

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 2022-2025 3-year period.

Date (s) of any Previous Discussion at the Forum

The Schools Forum received a similar report this time last year on 10 March 2021.

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% (other schools), of funding must comply with the Authority's Surplus Balances Protocol, which requires schools to assign values 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 academy trust (so there is no benefit to the Local Authority nor to the DSG), although there is provision for the Authority to retain surpluses 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 held within the DSG Schools Block (within balances carried forward at 31 March 2022) 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 12 January 2022, and that were agreed by Council on 17 February, is the continuation of the de-delegated fund for deficit provision for sponsored conversions in the primary phase. No new budget value has been retained in 2022/23 (but a balance is carried forward). 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 2022-2025 from maintained schools is 15 May 2022. 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 2021/22 financial year will be presented to the Schools Forum on 18 May.

Background / Context

- That the timing of a 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 2022/23, and converts on 1 September 2022, 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 2021/22 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, in 2016, did 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. 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 general warnings previously given, that the opportunity for liabilities to arise relating to deficit balances are greater when there are larger numbers of academy conversions.
- 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 primary-phase de-delegated funds relating to deficits from academy conversion.

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Summary Position - Academy Conversions

- At 1 March 2022, we have 84 maintained schools and 124 academies.
- There has been 1 conversion, of a maintained primary school, to academy status between April 2021 and March 2022. The Local Authority has completed the necessary financial close, which resulted in a surplus balance being transferred across to the academy trust.
- We have immediate sight of 8 maintained schools that are planning to convert to academy status during 2022/23. The position of conversions is moving regularly, and there likely will be further conversions in the next financial year.
- Of the 8 maintained schools currently identified, 6 are 'converter' academies. None of the 6 are showing immediate signs of financial challenge (in terms of holding small or deficit balances), based on latest monitoring information. However, as these are converter academies, the Authority would be reimbursed for any deficits that might be held on financial close (with these deficits then transferring to the academy trusts to be repaid to the ESFA). 2 of the 8 are 'sponsored' academies, one primary and one secondary. The primary maintained school is not showing immediate signs of financial challenge, and will be closely monitored. The maintained secondary school is currently in deficit and the existing agreed £650,000 DSG provision will be used to support this. As previously assured, the DSG will not be asked to support the cost of the school's deficit beyond this.
- In terms of the financial positions of currently maintained schools, more generally, 2 schools held deficit revenue balances at the end of 2020/21. Based on quarter 3 budget monitoring information, we currently forecast that up to 5 schools may be in revenue deficit at 31 March 2022. The Schools Forum will receive a full report on 18 May on 2021/22 final year-end balances, deficits and surpluses, held by maintained schools.

School and Academy Budgets 2022-2025 – 'On the Horizon'

It is helpful to highlight some key matters and developments that are 'on the horizon' and that are likely to have budget implications for maintained schools and academies over the 2022-2025 period. Whilst a number of points listed below are uncertain, it will be helpful for schools and academies to consider these matters, as this will 'set the tone' for budgeting and forecasting at this time, and will help schools and academies in their financial risk management. Schools and academies continue to need to take prudent budget decisions, understanding that there is uncertainty for the near-future.

- The DfE has announced the introduction of a new grant for the 2022/23 financial year for primary and secondary mainstream schools and academies, known as the '[Supplementary Grant](#)'. This is additional funding that is being allocated by the DfE to support the cost of the 1.25% National Insurance Social Care / NHS Levy and wider priorities and pressures, including continuing to support COVID-19 pandemic recovery. School and academy budgets will be required to absorb the cost of the new National Insurance Levy, from April 2022. The Grant to support this is not ring-fenced and can be spent in support of their own priorities. Supplementary Grant monies will continue after 2022/23 and schools and academies should

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budget for this funding on an on-going basis. From April 2023 however, the DfE has indicated that the Grant will cease as a separate funding stream and instead will be merged into core formula funding, allocated through the National Funding Formula. Schools will recall that this is what happened in 2021/22 to the Teacher Pay and Pensions Grants, for reception to year 11 pupils.

