

## Report to the Schools Forum 20 September 2018

### Deficits of Schools Converting to Academies & Approach to Maintained school budgets

#### 1 Introduction

- 1.1 Following several years during which there were no conversions of maintained schools in Telford & Wrekin, we have seen a number in 2018, namely:

Ercall Wood School

Hadley Learning Community (primary phase)

Hadley Learning Community (secondary phase)

Mount Gilbert School (now Queensway South)

Redhill Primary School

Windmill Primary School

- 1.2 Charlton School is also due to convert during the Autumn term. All except Windmill and Redhill joined (or in Charlton's case will join) the Learning Community Trust centred around HLC. Windmill joined the Communities Academies Trust which already runs a number of schools in T&W. Redhill joined the Thomas Telford Trust

- 1.3 Conversions can have a number of financial consequences for the local authority, ranging from loss of business rates (all academies receive 80% relief, like voluntary aided and trust schools, but unlike community and voluntary controlled schools), to a reduction in the purchase of traded services. In addition, one of the most direct financial consequences is that in certain circumstances, any deficit upon conversion is left with the local authority, with no powers to reclaim this from the subsequent academy.

#### 2 Budget Position of T&W Maintained Schools

- 2.1 In recent years, the level of revenue balances held by Telford & Wrekin maintained schools has sharply declined, as follows:

31 March 2015	£6.28m
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31 March 2016	£5.74m
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31 March 2017	£3.97m
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31 March 2018	£2.38m
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- 2.2 It should be noted that the above figures do not include monies held by schools as a provision for potential costs arising from single status.

- 2.3 The decrease is a combination of conversion of schools to academies and a reduction in the balances held by remaining schools. Taking maintained schools at 31 March 2018, the like-for-like balances have been as follows:

31 March 2015	£5.37m
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31 March 2016	£5.00m
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31 March 2017                      £3.37m

31 March 2018                      £2.38m

2.4 At 31 March 2018, of the 59 maintained schools, 50 finished the year with a surplus balance and 9 with a deficit. The total deficit was £1.26m, and the vast majority of this, £1.19m related to four schools

2.5 Usually, a substantial deficit arises because of unusual individual circumstances such as:

- Steep declines in pupil numbers prior to closure, sometimes reaching a point that makes a school temporarily difficult to sustain financially.
- Ofsted inspection, resulting in declines in pupil numbers combined with a need to rapidly improve educational standards
- Rapid growth over a number of years. If this is not met by funding on estimated numbers, a succession of years with lagged funding can have a significant budget impact.
- Premature retirement and redundancy costs as these are generally no longer met by the Council.

### **3 Treatment of Surpluses & Deficits when Converting**

3.1 The impact upon the local authority of conversions depends upon the route taken, whether 'converter academies' or 'sponsored academies'. The LA retains the balance (deficit or surplus) of sponsored academies. Converter academies take their balance, surplus or deficit, with them.

3.2 The DfE guidance on the treatment of surplus and deficit balances contains the following definition of this:

*"In this document, 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 schools that have applied to become an academy but where the Regional Schools Commissioner (RSC), on behalf of Secretary of State (SoS), does not consider the school strong enough to convert without the additional support of a 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."*

<https://www.gov.uk/government/publications/academy-conversion-surplus-and-deficit-balance-transfer-process>

3.3 We are therefore left in an uncertain position in which the route taken is subject to the RSC view – which is not tied to any particular data set or independent (e.g. Ofsted) judgement.

3.4 Regarding recent conversions, Windmill Primary converted as a sponsored academy, whereas all the other conversions were treated as converter academies. When Charlton convert this will be via the sponsored route.

## **4 Impact upon the Local Authority**

- 4.1 In terms of the conversions during 2018/19, Ercall Wood and Windmill converted with a deficit. Ercall Wood have not been treated as a sponsored conversion and therefore took their deficit with them. Windmill's deficit has remained with the Council
- 4.2 Charlton's substantial deficit, expected to remain at around £400K at the point of conversion, will have to be borne by the local authority.

## **5 Mitigating the Financial Risk of Conversion**

- 5.1 The DfE response to LA's being left exposed to financial risk when schools convert is that LAs have the financial powers over maintained schools to prevent deficits arising. This is technically true, insofar as the local authority has the power to remove delegated financial powers from maintained schools and make financial decisions on behalf of the school.
- 5.2 This, however, is something that T&W has never done and is generally rare in other LAs too. It puts the LA in a position of taking direct responsibility for the operational running of a school.
- 5.3 The stage before de-delegation is to issue a notice of concern and as part of this require a school to take defined actions. A notice of concern was issued to Charlton in 2016 requiring the school to obtain prior approval from the LA of any expenditure decisions exceeding £1,000 and notifying the school that de-delegation would be the next stage if this financial discipline was not maintained. However in practice, the tension between the shared commitment to improving the educational provision at the school and the budget position meant such action mitigated the increase in the deficit rather than removing it.
- 5.4 Before schools were able to convert to academies, a school in such a situation would have been given a licensed deficit with a multi-year recovery plan. In the current environment, conversion can take place before such a plan has impacted.
- 5.5 It can now be seen that the financial consequences of this situation is that large sums are falling to the local authority to pay. The financial risk for the LA of future conversions is increasing in that maintained school balances have markedly decreased in recent years.
- 5.6 In order to manage the risk of future converting schools leaving deficits for the local authority to absorb, the following actions are proposed:
- Make it explicit within transfer agreements that any single status balances will be combined with revenue balances when we calculate the closing balance of a converting school.
  - If a school is considered likely to incur a deficit by the end of the current financial year, a notice of financial concern will be issued. This will require the school to:
    - Engage monthly monitoring support from the Schools Finance Team until the end of the financial year, and on an ongoing basis until a deficit is no longer forecast;
    - Agree a recovery plan with the Assistant Director for Education & Corporate Parenting and the Assistant Director for Finance and Human Resources;

- Based on this monitoring, termly updates will be provided to both Assistant Directors. If it is considered that the school is not adhering to the terms of the recovery plan, further restrictions will be considered, including the removal of delegated financial powers from the school.
  
- An annual report will be provided to the Schools Forum detailing:
  - the schools for which a notice of concern has been issued and the circumstances leading to such a notice;
  
  - progress in addressing the financial concerns;
  
  - details of any further action taken by the local authority in response to actual or potential deficits.

5.7 The Forum is invited to express its views on these proposals.

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