

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 2023-2026 3-year period.

Date (s) of any Previous Discussion at the Forum

The Schools Forum received a similar report this time last year on 9 March 2022.

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:

- The previously identified sum of £0.65m, held within the DSG Schools Block de-delegated funds (within balances carried forward at 31 March 2022) to support the cost of the deficit of a secondary school converting to academy status, has been deployed following the conversion of this school during 2022.
- Within the recommendations that were made by the Schools Forum on 11 January 2023, and that were agreed by Council on 23 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 2023/24 (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 2023-2026 from maintained schools is 15 May 2023. 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 2022/23 financial year will be presented to the Schools Forum at the next meeting 17 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 2023/24, and converts on 1 September 2023, 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 2022/23 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 only time a charge has been made against the DSG's primary-phase de-delegated funds relating to deficits from academy conversion.

Details of the Item for Consideration

Summary Position - Academy Conversions

- At 1 March 2023, we have 75 maintained schools and 133 academies. Of the 75 maintained schools there are: 7 nursery schools, 61 primary schools, 4 secondary schools, 2 special schools and 1 PRU.
- There have been 9 conversions to academy status between April 2022 and March 2023: 6 primary schools, 2 secondary schools and 1 special school. Of these, 6 were 'converter' and 3 were 'sponsored' academies. The Local Authority has completed the necessary financial closes of 8 of the 9 conversions (1 conversion took place on 1 March 2023, so this financial close is in progress). Of the 7 conversions that have been completed, surplus balances were transferred to the academy trusts in 5 instances, a £0 balance has been finally determined for 1 conversion and a deficit balance was determined for 1 conversion (with the allocation of the £0.65m provision from the DSG in support of this and, as this was a 'sponsored' conversion, the remaining value of deficit that was held by the maintained school has been met by the Council).
- We have immediate sight of 13 maintained schools that are planning to convert to academy status during the 2023/24 financial year: 10 primary schools, 2 secondary schools and 1 special school. The position of conversions however, is moving regularly, and there likely will be other conversions in the next financial year that are not yet identified. All 13 of the currently identified schools are 'converter' academies, meaning that the Authority would be reimbursed for any deficits that might be held by them on financial close (with these deficits transferring to the academy trusts to be repaid to the ESFA).
- In terms of the financial positions of currently maintained schools, more generally, 2 schools held deficit revenue balances at the end of 2021/22. Based on quarter 3 budget monitoring information, we currently forecast that in the region of 8 schools (out of 75) may hold revenue deficit balances at 31 March 2023. The Schools Forum will receive a full report on 2022/23 final year-end balances, deficits and surpluses, held by maintained schools at the next meeting 17 May.

School and Academy Budgets 2023-2026 – '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 2023-2026 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 introduced a new grant for the 2023/24 financial year for primary and secondary mainstream schools and academies, known as the '[Mainstream Schools Additional Grant \(MSAG\)](#)'. This Grant comes from the additional £2bn, which has been added to the national schools budget, as announced by the Chancellor in the 17 November Autumn Statement. The MSAG is additional funding that is allocated to support costs, including energy costs. The energy costs protection scheme that has been in place during 2022/23 will [reduce in scale](#) from the end of March 2023, with the MSAG providing on-going financial support.

Details of the Item for Consideration

Mainstream primary and secondary schools and academies should add their MSAG allocations into their funding forecasts, but should also review their estimates of energy expenditure at the same time. The MSAG is not ring-fenced and can be spent by schools and academies in support of their own priorities. MSAG monies will continue after 2023/24 and schools and academies should budget for this funding on an on-going basis. From April 2024 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 has previously happened to the Teacher Pay and Pensions Grants and what has more recently happened to the Schools Supplementary Grant.

Please note that MSAG is not allocated in respect of early years (meaning maintained nursery schools will not receive it) or post-16 pupils, and is also not allocated to special schools or to PRUs. However, for special schools / academies and PRUs / AP Academies, local authorities are required to allocate an additional + 3.4% in funding per place, which is equivalent to the average additional increase that is being received by schools through the MSAG.

