

**ROTHERHAM BOROUGH COUNCIL
Self – Regulation Select Commission**

1.	Meeting:	Self-Regulation Select Commission
2.	Date:	31st July, 2014
3.	Title:	Academy Conversions – Financial Deficits
4.	Directorate:	Children and Young People’s Services

5. Summary:

At the Self-Regulation Select Commission on the 27th June, Members considered the revenue budget outturn for 2013/14. They noted the deficit of £339k attached to the conversion of Rawmarsh School: A Sports College and Swinton Brookfield Primary school, to Academies. They wanted to explore the reasons behind the deficit and what steps are being taken by the Council to minimise the risks for future conversions.

It is important to note that only ‘Sponsored’ Academy conversions (where a school is in deficit) result in the deficit falling on the Local Authority. Where the school is a ‘Converter’ (not sponsored) any deficit is funded by the Department for Education (DfE).

6. Recommendation:

That Self-Regulation notes the work that is undertaken to mitigate the revenue impact on the Local Authority of deficit budgets in schools that are likely to become a sponsored Academy.

7. Proposals and Details:

The current main policy for schools' deficits is contained in Rotherham's Scheme for Financing Schools as below:

“4.6 Planning for Deficit Budgets

The expectation is that schools which identify a financial deficit can clear those deficit balances and that the budget plan will demonstrate how this can be achieved. If this cannot be achieved, then a school must seek approval for a licensed deficit.

4.10 Licensed Deficits – applicable to Secondary Schools only

The scheduling of repayments of deficits, which exist at schools maintained by the Council, will be the subject of a three-year spending plan, which incorporates a maximum repayment term of three years (i.e having reached at least a zero balance). The deficit will represent no more than 5% of the schools delegated budget – although in exceptional circumstances the Council may relax this requirement and extend the three year maximum period to five years.

Any such arrangement can only be entered into with the authorisation of the Strategic Director of Children and Young People's Services and the representative of the Director of Finance.

*In order to secure this authorisation the school **must submit a recovery plan** which provides the Council with robust evidence of the size of the financial problem and how it will be addressed. The recovery plan needs to be submitted in a format stipulated by the Council and unless otherwise agreed, needs to be submitted within three months of the shortfall being agreed.*

Once authorised, it is important that progress against the recovery plan is monitored. Monitoring information will need to be provided to a frequency stipulated by the Council, which may be either monthly or quarterly. The plan will be reviewed on a six-monthly basis by the Strategic Director, Children and Young People's Service. Both the non-provision of monitoring information and/or poor performance against the recovery plan could constitute grounds for the removal of financial delegation.

It is the intention of the Council not to charge interest on any spending plan during the term of its repayment, however, charges will be incurred on the initial or maximum deficit balance (whichever is the greater) if the submission is not addressed within the timespan.”

Example of a previous agreed licensed deficit

Swinton Community School

At 31st March 2010 Swinton had a deficit balance of £644,025. In September 2010 the Authority agreed a licensed deficit on the basis that the school worked to achieve a balanced budget by 2013.

By 2013 the school had a small deficit of £3,879 and by 2014 a surplus balance of £302,236.

Clearly this is applicable to schools that are remaining as maintained schools and as Members can see from the guidance we can enter into an agreement for a licenced deficit for up to 5 years in exceptional circumstances. The Local Authority operates 'Schools of Concern' meetings which cover not just performance but governance, finance etc. Schools (that are not Academies) have to submit termly finance returns and if there are concerns about the budget going into deficit these are raised with School Effectiveness Colleagues and a decision is taken whether or not to invite them to attend a school of concern meeting. In addition to this, if a school buys back the Finance service from the LA, the Finance Officer can pick up any concerns at an earlier stage and bring this to the attention of the School Effectiveness service.

Imminent Sponsored Conversions

The two schools with the largest deficits below are both Schools of Concern. Rawmarsh School: A Sports College should have converted to an Academy on 1st June but for a range of reasons this was not possible to achieve. It will now convert to a sponsored Academy on 1st August.

It has been agreed with the Strategic Director of Children's Services with the Executive Head Teacher that Clifton Community School will not be converting to a sponsored Academy until it becomes financially sustainable. A recovery plan has been submitted by Clifton that is currently being agreed by colleagues in Resources. Issues that should be considered are levels of staffing; numbers of pupil on roll – are they likely to decrease or increase; does the school need to drive up standards and what additional costs might be needed to achieve this; assessment of cost of administrative supplies etc.

The DfE guidance on Schools converting to Academies with deficit balances states:

Where a school with a deficit is to join the Academy Trust (AT) of an external sponsor and open as a sponsored academy, the deficit remains with the LA, to be funded from its core budget. School deficits are not an allowable charge on the LA'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 (this has not been agreed in Rotherham), depending on the criteria agreed for its use. LA's will wish to work closely with converting schools to ensure that they manage the risk of an increasing deficit before conversion, and if a school is not managing its expenditure in a satisfactory manner, the LA may withdraw delegation of the converting school's budget share in order to limit the potential cost to the LA's budget.

Should Clifton decide to become a sponsored academy within the next five years it is proposed (subject to the outcome of the consultation (see below)) that the School will comply with the (proposed) changes to the Fair Funding Scheme.

