

## SCHOOLS FORUM AGENDA ITEM

For Action For Information 

### **Brief Description of Item** (including the purpose / reason for presenting this for consideration by the Forum)

To update the Schools Forum on the position of maintained school revenue balances at 31 March 2016.

### **Date (s) of any Previous Discussion at the Forum**

The Forum received information on the position of school balances held at 31 March 2015 on 20 May 2015.

### **Background / Context**

The financial year runs from 1 April to 31 March. At the end of each financial year, 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 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 spend on permitted schemes. With the School Forum's support, the Surplus Balances Protocol was reviewed (strengthened) during 2013.

### **Details of the Item for Consideration**

Please see Appendix 1 for a full list of school balances at 31 March 2016. Unfortunately, we are not able at this time to separate within the figures the values of balances held by each school that relate to collaborative arrangements. This information will not be available until final CFR returns have been submitted by schools in early June. The table below summarises the overall positions for each phase and gives a comparison against the absolute positions at 31 March 2015.

	<b>March 2016</b>	<b>March 2015</b>	<b>£ Difference</b>
Nursery	£634,274	£865,874	- £231,600
Primary	£13,192,865	£13,280,694	- £87,829
Secondary	£3,306,510	£4,302,442	- £995,932
Special	£692,554	£773,431	- £80,877
PRUs	£1,041,564	£1,841,198	- £799,634
<b>Total</b>	<b>£18,867,767</b>	<b>£21,063,639</b>	<b>- £2,195,872</b>

Please note that the totals above are affected by the reduction in the number of maintained schools, as schools convert to academy status. Balances held by academies are not included within the Authority's reporting. At 31 March 2016, 2 fewer secondary schools were maintained by the Local Authority than at 31 March 2015. These 2 schools held revenue balances in total of £0.448m at 31 March 2015.

### **Surplus Balances Protocol**

The revised Surplus Balances Protocol, which has been in place since March 2014, has been implemented with the main purpose of further supporting / encouraging schools to maximise the spending of their resources in support of raising standards. The two key aspects of the revised Protocol are:

a) Thresholds of 4% (Secondary) and the greater of 6% or £60,000 (all other phases, but with additional flexibility for high needs providers) apply.

b) The types of expenditure for which balances above the thresholds can be held are restricted to the following:

- A revenue contribution to an agreed capital scheme, only where capital resources are not sufficient.
- A revenue contribution to a 'spend to save' scheme, including energy efficiency schemes.
- Balances earmarked to support the costs incurred by the review of contracts of a significant value, where expenditure is not even year on year, including Building Schools for the Future.
- Managing the costs of expansion of pupil numbers.

### Details of the Item for Consideration

- Managing financial difficulties associated with a budget reduction in the following financial year, resulting from either a significant reduction in pupil numbers or a loss or significant reduction of a specific funding stream.
- Managing exceptional circumstances in such a way as to avoid significant financial turbulence that may impact on standards. This may include, for example, outcomes of HR processes.

In terms of impact, firstly we might expect to see a reduction over time in the values of revenue balances held by schools. The table below shows an analysis of the balances positions by phase, having removed the 'distorting' effect of the conversion of maintained schools to academies:

	<b>March 2016</b>	<b>March 2015</b>	<b>Difference</b>
Nursery	£634,274	£865,874	<b>- £231,600</b>
Primary	£13,192,865	£13,280,694	<b>- £87,829</b>
Secondary	£3,306,510	£3,854,305	<b>- £547,795</b>
Special	£692,554	£773,431	<b>- £80,877</b>
PRUs	£1,041,564	£1,841,198	<b>- £799,634</b>
<b>Total</b>	<b>£18,867,767</b>	<b>£20,615,502</b>	<b>- £1,747,735</b>

The gross value of total surpluses held at 31 March 2016 is £20.03m. The gross value of deficits is £1.16m (6 schools). The gross value of deficits at 31 March 2015 was £0.51m (4 schools).

