Report To:	**EDUCATION ATTAINMENT IMPROVEMENT BOARD**
Date:	31 January 2017
Executive Member/ Reporting Officer:	Councillor Lynn Travis – Executive Member – Lifelong Learning From 0 to Adult Stephanie Butterworth– Executive Director, People Ian Duncan – Assistant Executive Director, Finance
Subject:	**SCHOOL FINANCES UPDATE**
Report Summary:	The report provides an update on the current and projected levels of school balances together with the associated risk implications for the Council.
Recommendations:	Education Attainment Improvement Board Members are recommended to approve that :

1. Deficit budget recovery plans are agreed with relevant schools prior to 31 March 2017 and on an ongoing basis thereafter in compliance with the scheme for financing schools. The recovery plan is to be formally agreed and monitored by the Section 151 officer of the Council and the relevant school governing body.

2. That the Council make an urgent request to the DfE to provide loans to schools with extended repayment periods beyond the three years stated in the scheme for financing schools guidance where it is evident that this repayment period would not be financially viable for relevant schools. The associated extended repayment period term is to be agreed between the Section 151 officer of the Council and the School Governing Body once a response to the request is received from the DfE. It is also essential that any repayable loan arrangements are included within any subsequent legal agreements should the school transfer to Academy status.

3. As an alternative to recommendation two, that the Council also make an urgent request to the DfE to permit a licensed deficit budget recovery plan to be agreed beyond the three years stated in the scheme for financing schools guidance where it is evident that a three year period would not be financially viable for relevant schools. The associated extended recovery plan term is to be agreed between the Section 151 officer of the Council and the School Governing Body once a response to the request is received from the DfE. It is also essential that any licensed recovery plans are included within any subsequent legal agreements should the school transfer to Academy status.

4. A binding agreement is entered into with associated PFI schools to recover the sum delegated within their section 251 budget allocation for PFI related expenditure from 1 April 2017 to finance the continuing cost of PFI for the duration of the contracts.

A further update report is presented at the Education Attainment Improvement Board meeting of 28 March 2017.

Links to Community Strategy:

School Funding is managed and monitored in accordance with the Community Strategy

Policy Implications:

School Funding is managed and monitored in accordance with the scheme of financing for schools.

Financial Implications:

(Authorised by the Section 151 Officer)

Appendix C provides details of the projected levels of deficit balances of relevant schools over the current three year planning period. Whilst deficit recovery plans are currently being agreed with associated schools by 31 March 2017, it is evident that there are some schools where this would not be viable due to the level of the deficit balance projected.

It is therefore essential that the Council make an urgent request to the DfE to provide loans to schools with extended repayment periods beyond the three years stated in the scheme for financing schools guidance where it is evident that this repayment period would not be financially viable. The associated extended repayment period term is to be agreed between the Section 151 officer of the Council and the School Governing Body once a response to the request is received from the DfE. It is also essential that any repayable loan arrangements are included within any subsequent legal agreements should the school transfer to Academy status.

It is also essential that a robust agreement is implemented with associated PFI schools to ensure the sum delegated within their section 251 budget allocation for PFI related expenditure from 1 April 2017 is wholly recovered to finance the continuing cost of PFI for the duration of the contracts.

Legal Implications: (Authorised by the Borough Solicitor)

Often poor management of finances are indicative of other management failings in the school. This is relevant given that where conversion is directed by the Secretary of State or the school is eligible for intervention, the deficits of closing schools can be charged to the Council's General Fund. The debt is therefore left to be picked up by the authority as it happened on its watch although it's not something that the LEA has the power to avoid. It is therefore important that we review the current situation and find ways to bring greater accountability and understanding to schools finances. Additionally, any reports for capital capital should take into account the available balances.

Risk Management:

The report provides details of the increasing numbers of schools within the borough projecting deficit balances over the current three year planning period. Whilst deficit budget recovery plans will be agreed (over a three year period) with the majority of associated schools by the 31 March 2017, there are some schools where it is evident that it is not financially viable to implement a recovery plan due to the scale of the deficit balances projected. Section 7 of the report details the proposed mitigation of this.

