academies will not be uniform and will be dependent on a number of factors. In terms of areas of possible challenge, we highlight:

  The settlement in 2021/22 for two thirds of primary schools and academies, and a third of secondary schools and academies, is at the level of the Minimum Funding Guarantee at + 2.0%, which is lower than the 'national headline' of + 3.0%. Schools that remain on the MFG 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 in 2021/22, including for maintained nursery schools and nursery classes attached to primary schools, is lower than + 1.5%.

  There is still significant uncertainty on the funding of maintained nursery schools from September 2021. Even where the funding protection (the 'supplement') continues, the national early years funding settlement does not currently recognise that the cost base of maintained nursery schools has increased in recent years. The financial pressure on early years provision in schools is also potentially magnified by the impact of COVID-19 on entitlement numbers. This comes in addition to the pressure that is already present across the entire sector as a result of wider demographic changes.

  Pupil Premium Grant (PPG), which is a substantial funding stream for schools and academies in Bradford focused on supporting children from more deprived backgrounds, is not increased in value in 2021/22. The DfE has also adjusted the methodology, to use the October 2020 census rather than the January 2021 census. As a wider point, all formula-based deprivation funding (through core formula funding and through the PPG) in 2021/22 will be calculated on data sourced from the October 2020 census, meaning that a school's 2021/22 funding will not have responded to any growth in the numbers of children on FSM later in the autumn term and in early spring. As another wider point, the switch to using the October census for PPG is now confirmed as a permanent system change. This may represent a step towards transferring the FSM part of the PPG into core formula funding.

  There is still uncertainty about how the Universal Infant Free School Meals (UIFSM) grant is to be confirmed for 2020/21, and estimated for 2021/22, recognising that the data sourced from the October 2020 and January 2021 censuses will not likely accurately reflect normal levels of meals take up.

Details of the Item for Consideration

The Post 16 settlement for 2021/22 is cash flat per pupil (there is no increase for inflation). The continuation of the additional pay and pensions grant funding for post 16 provisions in schools is also currently unclear.

Place-element funding for high needs provision (for special schools, PRUs and resourced provisions) for 2021/22 also remains cash flat (there is no increase for inflation). The Authority however, has taken this into account in setting the rates of top up funding to be allocated by the EHCP Banded Model and by the PRU Day Rate.

- Schools and academies, in their management of their delegated budgets, continue to need to take prudent decisions understanding that there is significant uncertainty for the near-future. The Government has re-stated its commitment to completing in 2022/23 the "£7.1bn over 3 years" national school funding increase. However, the distribution of the Dedicated Schools Grant for 2022/23 is not yet clear in detail. This is a cause of uncertainty. However, perhaps of greater significance:

  The extent to which school funding settlements after 2022/23 will be affected by public sector spending restraint following COVID-19 is unclear. This means that schools and academies will not be certain at this time about their funding in the 3rd year of their 3 year budget forecasts.

  We anticipate that the DfE will make a significant announcement soon in 2021 on the development and implementation of the 'hard' National Funding Formula (NFF) for primary and secondary schools and academies. This may deliver changes in the NFF, and in other grants (such as PPG), within the next 3 year budget period that may impact on the levels of funding received by individual schools and academies.

  The DfE is now clearly signalling the potential for changes to be made to the SEND Code of Practice and to the systems and processes that govern alternative provision, SEND and EHCPs. The DfE has stated that consultation on such changes will begin soon in 2021. These changes are very likely to have implications for the way high needs funding operates in the future. Because high needs funding is strongly connected to other delegated funding, especially for mainstream primary and secondary schools, these changes are likely to have knock on implications for the main National Funding Formula and for the definition of whole-school financial responsibilities relating to SEND and alternative provision. The DfE's current consultation on the High Needs Block national funding formula appears to suggest that the main "levers" of the current system – the £6,000 element 2 contribution, the £10,000 place element, the definition of notional SEND, SEND floors for mainstream provision, the definition of alternative provision responsibilities etc. – will not be changed before April 2023. However, what these will be changed to from April 2023 is uncertain. Again, this means that schools, academies and other providers will not be clear at this time about how their funding and expenditure responsibilities related to SEND and to alternative provision may change in the 3rd year of their 3 year budget forecasts.