The table above, and Appendix 1, show a mixed picture \*:

- A larger reduction in total balances held by Secondary schools. Within the Secondary schools' balances figures, as stated below, £1.12m of the £3.31m total is held to cover BSF contract liabilities. 3 secondary schools hold revenue deficits with a total value of £0.95m. At March 2015, 1 secondary school held a revenue deficit.
- A small reduction in the total value of balances held by Primary schools, but a mixed picture, with 67 schools reducing and 70 schools increasing their balances. 1 school holds a revenue deficit.
- A sizeable reduction in the total value of balances held by Nursery schools. This however, is mostly explained by the separation of accounting during 2015/16 of the external DfE funding held by 1 school as a Teaching Alliance School. 1 nursery school holds a small deficit balance. Please note that there is some continued 'distortion' of the balances figures for Nursery schools as the transformation of children's centre provision (and the movement of balances, including those relating to childcare provision) is completed.
- A sizeable reduction in the value of balances held by the PRUs, mostly explained by the reduction in the balance at 1 PRU with the progression of building works (and the related revenue contribution to capital).
- A small reduction in the total value of balances held by Special schools, but with 4 of the 6 schools increasing their balances. 1 Special school holds a revenue deficit.

\* Further information will be presented verbally on any relationships between changes in value of balances during 2015 and types of school or characteristics of pupils.

The table below shows the number of school by phase by revenue balance as a % of funding at March 2016:

	<b>Nursery</b>	<b>Primary</b>	<b>Secondary</b>	<b>Special</b>	<b>PRUs</b>
Deficit	1	1	3	1	0
Up to 1%	0	3	0	0	0
1% - 2%	0	9	1	0	0
2% - 4%	1	18	3	1	0
4% - 6%	0	68	3	0	2
6% - 8%	1	20	1	2	0
8% - 10%	0	9	2	1	1
10% - 20%	2	9	0	1	2
> 20%	2	0	0	0	2

This table shows how this position has changed from that at March 2015:

	<b>Nursery</b>	<b>Primary</b>	<b>Secondary</b>	<b>Special</b>	<b>PRUs</b>
Deficit	+ 1	- 1	+ 2	Same	Same
Up to 1%	Same	+ 2	- 2	Same	Same
1% - 2%	Same	+ 5	- 2	Same	Same
2% - 4%	+ 1	- 10	+ 1	+ 1	Same
4% - 6%	- 2	+ 4	+ 1	- 2	+ 1
6% - 8%	+ 1	+ 4	Same	Same	- 2
8% - 10%	- 2	- 1	+ 1	+ 1	+ 1
10% - 20%	+ 1	- 2	- 1	Same	+ 2
> 20%	Same	- 1	Same	Same	- 2

### **Details of the Item for Consideration**

The table below shows the median average value of balance by phase:

	<b>Median Mar 2016</b>	<b>Median Mar 2015</b>	<b>Change</b>
Nursery	£77,023	£47,162	+ £29,861
Primary	£79,196	£80,815	- £1,619
Secondary	£259,489	£247,123	+ £12,366
Special	£155,378	£143,993	+ £11,385
PRUs	£57,680	£73,747	- £16,067
<b>Total</b>	<b>£82,657</b>	<b>£82,687</b>	<b>- £30</b>

At 31 March 2015 (last year), 45 maintained schools held balances above their Intended Use of Excess Balances Thresholds, with a total value of balances above these Thresholds of £5.33m. After legitimate adjustments, such as for balances held on behalf of other schools, external ring-fenced grants and later notification of funding payments, 36 maintained schools held what the Council's Surplus Balances Protocol defines to be an 'excess' balance, at a total value of £3.71m. 45 schools returned schemes, with the total value of schemes adding up to £5.31m.