Access to Information:

Background papers and information can be obtained by contacting Stephen Wilde, Head of Resource Management,

Directorate of Governance, Resources and Pensions

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1. BACKGROUND

1.1 This report provides Executive Board Members with details of the existing and projected levels of school balances (non-Academy schools) within the borough.

1.2 The report explains the compliance requirements of schools relating to the Scheme for Financing Schools (adopted by all non-Academy school governing bodies), the role and responsibilities of the Schools Forum relating to schools balances, the impending risk to the Council of schools with either existing or projected deficit balances and options for the Council to mitigate this risk.

1.3 Executive Board Members should note that a further update on School Finances will be presented at 15 March 2017 Executive Board meeting.

2 SCHOOL BALANCES ACADEMY TRUST 31 MARCH 2016

2.1 Total reconciled school balances (inclusive of revenue and capital) at 31 March 2015 were £8.789 million. This was a decrease of £2.792 million on the balance reported at 31 March 2014.

2.2 The reconciled level of school balances at 31 March 2016 were £7.187m, a decrease of £1.602m on the balance reported at 31 March 2015. It is important to note that two Tameside schools became Academies prior to 31 March 2016, which accounts for £0.250m of the reduction in balances (Manor Green Primary School £0.101m, Moorside Primary School £0.149m). The reduction in balances during 2015/16 for those schools, which were Maintained Schools at 31 March 2016 was £1.352m.

2.3 There are currently 8 Academy Conversions, which have been confirmed to take place during 2016/17. This is a comparatively large number of conversions in one financial year and consequently they will have an effect on the level of school balances at the end of 2016/2017. Table 1 below provides the level of these respective school balances at 31 March 2016 for information.

Table 1

Schools converting to Academy in 2016/17	**Revenue Balance 31/3/16 £'000**	**Capital Balance 31/3/16 £'000**	**Total Balance 31/3/16 £'000**
Oakfield (from 1/4/16)	123	0	123
Godley (from 1/4/16)	38	0	38
Flowery Field (from 1/6/16)	105	0	105
Dowson (from 1/9/16)	(41)	2	(39)
Bradley Green (from 1/9/16)	112	0	112
Leigh (tbc)	136	16	152
St Paul's Stalybridge (tbc)	43	0	43
Astley (tbc)	(20)	14	(6)
Total	**496**	**32**	**528**

Note: ( ) is a Deficit Balance

2.4 Table 2 (below) provides summary details of the cumulative level of Tameside school balances for the previous three financial years.

Table 2

Financial Year	Revenue Balance £'000	Capital Balance £'000	Total Balance £'000	Change in Year £'000
2013/2014	11,142	438	11,581	- 338
2014/2015	8,363	425	8,789	-2,792
2015/2016	6,710	477	7,187	-1,602

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2.5 There are two appendices to this report which give further information on schools balances over the last three years as detailed below.

Appendix A shows a detailed breakdown of each school's balance as at 31 March 2016 and highlights those schools with balances in excess of the Tameside recommended thresholds (8% for primary and special schools and 5% for secondary schools). It also contains details of the proposed use of those balances provided by associated schools.

2.6 A revised Scheme for the Financing of Schools was implemented on 1 April 2011. The scheme states that Local Authorities should consider relaxing their excess surplus claw back mechanism. Any mechanism should have regard to the principle that schools should be moving towards greater autonomy. Local Authorities should focus their attention on those schools which have accumulated significant excessive uncommitted balances and/or where some level of redistribution would support improved provision across a local area.

2.7 The surplus balance claw back mechanism in operation in Tameside is facilitated by the Schools Forum and any decision to enforce a claw back has to be made by voting members. As mentioned, the thresholds used in Tameside to define excess surplus balances are 8% of the respective delegated revenue budget for Primary and Special Schools and 5% for Secondary Schools. It should be noted that to date no excess surplus balances have been recovered from relevant schools. However, Schools Forum representatives have discussed excess surplus expenditure plan details with associated schools. **Appendix B** provides details of the powers and responsibilities of Schools Forums. There is no reference within this appendix to the monitoring of school balances. It should therefore be noted that the existing surplus balance monitoring process has been implemented in consultation with the Tameside Schools Forum.

