

Consultation: Proposed Changes to the Rotherham Fair Funding Scheme for Schools

Background

In May 2014 the Department for Education issued a guidance note 'Treatment of Surplus and Deficit Balances when maintained schools become academies'.

When a maintained school becomes an academy, legislation sets out a process for the transfer of any surplus the school may have at the point of conversion. The guidance sets out what happens to a *surplus* balance when a school ceases to be maintained by the local authority (LA) and becomes an academy under the Academies Act 2010. It also sets out what happens to any *deficit* a converting school may have.

Definition of Converter Academies and Sponsored Academies: Converter academies are those that convert 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, are treated as **sponsored academies**, even where their route to becoming an academy is through an application for an AO by the governing body.

Converter academies with a deficit balance on conversion

Deficit balances unlike surplus balances are not covered in the same way by primary legislation and regulations. The Department's policy, however, is to treat deficits in a similar way, so the Department reimburses LAs and recovers the money back from the academy through abatement of General Annual Grant (GAG). The Department 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 (AT) has recourse to apply to the Secretary of State (SoS) for a review. The SoS will base his decision on the evidence provided by both parties.

If a school is concerned that the size of its deficit could prevent it from converting, but the school is not eligible for intervention when it would be treated as a **sponsored academy**, it is open to the LA 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 AT of an external sponsor, but using the converter route.

Sponsored academies with a deficit on conversion

Where a school with a deficit is to join the 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, depending on the criteria agreed for its use. LAs 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.

Rotherham Fair Funding Scheme for Financing Schools

As an increasing number of schools convert to academy status the local authority must take action to mitigate the potential negative impact on the Children and Young People's Directorate revenue budget; thus ensuring continuity of service for all Children and Young People of Rotherham.

The Local Authority is responsible for updating the Schools Finance scheme. It must consult the governing body and Head of every maintained school when proposing any changes.

The proposed changes to the scheme are set out in Section A and B below where you may provide your comments as appropriate.

The proposed changes are set out in Sections A and B below. Please confirm if you agree to the proposed changes by completing Section C as appropriate.

Section A Addition to the requirements in relation to submission of budget plans
Currently the scheme includes the following at section 2.8 of the Fair Funding Scheme:

The governing body is required to submit a plan to the Council annually, by the 31st May, showing its intentions for expenditure in the current financial year and the assumptions underpinning the budget plan. This plan must be approved by the full Governing body and should be minuted as such. Schools are permitted to take account of what the Council deems as the estimated balances (deficit/credit) when submitting their budget plans. Governing bodies will have to submit revised plans by the 30th October.

It is proposed to include the following additional text:

The Governing Body or Head teacher of the school or PRU 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 financial impact of the actions to be taken.

Secondary schools must also apply to the Strategic Director of Children and Young People's Services Directorate for a licensed deficit.'

In addition to the above the Local Authority will require the Head teacher and Governing body to agree to the following actions:

- *a moratorium on all but essential spend only, the details of which must be agreed with the Strategic Director.*
- *monthly updates to the plan must be submitted and timely explanations for any planned variations from original plan must be provided.*
- *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.
- remove the delegated budget and operate the budget via the Local Authority.

Comments:

Section B Addition to the requirements in relation to the management of the school bank account at section 3.5 of the Fair Funding Scheme:

3.5 Bank and Building Society Accounts

All maintained schools may have external bank accounts into which their budget share instalments (as determined by other provisions) are paid. Schools, which have such accounts, shall be allowed to retain all interest payable on the account unless they choose to have an account within a Council contract, which makes other provisions.

New bank account arrangements may only be made with effect from the beginning of each financial year provided written notification is received and acknowledged prior to the 31st January prior to the financial year commencing. The Council will not agree to the opening of a school bank account until any deficit balance is cleared on the school delegated budget; and any school requesting a bank account at a later date shall not be able to have one until such deficit is cleared.

If a school opens an external bank account the Council must, if the school desires, transfer immediately to the account an amount agreed by both school and Council as the estimated surplus balance held by the Council in respect of the school's budget share, on the basis that there is then a subsequent correction when accounts for the relevant year are closed.

It is proposed to include the following additional text:

Upon opening a bank account the school must submit a 3 year budget plan to the Strategic Director of Children and Young People's Service which demonstrates a balanced position will be maintained for those next 3 financial years.

Should a school already operating a bank account propose to convert to academy status it must project a surplus bank account balance at the point of conversion. Once the decision is made to convert to academy status the Head teacher and Governing Body must submit a revised budget plan to the Strategic Director for the financial year in which it is to convert within 1 week of the conversion approval.

Should a school not project a surplus balance then the Local Authority will require the Head teacher and Governing body to agree to the following actions:

- *a moratorium on all but essential spend only during the period up to conversion, the details of which must be agreed with the Strategic Director.*
- *submit monthly updates to the budget plan, and provide timely explanations for any planned 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.*
- *remove the delegated budget and operate the budget via the Local Authority.*

Comments:

Section C

Please provide your response to the consultation below (please complete as appropriate):

1 I confirm my agreement to the proposed changes to the Rotherham Fair Funding Scheme for Maintained Schools as set out in Section A and B above. (Please tick if you agree)

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2 I confirm my agreement to the proposed changes to the Rotherham Fair Funding Scheme for Maintained Schools as set out in Section A and B above subject to the following changes;

3 I do not agree that the proposed changes to the Rotherham Fair Funding Scheme for Maintained Schools as set out in Section A and B above. (Please tick if you agree)

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