- The Government has recently re-affirmed its intention to implement a 'hard' National Funding Formula (NFF) for mainstream primary and secondary maintained schools and academies. 'Hard' NFF will mean that Bradford Council will no longer decide locally how the primary and secondary mainstream funding formula operates. Further cautious transition to this is expected in 2023/24 and in 2024/25, and this may have implications for how much funding individual primary and secondary schools and academies receive in these years. More than ever, it is important that schools and academies understand how they are funded by the current formula at 'factor level', so that they can understand the changes and the risks to their budgets. Schools and academies are advised to discuss in their Governing Boards a comparison at factor level (FSM, IDACI, EAL, Low Prior Attainment etc) of 2022/23 formula funding vs. 2021/22. Within this comparison, it is important for schools and academies to identify specifically whether they are currently funded via either of the two protection mechanisms - the Minimum Funding Guarantee (MFG) and the Minimum Level of Funding (MFL). This is especially important in 2022/23, as these protection mechanisms are only increasing by 2% per pupil, whereas the headline for the wider financial settlement is 3%.
- The DfE has confirmed the continuation of protected funding for maintained nursery schools for the full 2022/23 financial year. Unfortunately however, the DfE has not yet announced the continuation or otherwise of the protection after this. In practical terms, this does continue to impede provision and financial planning in maintained nursery schools.
- Pupil numbers in Bradford are reducing (numbers are currently increasing in secondary but are then expected to reduce). This is a result of recent demographic trends, which have now begun to more widely affect primary schools / academies and nurseries. It is important that all schools and academies understand their medium term forecast of pupil numbers (reception and year 7 intake as well as nursery and post-16 numbers) and that they bring this information into their budget planning. Within this, it continues to be important for primary schools / academies with early years entitlement provision to monitor their early years provision as a 'mini budget', so that they understand the extent to which the school's / academy's nursery provision is either subsidising, or is being subsidised by, the school's / academy's larger budget. The same principle is also true for secondary schools / academies with post-16 provision.
- The Spending Review 2021 (published in October 2021) gave an indication of the potential cash budget growth nationally in formula funding for schools and academies from April 2023. From this information, and on advice received from the DfE recently, we anticipate that increases in funding in 2023/24 and in 2024/25 may not be at the levels that have been seen over the last 3 years. This is potentially across the board – mainstream primary and secondary formula funding, early years entitlement funding, high needs funding and post-16 funding. Whilst this position is currently uncertain, the impact of possible tighter funding settlements e.g. 1-2% rather than 2-3% increases in funding per pupil, must be assessed by schools and academies in the context of the likely continuing increases in costs, especially in salaries costs. It is important that schools and academies continue to model different budget scenarios going forward, modelling different assumptions for year on year funding and salaries costs increases.
- Towards the end of the summer term 2022, the DfE is likely to make what may be quite financially significant decisions about teacher pay, affecting the next 2 years. This includes the overall scale of the pay awards at September 2022 and September 2023, but also the likelihood that these upcoming awards, in continuing to establish a minimum £30,000 salary for a qualified teacher, will have a differentiated impact on teacher scales and allowances. Individual schools and academies will be affected differently, depending on the profile of their teachers across the pay scales. We advise schools and academies that the 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, in summer 2022.
- All schools and academies are increasingly expected to bring [Integrated Curriculum Financial Planning \(ICFP\)](#) into their budget setting processes. In the context of changes in teacher pay, as well as changes in pupil numbers from recent demographic trends, ICFP is very relevant to schools and academies in Bradford. For schools and academies that have not previously used ICFP, this will alter how they construct and assess their budgets, especially their salaries costs, and their deployment of staff.
- The announcement of the outcomes of the DfE's national reviews on Special Educational Needs & Disabilities (SEND), Education Health and Care Plans (EHCPs) and Alternative Provision systems is due by the end of March 2022. These reviews have the potential to significantly alter systems and the financial responsibilities that are placed on schools and academies, from April 2023. These reviews may have implications for areas such as the £10,000 place element value for specialist settings, the £6,000 SEND threshold, notional SEND, EHCP top-up funding and the use of banded models, the continuation of the SEND Funding Floor, and responsibilities for alternative provision. In constructing their 2022/23 budgets,

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schools and academies should ensure that they have good understanding of the following:

- The school's / academy's notional SEND budget figure and how this is calculated (mainstream schools and academies).
 - How much of the notional SEND budget the school / academy is currently spending and where this is being spent (mainstream schools and academies).
 - Whether the school / academy receives additional 'SEND Funding Floor' monies (mainstream schools and academies).
 - How much funding per occupied high needs place the school / academy currently receives (special schools and academies, PRUs and mainstream schools and academies with resourced provisions).
 - How much funding the school / academy receives for each Education Health and Care Plan, allocated via the Authority's EHCP Banded Model (all schools and academies).
 - How much the school / academy spends on behaviour support and alternative provision (mainstream schools and academies).
 - How many children the school / academy has excluded, either on a permanent or fixed term basis over the last 12-18 months (mainstream schools and academies).
- The DfE is expected to publish shortly some updated (possibly revised) guidance regarding leasing in schools, which will become live from 1 April 2022. This guidance may result in changes to the Scheme for Financing Schools (affecting maintained schools), which may alter how schools are permitted to enter into leases. This may potentially have budget, as well as operational management, implications.