3 SCHOOLS WITH DEFICIT BALANCES

3.1 At 31 March 2016 there were 7 schools with deficit balances. The total of these deficit balances was £1.345m (Primary Schools £0.056m, Secondary Schools £1.289m). Table 3 provides details on the level of projected school deficits up to 31 March 2019.

3.2 Whilst the number and level of schools in deficit in the Secondary sector is already a concern, the data in table 3 below highlights that the trend is also likely to be replicated in the Primary and Special school sectors in future years. The analysis of associated schools is provided within Appendix C.

Table 3

Financial Year Ending 31 March	Number of schools projecting deficit balances				Value of projected deficit balances £ '000			
	Prim.	**Second.**	**Spec.**	**Total**	**Prim.**	**Second.**	**Spec.**	**Total**
2017	3	6	4	**13**	42	3,240	499	**3,781**
2018	15	6	4	**25**	489	5,408	1,389	**7,286**
2019	25	6	4	**35**	2,005	7,234	2,388	**11,627**

NB: Table 3 is based on budget plan data from maintained schools as at 31 March 2016.

Scheme of Financing Requirements on School Balances

3.3 The associated rules on school balances provided within the Scheme of Financing which is adopted by all non-Academy school Governing Bodies within the borough are as follows:

The Right to Carry Forward Balances

3.4 Schools shall carry forward from one year to the next, all accumulated balances arising from the budget share. Thus, the accumulated balance as at 31 March will become the school's brought forward balance at 1 April. This process will continue for each successive year. An adjustment will be made to budget share instalments after the year end reconciliation has taken place and the level of any cash owed to or from the school has been determined.

Controls on Surplus Balances

3.5 Surplus balances held by schools as permitted under this scheme are subject to the following restrictions:

Both the Council and Schools Forum are entitled to request information on the proposed use of surplus balances from any school where the revenue surplus balances exceed 8% of the current year's budget share for primary and special schools, and by 5% for secondary schools, or in other circumstances where, in the view of the Council, the level of surplus balances may be cause for concern.

3.6 The information requested from schools on the proposed use of revenue surplus balances will be reported to Schools Forum on at least an annual basis. Any school which has a revenue surplus balance which is more than twice the permitted threshold, will be subject to a more detailed review of the plans for the surplus. This information will then be reported to Schools Forum, who will make a decision as to whether any of the surplus will be clawed back. If this were to happen, the Schools Forum will decide how any clawed back surplus will be redistributed to the Borough's schools.

3.7 The Council is entitled to request information on the proposed use of surplus balances from any school where the capital balance exceeds the equivalent of 2 years of the Devolved Formula Capital grant allocation for that School in the preceding year. The use of capital funding in a timely manner is particularly important as the DfE claw back unspent Devolved Formula Capital after 3 years.

3.8 During the completion of the annual Consistent Financial Report (CFR), schools will have an opportunity to commit a proportion of their surplus balance. Monies should only be classed as committed if the school can provide evidence to show that they:

- are for a specific purpose;
- will be spent within a defined timescale as detailed in this Scheme for Financing Schools;
- are included in the School Development Plan and/or have been properly approved by Governors.

Interest on Surplus Balances

3.9 The Authority shall not pay interest on any surplus balances that it holds on behalf of schools.

Obligation to Carry Forward Deficit Balances

3.10 Schools shall carry forward from one year to the next their accumulated deficit balances as at year end. The deficit balance at 31 March shall be brought forward as the opening balance at 1 April.

Planning for Deficit Budgets

3.11 Schools shall be allowed to plan for a deficit budget in accordance with section 3.15 below.

Schools should however not operate in a deficit prior to obtaining the approval of the Council. All schools with a deficit balance at 31 March will be required work with the Council to produce a deficit recovery plan which must be approved by the Governing Body and the S151 Officer. Schools with an authorised deficit prior to 31 March shall continue to reduce the deficit in accordance with their deficit recovery plan. The Council will work with the school to monitor the authorised plan. Where the approved plan is not being adhered to, the Council has the power to take action to bring the situation back in line with the approved plan, including the withdrawal of delegation.