- The time-limited [COVID-19 Recovery Premium](#) continues in the 2022/23 and 2023/24 academic years. The DfE has also previously announced the continuation of the time-limited ring-fenced [School-Led Tutoring Grant](#) (now allocated under the 'National Tutoring Programme' umbrella) in the 2022/23 and 2023/24 academic years, but at reducing subsidy values. Schools must adjust their 3-year budget forecasts, firstly for the impact of the reducing value of COVID-19 pandemic educational impact support grant funding, but then ultimately for the final cessation of these time-limited grants, which is currently announced to be at the end of the 2023/24 academic year (so, affecting 2024/25 budgeting).
- At the time of writing this report, the continuation of the Universal Infant FSM Grant for the 2023/24 academic year is not yet confirmed. Schools and academies should look out for announcements from the DfE on this. The continuation of the PE & Sports Premium for the 2023/24 academic year is also not yet confirmed. Schools and academies should look out for announcements from the DfE on this and, in the meantime, should be cautious about entering into any new commitments that are funded by this Premium.
- The Government has re-affirmed its intention to implement a 'hard' National Funding Formula for mainstream primary and secondary maintained schools and academies. Further transition has been directed for the 2023/24 financial year, and more direction is expected for 2024/25 and 2025/26. Alongside wider changes to the National Funding Formula, the funding of split sites, and Growth and Falling Rolls Fund arrangements, are expected to change in 2024/25. We will address these changes within our consultation on formula funding arrangements, which will be published in autumn term 2023. The DfE's stated aim is for the 'hard' National Funding Formula to be fully implemented by 2027/28, at the latest. 'Hard' NFF will mean that Bradford Council will no longer decide locally how the primary and secondary funding formula operates. Further transition, over the next few years, may have implications for how much funding individual primary and secondary schools and academies receive. 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 2023/24 formula funding vs. 2022/23. Within this comparison, it is important for primary and secondary 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 2023/24, as these protection mechanisms are only increasing by 0.5% per pupil, whereas the headline for the wider financial settlement is 1.9%.
- A matter of significant uncertainty in recent years has been the settlement for maintained nursery schools. Bradford receives a discrete sum (a 'supplement'), which is used to protect our seven nursery schools at 'historic' funding levels. Without this supplement, these schools would each lose in the region of a third of their funding. The DfE has confirmed the continuation of this supplement for the 2023/24 and 2024/25 financial years, which is a positive step. The DfE has also stated that it remains committed to supporting nursery schools going forward. What this commitment means for funding after 2024/25 however, will be dictated by the next Government spending review.
- Pupil numbers in Bradford are reducing (numbers are currently increasing in secondary but are then expected to flatten out and then reduce). This is a result of demographic trends, which are now more widely affecting 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 intakes, as well as nursery and post-16 numbers) and that they bring this information into their budget planning. Critically, schools and academies must not simply assume that their current value of formula funding will continue, unaffected by reductions in pupil numbers. It also continues to be important for primary schools and academies with early years entitlement provision to monitor the school's / academy's early years provision as a 'mini budget', so that they understand the extent to which their nursery provision is either subsidising, or is being subsidised by, the school's larger budget. The same principle is also true for secondary schools and academies with post-16 provision.

Details of the Item for Consideration

- The Spending Review 2021 (October 2021), updated in November 2022, gave an indication of the cash budget growth nationally in formula funding for schools and academies for 2024/25. From this information, we anticipate that increases in formula funding per pupil in 2024/25 will be more modest, when compared against the increases that have been seen in recent years, certainly between 2020/21 and 2022/23. 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 uncertain, the impact of possibly much tighter funding settlements for schools and academies e.g. settlements that are closer to an average of 1%, rather than to an average of 2-3%, increases in funding per pupil, must be assessed 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. We are currently very uncertain about school funding after 2024/25, as this will be dictated by the next Government spending review.
- The employer's contribution to teacher pensions, which is currently 23.68%, is set for review at April 2024. Any change in this contribution will have some impact on school and academy budgets from 2024/25. This however, is currently a major element of budgeting uncertainty. Commentators do anticipate that the employer's contribution will increase. A critical aspect, if this does happen, is whether additional funding will be allocated to support the cost, and whether this comes from 'new money' or is taken from the cash increase in the national schools budget that has already been announced. Schools and academies will remember that, following the last pensions contribution review, at September 2019, the DfE established the Teacher Pensions Grant. However, although this gives some precedent, this does not mean that the same will happen at April 2024. This is definitely an aspect of school budgets that will need to be re-considered when further information is published.
- The DfE has now provided its recommendations on the September 2023 teachers' pay award to the STRB (these were published on 21 February). Schools should carefully consider what the DfE says in its [recommendations report](#) and should take the time to closely assess (and scenario model) financial impact. Whilst the DfE puts forward a recommendation for an overall 3.5% pay award at September 2023, the DfE states that changing financial conditions (especially where energy costs reduce) might allow for school budgets to accommodate a higher pay award. This factor produces an additional element of uncertainty about the award's budget impact. The DfE is quite clear however, that no further funding is available to support the cost of the final award, meaning that schools will be required to fully absorb this cost from their already announced delegated funding, even where this award is higher than 3.5%. This means that reductions in energy costs that may come during 2023 will likely be re-directed to facilitate the cost of a higher teachers' pay award, rather than delivering material savings for schools to 'bank'.
- On 23 February, the National Employers [announced their pay offer](#) for support staff / officers (the NJC pay award) for April 2023. The Employers' offer is similar to the pay award that was agreed for April 2022: £1,925 on all scale points (up to scale point 43 of the NJC scale), with a 3.88% uplift on all points above the NJC scale (point 43). This equates to a range of uplifts, between 9.42% at the bottom of the scale up to 3.88% at the top of (and above) the scale. This offer will now be considered by the Unions, and the final award will be determined following the established pay bargaining process. So, as confirmed by the Employers' offer, the shape of, and overall uplift applied by, the final agreed NJC pay award for April 2023, will be significant for school budgets, and this is an aspect that requires close assessment.
- The Government is [currently consulting](#) on the calculation of holiday entitlement that is received by part year and irregular hours workers, following the recent Supreme Court judgement in Harpur Trust v Brazel. The Harpur v. Brazel case itself, as well as the outcomes of the Government's consultation, are likely to have implications for salaries costs in schools and academies in both the short and medium terms (affecting staff, such as teaching assistants, who are employed on permanent term-time only contracts). We strongly advise schools and academies to talk to their HR advisors on this issue.
- 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 salaries costs, as well as changes in pupil numbers from 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.
- Following the publication of the [SEND Green Paper](#) in March 2022, the DfE has stated that an 'improvement plan' will be published early in 2023, which hopefully will give further concrete information on the implementation of the proposals for SEND system reforms. These reforms are likely to have far reaching implications, quite possibly beginning April 2024. These reforms have the potential to significantly alter systems and the financial responsibilities that are placed on schools. They may have implications for areas such as: the £10,000 place-element value for specialist settings, the £6,000 SEND threshold, notional SEND budget definition, EHCP top-up funding and the use of banded models, the continuation of the SEND Funding Floor, and responsibilities for alternative provision. In constructing 2023/24 budgets, schools and academies should ensure that they continue to have good understanding of the following:

Details of the Item for Consideration

- The school's notional SEND budget figure and how this is calculated (mainstream schools).
- How much of the notional SEND budget the school is currently spending and where this is being spent (mainstream schools).
- Whether the school receives additional 'SEND Funding Floor' monies (mainstream schools).
- How much funding per occupied high needs place the school currently receives (special schools, PRUs and mainstream schools and nursery schools with resourced provisions).
- How much funding the school receives for each Education Health and Care Plan, allocated via the Authority's EHCP Banded Model (all schools).
- How much the school spends on behaviour support and alternative provision (mainstream schools).
- How many children the school has excluded, either on a permanent or on a fixed term basis over the last 12-18 months (mainstream schools).

2023-26 Estimated Financial & Budget Climate and Context

Looking across the 2023-2026 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, in 2021/22, in 2022/23, and will increase again in 2023/24. There is consolidated, as well as further, improvement in the 2023/24 schools' funding settlement, as amended by the 17 November 2022 Autumn Statement. To summarise the main features of this improvement for Bradford:

- Mainstream primary and secondary schools and academies, that are now funded on the DfE's mandatory minimum levels of per pupil funding (MFLs), have seen significant growth in their funding levels since 2020/21. Whilst the increases in the MFL values in 2023/24 are modest (only + 0.5%), this recent significant growth has been consolidated.
- The vast majority of mainstream secondary schools and academies, and more than 70% of mainstream primary schools and academies, are funded in 2023/24 above the Minimum Funding Guarantee (MFG). The Schools Block National Funding Formula in 2023/24 has been weighted towards additional educational needs factors, and the Bradford District overall has benefited from this. The increases in per pupil funding for our primary-phase range between the MFG / MFL (at 0.5%) and 6.2% and, for our secondary-phase, between the MFG / MFL (at 0.5%) and 4.2%. Following the collection of updated pupil circumstances data, funding for individual schools and academies has responded again to increases in Free Schools Meals numbers, meaning that more funding is allocated in 2023/24 in support of this pupil-led need. Pupil Premium Grant allocations will also increase in response to this, and the DfE is increasing Pupil Premium Grant factor values by 5.0% in 2023/24.
- The additional funding from the Schools Supplementary Grant, which was newly allocated in 2022/23, has been added as a permanent on-going funding stream for mainstream primary and secondary schools and academies. This is despite the cessation of the National Insurance Social Care / NHS Levy, which the Supplementary Grant was introduced in part to support.
- Mainstream primary and secondary schools and academies will also now receive the Mainstream Schools Additional Grant (MSAG), which on average will be worth an extra 3.4% per pupil in 2023/24. The Government's energy cost protection scheme, though reducing in scale and scope, is continuing, and some schools and academies will continue to benefit from this.
- The COVID-19 pandemic grants – the Recovery Premium and the National Tutoring Programme – continue for the 2022/23 and 2023/24 academic years (though the subsidy of the cost of tutoring provided by the grants is reduced).
- Through our Banded Model, we continue to increase the value of top-up funding that is allocated to schools and academies in support of Education Health and Care Plans (EHCPs). The uplifts in 2023/24 should be viewed in the context of the very significant increases that have been applied in 2020/21, 2021/22 and in 2022/23.
- Whilst we have adjusted the thresholds on which calculations in 2023/24 will be based, we continue to apply our strengthened SEND Funding Floor arrangement, which supports mainstream primary and secondary schools and academies to meet their responsibilities for the first £6,000 of the cost of the additional needs of all pupils.
- The funding received by special schools / academies will exceed the requirements of the DfE's 3% Minimum Funding Guarantee in 2023/24. Special schools / academies and PRUs / AP Academies will receive a further 3.4% increase in funding per place, in addition to place-element and top-up funding increases, as a result of the DfE's new condition of the Dedicated Schools Grant.