  The status, and timescale for the delivery, of the Government's previously announced intended increase to £30,000 for the minimum salary of qualified teachers, and the knock-on implications for salaries across the main and upper pay scales, which will increase salaries expenditure in schools, is currently uncertain. The latest position is that the Government is committed to this policy. This is stated in the most recent evidence to the STRB document published on 17 February 2021 (paragraph 4). The Treasury has previously (at the end of last year) stated that this policy would be delivered within the lifetime of the current Parliament, rather than by September 2022. However, the 17 February STRB document is not clear when discussing the timing of progress to £30,000. The DfE states that the position of teacher pay in the labour market has improved in recent years, and may do so further as a result of the economic consequences of the pandemic. The DfE also states that the current pay framework "should ensure that the profession is well placed to retain the expanded cohorts of trainee teachers recruited during the economic outturn". The Government will "reassess the pay policy ahead of issuing the remit for the 2022/23 pay award, once the economic recovery is established and the impact of COVID-19 on the wider labour market is clearer".

  Although a little unclear, an interpretation could be that this change in teacher pay may be in place by September 2023, as the next general election under the Fixed-term Parliaments Act 2011 is scheduled for May 2024. This means that the implementation of this policy may be delayed only by a year. As such, and in any case, we advise schools and academies that the possible impact of this pay change should be brought into budget forecasts now for the next 3 year period, albeit this will be estimated and will need to be reviewed as the position becomes clearer. We advise schools to estimate an overall 3%+ pay award for teachers at September 2022 and September 2023, but with this pay award weighted towards the Main Pay Scale with lower % increases for other scales and allowances.

Generally, schools and academies may find in their budget forecasts that their overall spending power at September 2023 may be the same as the spending power they would have had at September 2020 under normal circumstances. We have constructed our estimated position for maintained schools on this basis.

Details of the Item for Consideration

One of the most critical immediate elements here, that will affect the accuracy of this estimated view, is the teacher pay award at September 2022 and September 2023. Any changes in the DfE's policy position, or in the timing or weighting of the movement to a minimum £30,000 salary, will have an impact. This will directly change salaries expenditure but may also likely affect formula funding increases. Schools and academies may be unlikely to receive significant funding increases in future years if a pay pause continues. Schools and academies should be careful therefore, not to adjust (to lower) estimates of salaries increases without also considering adjustments to reduce formula funding increases at the same time.

At the time of writing this report, we are unclear about the immediate pay award for NJC scale non-teaching support staff at April 2021. This pay award is subject to a separate bargaining process, which takes place between the Local Government Employers and the Trade Unions. As such, the Chancellor's pay pause announcement does not confirm that there is a pay freeze for NJC scale support staff at April 2021. The outcomes of the separate bargaining process are not yet known. The Unions have submitted their claim to the Employers for their initial consideration and response.

Schools should already be aware that Council on 18 February 2021 voted to continue to apply the "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 £9.50 per hour in 2021/22. Council officers are carrying out the necessary work to implement this and further guidance will be provided.

As there are significant structural changes on the horizon, schools and academies must keep a very close eye on their staffing budget calculations. Schools and academies should take the time now 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 salaries costs in 2022/23 and beyond may need to be revised. For example, how would you manage the scenario where your cost of teachers increases at September 2022 by 1% or 2% more than you have originally planned for? What would be your response if your core formula funding settlement in 2022/23 or in 2023/24 is 1% or 2% lower than you expected?

Maintained Schools - DfE Financial Transparency Changes (Reminder)

Schools will be aware of the recent changes in the Schools Financial Value Standard (SFVS), which have been introduced to improve the quality of financial management in maintained schools. Schools will also be aware of the now established (from 1 January 2021) requirement to publish on the school's website information on salaries above £100k and a link to the school's CFR data.

By 31 March 2022 (and annually thereafter), maintained schools will be required to append a Related Party Transactions (RPTs) list to their SFVS return. This will declare to the Authority their RPTs and how the school has appropriately managed these. Schools should then expect the Authority to follow up this information, including this forming part of the Authority's annual audit arrangements. We still await further guidance from the DfE on this new requirement, which will inform our further guidance to our maintained schools. However, this is a quite significant new action, which schools must begin to plan for. Schools should continue to monitor Bradford Schools Online for further information.

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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