Charging Interest on Deficit Balances

3.12 The Council does not propose to introduce a provision for charging interest to deficit schools. However, the Council reserves the right to charge interest, at current Bank of England base rate, on deficit balances for those schools that fail to reduce their deficit position in line with the agreed deficit recovery plan.

Writing Off Deficits

3.13 The Authority cannot write off the deficit balance at any school. Governors are reminded that any deficit must be repaid in future years in line with an approved deficit recovery plan, as detailed in section 3.11.

Balances of Closing and Replacement Schools

3.14 When a school closes, any balance (whether surplus or deficit) will revert to the Authority, it cannot be transferred as a balance to any other school, even where the school is a successor to the closing school except that a surplus transfers to an academy where a school converts to academy status under Section 4 (1) (a) of the Academies Act 2010. If approval for conversion is given to a school in deficit under the Academies Act 2010, the DfE will pay the Authority an equivalent amount and recoup this through a reduction in the recurrent funding paid to the academy**.** ***However, where conversion is directed by the Secretary of State or the school is eligible for intervention, the deficits of closing schools can be charged to the Council's General Fund.***

Licensed Deficits

3.15 Due to unforeseen expenditure or pupil volatility, schools may find themselves in a deficit budget position from which it would be extremely difficult to bring the budget back in balance the following year. In these circumstances schools may apply under the scheme for a licensed deficit. The licensed deficit shall operate within the following parameters:

Deficit budgets will be approved in exceptional circumstances where a school has been subject to a temporary reduction in pupil numbers or has had to meet a significant item of unforeseen revenue expenditure. Where this happens and a school cannot bring the budget back out of deficit within the following year without staffing reductions that will damage its ability to deliver the national curriculum, then a deficit budget may be granted. Deficit budgets will not be approved except as a mechanism for managing staff reductions for schools that are suffering a long-term reduction in pupil numbers.

3.16 Deficit budgets shall be approved for a maximum of 3 years (this is not expected to be the norm). At the end of the agreed deficit period the school's accumulated balances shall be zero or greater. An approved deficit budget shall be accompanied by an approved deficit recovery plan as detailed in section 4.9.

3.17 The maximum size of any deficit shall be 5% of the school's annual budget share. There is no minimum level of deficit.

3.18 As schools in the scheme will be operating their own bank accounts, it is proposed that the collective gross balance held by schools, whether in their own accounts or held by the Authority in its role as Payroll Administrator, shall be utilised in calculating the upper level of deficit budgets that may be approved. The total of all licensed deficits shall not exceed more than 20% of the gross surpluses held by schools. The gross surpluses shall be calculated by reference to the latest available Section 251 outturn report i.e. the total deficits for an financial year shall not exceed more than 20% of the surpluses in that financial year.

3.19 All licensed deficits must be approved by the S151 Officer and Assistant Executive Director of Education.

3.20 Along with all other Local Authorities, Tameside introduced a new funding model in April 2013. Whilst the new model has meant changes for many schools in the levels of their funding, the Minimum Funding Guarantee has protected those schools which would have seen a large decrease in funding, but the nature of the nationally imposed Minimum Funding Guarantee means that this protection reduces in future years and therefore it is now starting to have an impact on school balances.

3.21 It should be noted that historically school budget plans can be overly pessimistic. Budget plans from schools in 2015/2016 indicated balances would reduce by just over £6m compared to the actual reduction in balances of £1.6m. Therefore officers are naturally cautious in accepting that the budget plans submitted to the Council represent that likely outturn position at the end of the financial year. School budget plans are used by the Council for a variety of purposes, including the calculation of cash deposits to schools. Submission of inaccurate data can lead to schools not receiving their correct cash allocation during the financial year, with adjustments required in the following year.