Details of the Item for Consideration

- The historic higher funding levels of maintained nursery schools are secured for 2023/24 via the DfE's continuation of the Maintained Nursery School Supplement within the Early Years Block.
- The Early Years Single Funding Formula in 2023/24 will continue to allocate the former school-led Teacher Pension Grant to schools and academies via a new supplement.

However, the scale of the growth in costs that schools and academies in Bradford are absorbing – from inflation and from pay awards – has created a very challenging financial environment, which is expected to continue in 2023/24. It is expected that the funding increases in 2023/24 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 against their increases in costs, especially in salaries costs. The health of the budgets of individual schools and academies will be additionally affected by variable factors. In terms of general, as well as specific variable, pressure points for Bradford in 2023/24, we highlight that:

- The Government's 2023/24 Early Years Block settlement for Bradford, at 1%, means that our Early Years Single Funding Formula will not keep pace on a like-for-like basis with the salaries increases, and increases in the prices of goods and services, that schools, academies and early years providers will need to continue to meet in 2023/24. In particular, the National Living Wage is increasing by 9.7% at April 2023. A further specific point to highlight is that early years providers will not receive the Mainstream Schools Additional Grant.
- Mainstream primary and secondary schools and academies, that are funded on either the Minimum Funding Guarantee or the Minimum Funding Level, will see only a 0.5% increase in their core formula funding per pupil, prior to the addition of the Mainstream Schools Additional Grant. This level of increase is very unlikely to keep pace with the salaries, and other inflationary cost, increases that these schools and academies will need to meet in 2023/24.
- Locally, all education budgets will still be required to fully absorb the impact of pay awards, incorporating the teacher pay award, the officer / support staff (NJC) pay award, the increase in the National Living Wage and employer contributions to staff pension costs. Salaries increases in 2023/24 will need to be met, in addition to education budgets having already absorbed a higher than planned for, and higher than DfE initially recommended (as affordable), teacher pay award at September 2022, and a substantial officer / support staff (NJC) pay award at April 2022. National decisions on pay awards to come will have a direct impact on the health of schools and academy budgets in 2023/24. The lack of certainty at this time about these awards creates a significant challenge for the school budget setting process.
- Whilst mainstream primary and secondary schools and academies will receive the Mainstream Schools Additional Grant, this Grant is allocated at the same time that the Government's energy costs protection scheme will reduce in scale and scope. It is likely therefore, for many schools and academies, that the MSAG may simply replace existing energy cost support, rather than the MSAG representing new funding to support growing pressures within school budgets.
- Demographic trends are reducing the numbers of early years children and primary-phase pupils across the District. The cash funding that some primary schools and academies receive will reduce, which will require structural spending adjustments, at the same time as increased costs are absorbed.
- Growth in the number of children and young people requiring higher needs support, and being put forward for assessment for EHCPs, is expected to continue, with school and academy budgets needing to continue to respond to this.
- The COVID-19 pandemic continues to have some implications for the budgets of schools and academies, especially because of additional expenditure that is being incurred, including in support of education recovery as well as absence cover. The reserves that are held by maintained schools, on current forecasts, are expected to have reduced during 2022/23, in particular as a result of the 2022 pay awards and increased energy costs.
- Schools and academies, in their management of their delegated funds, continue to need to take prudent decisions understanding that there is uncertainty for the near-future. This includes uncertainty regarding funding increases from April 2024, pay awards in 2023/24, and the financial implications of the major national SEND and Alternative Provision reviews.
- Given the potential for there to be significant differences between estimates of, and actual, teaching and non-teaching salaries costs in schools and academies, which will only likely become clear after budgets for 2023/24 have been initially agreed by Governing Boards, it is essential that all schools and academies robustly review both their 2023/24 budgets, and their 3 year forecasts, during the year.

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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