2022-25 Estimated Financial & Budget Climate and Context

Looking across the 2022-2025 budget period, it is important that schools and academies continue to manage their budgets prudently, with an understanding of the uncertainties, risks and opportunities.

Per pupil funding for schools and academies, across all sectors (mainstream, high needs and early years), has increased in 2020/21 and in 2021/22, and will increase again in 2022/23.

To highlight immediate 'positives' in 2022/23:

- The National Funding Formula (which the Authority is mirroring) provides for an overall headline increase of 3% in core formula funding values per pupil for primary and secondary schools and academies. This is the same headline increase as provided in 2021/22.
- Mainstream primary and secondary maintained schools and academies, that are now funded on the DfE's mandatory minimums (MFLs), have seen significant recent growth in their funding levels. Whilst the increases in the MFL values in 2022/23 are more modest (only 2% on 2021/22), this recent significant growth has now been consolidated.
- The vast majority of secondary schools / academies, and more than half of primary schools / academies, are funded in 2022/23 above the level of the Minimum Funding Guarantee.
- Following the collection of updated pupil circumstances data at October 2021, funding for individual schools and academies has now responded to increases in Free Schools Meals numbers, meaning that more funding is allocated in 2022/23 in support of this pupil-led need.
- It is expected that Pupil Premium Grant (PPG) allocations will increase as a result of this FSM increase. PPG rates in 2022/23 have also been uplifted by the DfE, in response to inflation and expected pay award.
- Mainstream nursery, primary and secondary maintained schools and academies will receive a new non-ring-fenced additional Supplementary Grant in 2022/23, which will directly support the cost of the new 1.25% National Insurance Levy and will provide additional resources for other priorities and pressures, including the absorption of pay awards and COVID-19 pandemic recovery. For special schools / academies and PRUs / AP Academies, the Supplementary Grant is allocated via additional uplift of our EHCP Banded Model and our PRU Day Rate Model top-up funding values. This new funding will be allocated, in addition to the Recovery Premium and the School-Led Tutoring Grant, both of which continue for the 2022/23 and 2023/24 academic years. The Supplementary Grant is an on-going funding stream (it is not a one off grant allocated in 2022/23 only).
- Our Early Years Single Funding Formula (EYSFF) universal base rates for early years entitlement providers increase by more than 3% in 2022/23. We have retained spending on the Deprivation and SEND Supplement at 8% of the EYSFF.

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- The base student rate for full time provision, that is to be funded by the national Post-16 formula in the 2022/23 academic year, is increasing by more than 8%. This increase is complicated however, and has 3 parts (with an additional expenditure commitment relating to extra study hours and with not all of it representing new funding).
- Through our Banded Model, we continue to substantially increase the value of top-up funding that is allocated to schools and academies in support of Education Health and Care Plans (EHCPs). We continue in 2022/23 to apply our strengthened SEND Funding Floor arrangement, which supports mainstream primary and secondary maintained schools and academies to meet their responsibilities for the first £6,000 of the cost of the additional needs of all pupils. Although place-element funding for high needs provision (for special schools / academies, PRUs / AP Academies and resourced provisions) for 2022/23 has remained cash flat, at £10,000 and £6,000, the Authority 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.
- The pay pause for teachers at September 2021 has positively benefited maintained school and academy budgets and this benefit will continue within the salaries costs that transfer into 2022/23.

To highlight possible 'challenges' in 2022/23:

- It is unclear, at the time of writing this report, whether the PE & Sports Premium will continue from September 2022. Schools and academies should look out for announcements on this and, in the meantime, should be cautious about entering into any new commitments that are funded by this Premium. Whilst not yet confirmed, we do anticipate the continuation of the Universal Infant FSM Grant for the 2022/23 academic year. We also do anticipate the continuation of the early years element of the former Teacher Pay and Pension Grants. However, there is still some risk as these have still to be confirmed.
- The COVID-19 pandemic is likely to have some continuing impact on school and academy budgets. This is due to additional and different expenditure that will be incurred e.g. staffing absence cover, social distancing measures, as well as possible continued losses against 'normal' levels of private income. Schools and academies will continue to need to take focused decisions on how they use the totality of their resources, including the additional recovery grant monies, to support their pupils. This will likely include refreshing budget allocations again for 2022/23, in line with a re-focused School Development Plan, as well as continuing to manage financial implications related to additional and uncertain expenditure and reduced and uncertain funding and income.
- Although the headline funding increase is 3% per pupil in 2022/23, primary and secondary schools and academies will not uniformly receive 3%. Increases will depend on changes in pupil circumstances data, but also significantly on the school's relationships to both the Minimum Funding Guarantee (MFG) and to the Government's mandatory minimum per pupil funding levels (MFL), which are only increasing by 2%. Schools and academies that are on either the MFG or the MFL in 2022/23 will potentially feel greater financial pressure because of this, especially in meeting increasing salaries costs.
- Increases in the cash values of formula funding and other grant allocations for individual maintained schools and academies will be affected by changes in the numbers of pupils recorded on roll. Demographic trends are currently reducing the numbers of early years children and primary phase pupils across the District. Despite increases in per pupil funding values, the cash funding that some schools and academies will receive will reduce in 2022/23, which will require spending adjustments at the same time as increased costs are absorbed.
- School and academy budgets will be required to absorb the impact of pay award, incorporating the teacher pay award, the support staff (NJC) pay award, the increase in the National Living Wage and employer contributions to national insurance and pension costs. As such, it is expected that the funding increases in 2022/23 will be predominantly used by schools and academies to meet the increased costs of current activities, rather than permitting schools and academies to allocate substantial new sums to brand new activities. Individual schools and academies must continue to assess the sufficiency of their increases in formula funding in 2022/23 against their increases in costs, especially in salaries costs.
- Regarding teacher pay, it is expected that the DfE will agree in the summer term a pay award at September 2022. The DfE has asked the STRB to provide its recommendations, to include the transition towards establishing a minimum £30,000 salary for a qualified teacher. We estimate, for planning purposes, that the pay award for teachers at September 2022 could be concluded on the basis that an approximate overall 3% increase in the national teacher pay bill will be affordable. An award at this level will have a varying impact, and may create financial pressure in schools and academies that are not receiving c. 3% increases in funding per pupil. In this context, we again highlight that the Minimum Funding Guarantee, and the DfE's mandatory minimum funding levels (MFLs), provide only 2% increases in per pupil funding. It is also possible that the presence of the additional Supplementary Grant funding will permit the teacher pay award at September 2022 to be agreed at a level higher than would otherwise.

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This is by no means certain, and we do not wish simply to speculate on the pay award at this time. The purpose of the warning here is to highlight to schools and academies that a proportion of their Supplementary Grant may be needed to support, in addition to the new National Insurance Levy, an increase in teacher salaries costs at September 2022 that may be greater than the school's / academy's current budget scenario predicts. Schools and academies should be cautious at this time therefore, about committing their supplementary funding to new activity.

- Regarding support staff pay (NJC), at the time of writing this guidance, both the April 2021 and April 2022 pay awards are still to be determined. This obviously creates an additional element of uncertainty in budgeting for 2022/23.
- As well as pay award as the new National Insurance Levy, schools and academies will need to absorb the impact of inflation on the prices of goods and services, including (and especially) on energy costs. Inflation is expected to be higher in 2022/23 than levels that have been absorbed by delegated budgets in recent years. It is anticipated that energy costs will be a particular source of pressure. This comes in addition to higher levels of non-staffing spending that have been caused by the COVID-19 pandemic. Schools and academies should review very closely their non-staffing budgets, to ensure that these are appropriate and realistic.
- Looking across the 2022-2025 period, in their management of their delegated funds, schools and academies continue to need to take prudent decisions, understanding that there is uncertainty for the near-future. This includes uncertainty regarding funding formulae and levels of increases in per pupil funding from April 2023, pay awards in 2022/23 onwards, and the financial implications of the major national SEND and Alternative Provision reviews.

One of the more critical immediate elements is the confirmed teacher pay award at September 2022 and September 2023. Any changes in the DfE's policy position, in the overall total value of the national pay award, or in the timing or weighting of the movement to a minimum £30,000 salary, will have an impact. Changes will directly affect salaries expenditure, but may also likely affect formula funding increases from April 2023. Schools and academies may be unlikely to receive significant funding increases in future years if teacher salaries do not increase (by as much as currently estimated). Schools and academies should be careful therefore, not to lower estimates of salaries increases without also considering adjustments to reduce formula funding increases at the same time.

As there clearly are structural pay changes on the horizon, schools and academies must keep a very close eye on their staffing budget calculations. Within their use of Integrated Curriculum Planning, 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 2023/24 and beyond may need to be revised. For example, how would you manage the scenario where your cost of teachers increases at September 2022 or at September 2023 by 1% or 2% more than you have originally planned for? What would be your response if your core formula funding settlement in 2023/24 or in 2024/25 is 1% or 2% lower than you expected?

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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