3.22 Whilst the figures in table 3 above most likely represent a worst case scenario position, the trend in the decline of school balances cannot be ignored. The Tameside Scheme of Financing for Schools stipulates that licensed deficits will be no more than 20% of gross surpluses held by schools. As at 31 March 2016 cumulative school deficits represented 16% of gross school surpluses. Based on the projections above at the end of March 2017 this figure will rise to 79% which would equate to a reduction in balances during the current financial year of approximately £6.2m.

3.23 Any school which is projecting a deficit budget position, either during or by the end of the existing three year budget period is required to submit a deficit budget recovery plan to ensure a balanced budget is delivered. The Head of Resource Management Service wrote to those schools where this applies at the beginning of October 2016 to explain the recovery plan procedure utilising the latest approved three year budget plan submitted to the Council. Recovery plans will require approval prior to the end of the current financial year.

3.24 It is worth noting that to date only a small number (less than ten) deficit recovery plans have been received from associated schools, which are subject to scrutiny and validation by the Financial Management service. There is therefore an urgency during this current term and prior to 31 March 2017 to ensure that all schools which are projecting a deficit budget position either during or by the end of the existing three year budget planning period have a recovery plan approved by both the Governing Body of the respective school and the Section 151 officer of the Council.

4 DEFICITS IN EXCESS OF PERMITTED LIMIT

4.1 At 31 March 2016 one school (Denton Community College) had breached the maximum permitted deficit of 5% of the school's annual budget, at 17.6% of its budget. At the end of the current financial year the school is forecasting a cumulative deficit balance equivalent to 30% of the annual budget, which would be six times the permitted maximum.

4.2 At 31 Match 2017, another five schools are forecasting to breach the maximum permitted deficit. One of those schools, Hyde Community College is forecasting a deficit more than double the permitted maximum (at a figure of 12.8%). The two schools with the highest forecast deficits have both benefited from new school buildings financed by arrangements under the Private Finance Initiative (PFI), in return for which the Schools' Governing Bodies agreed to make annual payments from their annual school budget. An explanation of the PFI arrangements is given below.

Private Finance Initiative

4.3 Private Finance Initiative (PFI) contracts are an example of Public Private Partnerships (PPP) and they were a significant element of the Building Schools for the Future (BSF) construction programme that took place in Tameside. The Department for Education (DFE) was very supportive of PFI contracts when the BSF funding initiative was in place particularly as there was no other mechanism for replacing or rebuilding schools. Seven secondary and special schools were constructed on a PFI basis in Tameside as part of the BSF initiative over two separate phases with the contracts being for 25 years. Two separate primary schools and one secondary school had previously been constructed as part of an older 30 year PFI contract in Hattersley which commenced in 2002.

Table 4 - Hattersley PFI Schools

School	Arrangement	Contract Period
Arundale Primary	Hattersley PFI	30 years from 2002
Pinfold Primary	Hattersley PFI	30 years from 2002
Alder Secondary	Hattersley PFI	30 years from 2002
Mossley Hollins	BSF PFI Phase 1	25 years from 2010
St Damians	BSF PFI Phase 1	25 years from 2010
Denton Community College	BSF PFI Phase 2	25 years from 2011
Hyde Community College	BSF PFI Phase 2	25 years from 2011
White Bridge (part of Pupil Referral Service)	BSF PFI Phase 2	25 years from 2011
Elm Bridge (part of Pupil Referral Service)	BSF PFI Phase 2	25 years from 2011
Thomas Ashton Special	BSF PFI Phase 2	25 years from 2011

4.4 Buildings constructed on a PFI basis are not paid for in advance as construction takes place. Instead the construction costs and the construction company's debt incurred in funding the costs spread out over a longer period of time, with the contracts in Tameside being 25 and 30 years respectively as shown in tables 4 above.

4.5 The PFI contracts in Tameside include full facilities management services along with utility costs, insurance costs, routine maintenance costs and capital maintenance costs. The DFE allocate grant funding to the Council for the life of the PFI contracts in the form of PFI credits which are intended to support the capital costs of a building. These credits are not related directly to the actual cost of the schools within the PFI contract, as they are based on the DFE estimate of the funding needed to support the scheme, which has been lower than the actual scheme costs in Tameside.