In addition to the above planned sponsored academy conversions the only other school currently confirmed as a sponsored academy conversion in 2014/15 is Rawmarsh Monkwood Primary. This school had a credit balance of £28,681 as at 31st March 2014. The latest forecast for the planned date of conversion shows a small surplus balance.

A number of additional schools have expressed potential interest in converting to academies:

Anston Hillcrest
Anston Park Infant
Anston Park junior
Aston Hall
Greasbrough Primary
Harthill Primary
Herringthorpe Junior
Kiveton Park Infant
Kiveton Park Meadows Junior
Maltby Craggs
Thornhill Primary
Thurcroft Infant
Wales Primary
Hilltop School
Kelford School

Currently only one of the above schools, should it convert, would be a sponsored conversion. This school is Greasbrough Primary and the sponsor, should it proceed, would be Herringthorpe Junior. Greasbrough Primary had a small surplus balance of £4,191 as at 31st March 2014 and the latest forecast shows a balanced position.

In addition to closely monitoring the financial position of planned academy conversions, where the school is already forecasting a deficit the following options to help address or mitigate this are shown below.

Consultation on Proposed Changes to Rotherham's Fair Funding Scheme for proposed Academy Conversions where Schools are in deficit

On 27th June 2014 a report was considered at Schools Forum which sought agreement to consult (in accordance with DfE requirements) with maintained schools on proposed changes to the Rotherham Schools Fair Funding Scheme in respect of formalising the arrangements around dealing with forecast deficits for proposed sponsored academy conversions. These are summarised as:

- Where schools are requesting a bank account prior to converting to Academy or where they already operate with their own bank account:
 - Provide a 3 year plan which demonstrates a balanced position will be maintained
 - Demonstrates a planned surplus balance at the point of conversion

The Governing Body or Head teacher of any school forecasting an estimated in-year deficit is required to notify the Strategic Director of Children and Young People's Services Directorate within 7 days of estimating the forecast.

The Governing Body or Head teacher of the school must then take appropriate action to recover the forecast deficit as soon as possible. A plan must be prepared and submitted to the Strategic Director of Children and Young People's Services Directorate within 14 days which sets out the following:

- A written plan outlining the measures to be taken in order to reduce the deficit
- The planned time period for recovery of the deficit
- A financial plan giving details of the financial impact of the actions to be taken.

Where the school is proposing conversion and is not forecasting a surplus balance the Local Authority will require the Head teacher and Governing body to agree to the following actions:

- *a moratorium on non-essential spend during the period up to conversion, the details of which must be agreed with the Strategic Director of Children And Young People's Services;*
- *submit monthly updates to the budget plan, and provide timely explanations for any variations from original plan;*
- *meet on a monthly basis with the Strategic Director Children and Young People's Service to discuss the forecast outturn position.*

If a Head teacher or Governing body fail to agree to the above actions or fail to adhere to a reasonable agreed plan to contain or reduce any forecast deficit the Local Authority may take the following actions:

- *require the school bank account to be closed and the budget operated through the Local Authority General Ledger and*
- *remove the delegated budget and operate the budget via the Local Authority.*

The proposed Consultation was agreed by Schools Forum and the deadline for responses is 10th September 2014. Feedback will be considered at Schools Forum on 3rd October. It should however be noted that Schools may not be supportive of these proposed Scheme changes. The consultation also applies to Pupil Referral Units (PRU's) as these too can seek to become academies since 1st April 2013 when they acquired 'Delegated Budget' responsibilities.

8. Finance:

As at the end of June 2014 the estimated impact of known forecast deficits of schools likely to become Sponsored Academies in 2014/15 is shown below:

School	13/14 (provision already made)	14/15 (expected increase in/new deficit)	Total
	£'000	£'000	£'000
Rawmarsh School : A Sports College	300	236	536
Swinton Brookfield	39	47	86
Rawmarsh Monkwood	-	20	20
Total	339	303	642

The table below shows the 2012/13 outturn, the in-year 2013/14 monitoring forecasts provided by the above Schools, and the final 2013/14 outturn balances.

School	Outturn 12/13 Balance	Summer 2013 Forecast Balance	Autumn 2013 Forecast Balance	Spring 2014 Forecast Balance	Outturn 13/14 Balance
	£'000	£'000	£'000	£'000	£'000
Rawmarsh School: A Sports College	+600	-313	-282	-296	-274
Swinton Brookfield	+1	-39	-30	-58	-86
Rawmarsh Monkwood	+135	+24	+69	+49	+29

NB: + = surplus, - = deficit

9. Risks and Uncertainties:

- That the school converts to a sponsored Academy and the LA is left with the deficit budget.
- That the Executive Head Teacher arrangements are not sustainable and we have to enter new arrangements.
- The LA has to maintain effective relationships with all schools and the DfE to ensure improved outcomes for children and young people.

10. Policy and Performance Agenda Implications:

- The LA has a duty to ensure all schools are good or better in their area.
- The LA has to ensure all children attend a good or better school.
- The LA could be subject to a School Improvement Inspection and the support of schools that are inadequate or requiring improvement will come under particular scrutiny.

11. Background Papers and Consultation:

2013/2014 Council Budget Outturn report
Rotherham Schools Fair Funding Scheme
DfE: Schemes for Financing Schools
DfE Academy Conversion: Surplus and deficit balance transfer process

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