The equivalent position at 31 March 2016 is 51 schools (+6) are holding balances above their Thresholds, at total value of £4.13m (-£1.20m). After legitimate adjustments have been made, 33 schools (-3) are holding what the Council's Surplus Balances Protocol defines to be an 'excess' balance, at a total value of £2.38m (-£1.33m). 36 schools (-9) have returned 37 schemes, with the total value of schemes adding up to £3.66m (-£1.65m). A breakdown of schemes by type is shown in the table below:

<b>Type of Scheme</b>	<b>No. of Schemes</b>	<b>Total Value of Schemes</b>
1 Revenue Contribution to Capital Scheme	25	£1.977m
2 Revenue Contribution to Spend to Save	0	£0.000m
3 Contracts Review (including BSF)	4	£1.115m
4 Managing Places Expansion	2	£0.136m
5 Managing Budget Reduction	5	£0.412m
6 Managing Exceptional Circumstances	1	£0.020m
<b>Total</b>	<b>37</b>	<b>£3.660m</b>

Of these schemes, all but 3 are planned to be completed by 31 March 2016. Of the 51 schools holding an excess balance at 31 March 2016, all appear to have properly assigned the value of excess and therefore, there are currently no proposals for clawback.

Our initial conclusion from a simple analysis of the balances and Intended Use of Balances reporting positions at 31 March 2016 is that the Council's revised Surplus Balances Protocol continues to have an impact:

- No schools have breached their Thresholds without having assigned an appropriate value of balance to schemes, suggesting that the quality of financial planning and monitoring is continuing to improve.
- Although the number of schools above their Thresholds at 31 March 2016 has increased from 45 to 51, the value of balances held by these schools above their Thresholds has significantly reduced.
- The total value of balances held by all schools has reduced. It is expected that balances will reduce further during 2016, especially where the sums currently being held for specific commitments are spent.
- We must also recognise that the tighter financial climate is having / will have an impact on the values of balances held. The position of the secondary sector especially must be carefully monitored.

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

#### **General Context and Framework**

- 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.
- 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 balance (irrespective of the type of conversion) is transferred to the academy trust (so there is no benefit to the Local Authority nor the DSG).
  - 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 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.

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

### For Further Information and Discussion

The Schools Forum agreed the following on 6 January 2016:

- “If it is necessary, and agreed by the Schools Forum, to write off to the DSG a deficit of a closing maintained school, or a maintained school that converts as a sponsored academy during 2016/17, where de-delegated budget provision has not been specifically made, this will be done retrospectively from the 2017/18 DSG or from any one off balances available at the end of 2016/17. That the Authority would anticipate using the DSG’s ‘resilience reserve’, allocated to enable de-delegation, to meet such costs.”
- “That additional information also be provided to the March meeting on the anticipated volume of conversions of maintained schools to academy status in Bradford and the likelihood of liabilities resulting from the conversion of schools holding deficit budgets.” It was reported to the March meeting that this information would be presented in May, as this would allow consideration of the balances held by maintained schools at the end of the 2015/16 financial year.

Members are reminded:

- That the DSG is financially supporting Beckfoot Upper Heaton Academy (former Belle Vue Boys School). A budget of £2.105m is held in the 2016/17 DSG allocation for this purpose.
- That a sum of £0.650m is held within the DSG (within one off monies) to support the cost of the deficit of a secondary school converting to academy status.
- A ‘resilience reserve’ of £3m continues to be held in the 2016/17 DSG. There are likely to be competing demands on this reserve (including from our review of high needs provision and the management of the transitional to the national funding formula). The final value of one off monies available from DSG underspends at 31 March 2016 has still to be confirmed / reported to the Forum.
- Of the warning given by the Director of Finance at the last meeting that, alongside the reform of the national funding formula, the increased rate of conversion to academies raises the risk that complex and uncertain liabilities may give rise to the need for greater contingencies for individual schools, groups of schools, and/or local authorities than has historically been the case (such as for liabilities related to school level services contracts).
- Of the warning given by the Business Advisor (Schools) at the last meeting that the opportunity for liabilities to arise relating to deficit balances is greater in 2016, due to the expected larger number of academy conversions and as budgets are becoming tighter due to the full year impact of increases in employer staffing costs (National Insurance and pension contributions).
- That critical to the potential for liability related to deficit balances is the type of academy conversion. There should be no budget deficit liability on the Local Authority nor the DSG from ‘converter’ academies. The definitions from the DfE’s guidance are: “converter academies are those that convert (whether as a standalone academy or as part of a multi academy trust) by means of an academy order (AO) made after an application by the governing body of the school. Schools which are eligible for intervention, within the meaning of Part 4 of the Education and Inspections Act 2006, and underperforming schools which the Secretary of State judges are not strong enough to become an academy without a strong sponsor are treated as sponsored academies, even where their route to becoming an academy is through an application for an AO by the governing body.”
- Financial provision from the DSG for meeting the cost of the deficits of maintained schools that convert as ‘sponsored’ academies, and for meeting the cost of any other contractual liabilities associated with any type of conversion, is made through de-delegation from maintained schools. Although DSG reserves can be used to facilitate this, it is important for Members to be aware that as the numbers of maintained schools reduce and conversions increase, the potential for liabilities grows as the numbers of maintained school budgets that are still able to contribute to meeting the cost of these liabilities reduces.
- 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 2016/17, and converts on 1 September 2016, may respond to this in year, but savings from staffing 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 2015/16 is not sufficient to meet the value of overspending in the first half of the year.
- Of the information that has previously been presented to the Schools Forum on how the Local Authority (School Funding Team) supports and challenges schools on their budget positions and works to identify and resolve issues early. The Authority also has published a detailed guidance document for schools, which sets out expectations in preparation for financial close on academy conversion.
- The deadline for the submission of governor approved budgets for 2016-2019 from maintained schools is 15 May 2016. It is these submissions that give the Authority a clearer view of the position of school budgets.
- An update on the position of academy conversions is a standing item on School Forum agendas.
- Prior to meetings becoming public, balances information was presented quarterly to the Schools Forum.
- As a result of expectations on the speed of academy conversions in Bradford, the Authority has effectively ceased to offer the capital loans scheme to maintained schools, which is funded by the DSG reserve.

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

There have been 3 conversions since 1 January 2016; 2 secondary schools and 1 primary school. All 3 are expected to close with surplus balances. At the time of writing this report, the Local Authority is 'formally' aware of 36 schools that are likely to convert to academy status before or on 1 September 2016. One of the sources of information for planned conversions is the list published by the DfE on a monthly basis on its website of open academies and projects in development. This list enables us to identify which conversions are 'sponsored' and which are 'converters'. We currently estimate that 6 of the 36 are sponsored conversions. 1 of these schools currently holds a deficit budget, for which the Schools Forum has made £0.650m provision. Based on most recent budget information, we expect the other 5 to be in surplus at the point of conversion.

The position is fluid. The Authority is informed of new applications for academy conversions on a very regular basis and the timescale between notification and application and actual conversion can be relatively short. It is not possible at this stage to 'put a number' on the potential value of deficit budgets that may come back to the Local Authority / the DSG over the next 12 to 18 months. The detail earlier in this report shows that vast majority of maintained schools hold surplus balances but that some schools are facing significant financial pressure.

In discussing this matter, it will be helpful for Members to form a view on the following:

- Should the DSG be the source of funds for accumulated deficits of 'sponsored' converting schools?
- What is the appropriate role for the Local Authority?
- What is the appropriate role of the future Academy Trust?
- What additional controls and incentives can be put in place to avoid the risk that in the run up to conversion, converting schools do not manage their finance adequately such that a liability is created for?
- In view of the potential increase in academisation, should the Forum set aside a fund within the DSG to pay for non-recurrent conversion costs?
- In parallel to the above, clearly we would want to look at all conversions on a case by case basis. What is the mechanism for doing so, and is the approach taken in the past (discussion at full Forum level) viable in the new environment?

**How does this item support the achievement of the District's Education Priorities**

Schools maximising their resources in support of raising standards.

**Recommendations**

**The Schools Forum is asked to note the information provided on school balances. Members are asked then to consider further the issues raised concerning the financial implications of the academisation of maintained schools and to form a view in response to the questions posed in the report about possible financial liabilities created by the conversion process.**

**List of Supporting Appendices / Papers (where applicable)**

Appendix 1 – Summary of Maintained School Revenue Balances at 31 March 2016

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