4.6 The DFE also reduce the Council's capital maintenance grant for every PFI contract school in operation, as they do with any other new building projects. The general expectation is that schools contribute funding from their annual capital and revenue funding allocations to combine with the PFI Credits the Council receives to support the costs over the life of the contract.

4.7 When the Hattersley PFI contract was originally agreed in 1999, at that time in accordance with standard agreements, the school annual contributions only included revenue funding and effectively equates to approximately £624 per pupil for Pinfold Primary, £831 for Arundale Primary and £650 for Alder High in 2016/2017 terms. However, it should be noted that the schools in this contract contribute their funding based on a lump sum inflated by the Retail Price Index Excluding Housing (RPIX), so it takes no account of fluctuations in pupil numbers at those schools.

4.8 In addition to this, the original funding package for the Hattersley PFI contract assumed that £400,000 of Dedicated Schools Grant (DSG) funding would be top sliced from the funding allocated to all Tameside schools to combine with the school contributions and the PFI credits to fund the costs over the contract life of 30 years. This funding was delegated to the three Schools over 5 years ago and that delegation cannot be reversed. However the values involved are automatically recovered from those schools each financial year.

4.9 When the BSF PFI contracts were originally agreed in 2008, the school annual contributions included both capital and revenue funding. The revenue element of this equates to approximately £733 per pupil for both Phase 1 and Phase 2 mainstream (Non-Special) Schools in 2016/17 terms. These contributions are based on the greater of the Published Admission Number of the school or the number of children attending the school that year. Table 5 below shows a comparison of the PAN of the school and the number of pupils used to calculate school budget shares:

Table 5 – comparison of Published Admission Numbers (PAN) and funded pupils (2016)

School	Capacity (PAN)	Funded Pupils	Difference
Mossley Hollins	768	788	+3%
St. Damiens	750	784	+5%
Denton Community College	1,350	1,104	-17%
Hyde Community College	1,050	873	-21%

4.10 When the BSF PFI contracts were being agreed it was also confirmed that a 25 year FM contract would be entered into in relation to Samuel Laycock School, which is co-located with the New Charter Academy building in Ashton. These buildings were constructed on a Design & Build basis so the FM contract does not include construction and associated debt costs in the same way the PFI contracts do. It only includes facilities management services along with utility costs, insurance costs, routine maintenance costs and capital maintenance costs.

4.11 When the Samuel Laycock FM contract was originally agreed in 2008 the school annual contributions included both capital and revenue funding and the revenue element of this effectively equates to approximately £1,801 per pupil in 2016/17 terms. However, it should be noted that the school in this contract contribute their funding based on a lump sum inflated by the Retail Price Index Excluding Housing (RPIX), so it takes no account of fluctuations in pupil numbers.

4.12 Schools contribute towards the respective contracts on the basis of either annually inflated amounts per pupil or annually inflated lump sum amounts per school. The annually inflated lump sum contributions are made by Special Schools and are based on their historic premises related costs. The annually inflated contributions per pupil relate to mainstream (non-Special) schools that make their contributions based on the greater of their actual number of children on roll or their capacity. It is difficult to compare the school contribution on a per pupil basis for special school to mainstream schools due to the nature of the needs of the children as they have much smaller school populations than mainstream schools. Special schools receive more funding per pupil than a mainstream School and require more average space per pupil due to the specific needs of the pupils attending.

4.13 In addition to the PFI credits grant and school contributions the original funding package for the BSF PFI and FM projects assumed that an initial £900,000 of Dedicated Schools Grant

(DSG) funding would be top sliced from the funding allocated to all Tameside schools. This would be used in combination with the school contributions and the PFI credits to fund the costs over the contract life of 25 years. At the same time it was agreed that a further £250,000 of DSG funding would be top sliced once all the BSF Schools were constructed meaning a total annual top slice of DSG of £1.15m at this stage for the BSF projects. This top sliced DSG funding was intended to support both the BSF PFI contracts and the BSF FM contract described above.

4.14 Early in 2013, a review of the long term affordability of the PFI and FM contracts took place and the conclusion of that review was that the central DSG contribution needed to be increased by £769,000 from £1.15m to £1.919m in total. There were a number of factors behind this required increase in annual funding, which included the charges being passed on by the providers for utility costs across all three contracts and fluctuations in the RPIX inflation index over the life of the contracts to that point, compared to the estimates used in the original affordability calculations.

4.15 Executive Members should note that there is a **new requirement** for PFI budgets, which are currently centrally retained (funded by the Dedicated Schools Grant) to be devolved to individual PFI schools from 2017/18 onwards. It is therefore essential that binding agreements are implemented with these schools to recover the associated sum delegated to finance the continuing cost of PFI for the duration of the contracts previously explained in this section of the report.

4.16 Executive Members should also note that there is currently a review underway of the school PFI contract arrangements by an external organisation, Local Partnerships. The review is covering the following:

- Assurance that the Local Education Partnership in Tameside is providing value for money
- Provision of bespoke contract management support and training for key officers employed by the Council and Schools to clarify each party's expectations should be based on the contracts in place and to also ensure savings opportunities are not relinquished.
- A review of the refinancing options available in order to reduce contract costs through the current availability of beneficial interest rates when compared to those available when the contracts were original set up
- A review of the contracts in place and identification of savings due to changes in law or changes in the responsibility for areas of cost and/or risk

4.17 The review is due to be concluded within the next 6 months.

5 SCHOOL LOANS

5.1 Financial support to schools is also permitted in the form of a loan. The relevant school loan extracts from the Scheme of Financing for Schools, adopted by all non-Academy school Governing Bodies are as follows:

Loan Scheme

5.2 School governing bodies have no powers to borrow funds on the open market. This does not preclude the Council from making loans to schools **should they so wish**. School Governing Bodies wishing to apply to the Council for a loan must comply with the following requirements:

5.3 **The Purpose of the Loan**: Irrespective of purpose, the maximum loan that the Council will be prepared to consider will be limited to 5% of the total budget share for the school.

The period over which the loan is to be repaid: This will be for a maximum of 3 years although the Council might only offer loan facilities over a shorter period.

How the loan is to be repaid: The school must demonstrate an ability to be able to repay the loan out of the normal school budget resources and if approved, the loan repayments must feature in the school budget plan.

5.4 The maximum proportion of the collective school balances which will be used to back any loan arrangement is to be set at 20%

5.5 If approved, the loan schedule will be submitted to the School for signature by the Headteacher and the Chair of Governors. The schedule will detail the principal, amount of interest (at rates determined by the S151 Officer), the period of the loan and the repayment schedule. Upon receipt of the signed loan schedule, the S151 Officer will release the payment to the school.

5.6 The school must make repayment of the loan from the independent bank account by 2 instalments each financial year on the following dates – 1 January and 1 July. Schools may elect if they so wish, to have any loan repayment deducted from cash advances due to the school.

Credit union approach

5.7 Schools may wish to group together to utilise externally held balances for a credit union approach to loans as an alternative to the loan scheme detailed earlier in this section of the report.

5.8 Any schools wishing to use this approach must arrange for audit certification of the scheme to be provided to the Council upon request.

DfE Guidance on School Loans

5.9 The latest scheme for financing schools guidance issued by the DfE in December 2015 (sections 4.9 and 4.10) stipulate that three years is the maximum period for a loan repayment provided to the school by the local authority (please refer to the DfE web link below)
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486440/Scheme_for_Financing_Schools_Dec_2015.pdf

5.10 It is therefore proposed that the Council make an urgent request to the DfE to provide loans to associated schools with extended repayment periods to the three years as stated in the above guidance where it is evident that this would not be financially viable for the associated school.

5.11 It is also essential that any repayable loan arrangements are included within any subsequent legal agreements should the school transfer to Academy status.

6 SCHOOL BALANCES AND CONVERSION TO ACADEMY STATUS

6.1 The following relevant extracts are provided from the Education Funding Agency Academy conversion document.

Definition of converter academies and sponsored academies

6.2 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 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 Academy Order by the governing body.

Converter academies with a deficit balance on conversion

6.3 Deficit balances unlike surplus balances are not covered in the same way by primary legislation and regulations. The DfE's policy, however, is to treat deficits in a similar way, so the DfE reimburses Local Authorities and recovers the money back from the academy through abatement of General Annual Grant. The DfE has to ensure the amount due is a true reflection of what is owed and will only pay once the amount is agreed by both parties. In the event of a disputed deficit balance, the Academy Trust (Academy Trust) may apply to the Secretary of State for a review. The Secretary of State will base her decision on the evidence provided by both parties.

6.4 If a school is concerned that the size of its deficit could prevent it from converting, but the school is not eligible for intervention or otherwise eligible to be treated as a sponsored academy, it is open to the Local Authority to agree to absorb part or all of the deficit rather than insist on it being repaid by the school. This is most likely to apply where the school is joining the Academy Trust of an external sponsor, but as a converter academy.

Sponsored academies with a surplus balance on conversion

6.5 Where a school is to join the Academy Trust of an external sponsor and open as a sponsored academy, there are two possible routes to closure of the maintained school: the route where the governing body or Interim Executive Board applies for an Academy Order; and the route where either the school is closed through statutory processes or the Secretary of State issues an Academy Order in respect of a school eligible for intervention, though this last instance is unusual. There will be a difference in the treatment of surplus balances on conversion, depending on the route taken.

6.6 Where the Secretary of State issues an Academy Order following an application from the maintained school's governing body or Interim Executive Board, the law requires that the surplus will transfer to the Academy Trust;

6.7 Under the other route, the surplus remains with the Local Authority (though the surplus can be transferred to the Academy Trust and, in practice, some LAs have agreed to this).

Sponsored academies with a deficit on conversion

6.8 Where a school with a deficit is to join the Academy Trust of an external sponsor and open as a sponsored academy, the deficit remains with the Local Authority, to be funded from its core budget. School deficits are not an allowable charge on the Local Authority's schools budget (funded by its allocation of Dedicated Schools Grant); however, if the schools forum has agreed to de-delegate a contingency provision, then the deficit may be funded from that contingency, depending on the criteria agreed for its use.

6.9 LAs should work closely with schools becoming an academy to ensure that they manage the risk of an increasing deficit, and if a school is not managing its expenditure in a satisfactory manner, the Local Authority may withdraw delegation of the school's budget share in order to limit the potential cost to the Local Authority's budget. Some LAs may have an approach which sees their finance officers working closely with school improvement officers, so they can identify at an early stage schools which are underperforming and may require a sponsored academy solution, and can provide additional financial monitoring prior to them becoming an academy.

7 CONCLUSIONS

7.1 Most schools have operated their within approved budget, however there are an increasing number forecasting deficits.

7.2 The Council is complying with the scheme for financing schools to ensure formal agreed deficit recovery plans are in place prior to 31 March 2017.

7.3 There are however some schools (details within **Appendix C**) with projected deficit balances causing major concern. It is extremely unlikely that a limited number of schools be able to comply with the current requirement to correct their deficit position within a maximum period of three years.

7.4 It is proposed that the Council make an urgent request to the DfE to permit loan agreements to be entered into with schools with extended repayment periods beyond the three years stated in the scheme for financing schools guidance where it is evident that this repayment period would not be financially viable for relevant schools.

7.5 The associated extended repayment period term is to be agreed between the Section 151 officer of the Council and the School Governing Body once a response to the request is received from the DfE.

7.6 It is also essential that any repayable loan arrangements are included within any subsequent legal agreements should the school transfer to Academy status.

7.7 Following a new requirement to delegate PFI costs to individual schools, binding agreements need to be entered into with School Governing Bodies to ensure payment is made from the school budget for such PFI costs.

8 RECOMMENDATIONS

8.1 As stated on the report cover