



Briefing note

To: Schools Forum **Author:** Claire Emmerson

Date: 24th April 2019

Purpose of the Paper:

Information	
Consultation	
Decision	√

Title of Briefing: Proposed Revision to the Scheme for Financing Schools

1. Background

Every local authority has to have a Scheme for Financing Schools, which defines the financial relationship between the authority and the schools (except academies) in its area.

The Department for Education (DfE) provides local authorities with a model scheme, which they must adopt. However they can amend or add to the scheme, if they wish to reflect any local changes or policies. A local authority is required to make revisions to their scheme as directed by the DfE.

The local authority will ensure that any proposed revisions are the subject of consultation with schools and the Schools Forum. Where a Schools Forum does not approve the revisions or approves them subject to modifications that are not acceptable to the authority the authority can apply to the Secretary of State for approval.

The Scheme for Financing Schools is based on statutory guidance published by the Department for Education (DfE), the latest version of which is available at:

<https://www.gov.uk/government/publications/schemes-for-financing-schools>

This Scheme applies to maintained schools only as academies are subject to separate financial regulations which are monitored by the Education Funding Agency (EFA) directly. The new scheme, including proposed revisions, is attached as Appendix A.

2. Current Position:

At the Schools Forum meeting on 24 September 2018 the Authority submitted a report on the proposed changes to the Scheme for Financing Schools (the Scheme). The amendment relating to Licenced Deficits was deferred pending a review of the proposed changes.

An Officer team from the Authority has worked collaboratively with the Schools Forum Sub Group¹ during February and March to review and agree the proposed changes to the Licenced Deficit arrangements within North Tyneside. Following the conclusion of the review the proposed changes to the Scheme were sent to all schools for consultation on 18 March 2019², with responses to be returned to the Authority by noon on the 1st April 2019. The outcome of the consultation is included within section 3 of this report.

This report outlines the revised proposed changes to the arrangements for Licenced Deficits agreements for maintained schools within North Tyneside, provides a summary of the outcome from the consultation exercise relating to the revisions and sets out a new Support and Challenge Framework which aims to strengthen the arrangements in place for schools in financial difficulty.

The report seeks Schools Forums approval to implement the changes for the 2019/20 financial year.

3. Revised Proposed Changes & Consultation Outcome:

Revised Proposed change and Impact for Schools

There are minor changes to sections 2.3.1, 2.6, 4.8, 6.2 and Annex A and Annex B in line with the recommended Scheme for Financing Schools published by the DfE. These changes are highlighted in the attached proposed Scheme for Financing Schools document.

The main revision to the scheme relates to the maximum length over which schools may repay a deficit. The current Scheme allows schools 5 years to reach at least a zero cumulative balance. The proposed changes look to reduce this to a maximum length of 3 years. This change would be applied to all schools new to deficit from 2019/20.

¹ Membership – John Newport, Gavin Storey, Matt Snape, Peter Gannon, Steve Wilson, David Watson, Audrey Kingham, Peter Thorpe, Stephen Baines, Andrew James, Phillip Sanderson, Anne Welsh/David W Bavaird, David Baldwin

² A drop in session to also support consultation feedback was held on the 26th March 2019 for First, Primary and Nursery Schools Head teachers.

There are currently 9 schools in North Tyneside who are operating under a Licenced Deficit Agreement for the 2018/19 financial year. Following deficit reviews with each of those schools it is likely that 2 schools will not require deficit approval in 2019/20.

Of the 7 schools remaining the Authority expect that 2 of those schools will be in a position to submit 3 year budget plans which would show a zero cumulative balance within the new revised 3 year maximum allowed.

The second revision relates to those schools that are considered to have a structural deficit. A School is deemed to have a structural deficit if it is unable to produce suitable and robust financial plans for future years, which clearly demonstrate the ability to repay the full cumulative deficit balance in the three year time period.

Individual arrangements will be made with each school with a structural deficit. However, the Authority will expect all schools with a structural deficit to have a recovery plan to achieve in year financial balance within a three year period or earlier with a view to begin to repay the cumulative deficit by year 4.

The Authority expects that the remaining 4 schools would have to be considered under a Structural Licenced Deficit Agreement in 2019/20. It is expected that 1 of those schools will be able to achieve an in year balanced position within the 3 years, but would be unable to pay back the deficit in full and would not be able to show a zero cumulative balance by the end of year 3.

The 3 remaining schools will be expected to work towards achieving an in year balance by the end of year 3 with a view to begin to repay the cumulative deficit by year 4.

Consultation Outcome:

As described above once the review had concluded and the revised proposed changes were agreed with the Schools Forum Sub Group. A consultation exercise was undertaken with schools from 18 March 2019, with responses to be returned to the Authority by noon on the 1st April 2019. The response rates to the consultation by Phase are shown in Table 1 below.

Table 1: Response Rates to the Consultation by Phase

Phase	No responded	Response rate
Primary/First	16	29%
Secondary Middle	1	25%
Secondary High	5	56%
Special and PRU	0	NIL
All Through	0	NIL
Total	22	30%

Of the 22 schools that responded 21 (95.5%) were in favour of the revised proposed changes to the Scheme. Specific comments received by schools are as follows:

- *Regarding structural deficits the LA must consider what is reasonable in terms of balancing the position.*
- *How will the LA assist when pupil numbers is an issue and a school is doing all it can to achieve a balanced position?*
- *How will the LA view schools in surplus who have worked hard to increase their roll and generate other income. Will they be penalised?*
- *Schools Forum needs to be transparent regarding early retirement and redundancies retained sums. Which schools are benefiting?*
- *This proposal leaves an open ended level of threat against deficit schools; it is missing the “or else?”*
- *Will the schools be closed? Forced academisations where the LA has to pay off the deficit first? Will the LA have a team that will come in and run the finances of those schools?*
- *Although broadly in favour of the changes, I am not sure whether we can demand absolutely that agreed deficits MUST be repaid within three years. It is a laudable aim, but it is perhaps an impossible one in such uncertain times, and given current and projected levels of funding.*

4. Framework for Support and Challenge to Schools in Financial Difficulty

This framework attached as Appendix B outlines the practical approach that the Authority takes to support schools in financial difficulty to help them improve their finances and return to a sustainable position.

A key principle underpinning this is to ensure that all schools and stakeholders are clear about the framework and procedures the Authority follows for supporting and challenging schools which are in deficit or approaching deficit.

The document forms an appendix to the North Tyneside Scheme for Financing Schools which is statutory guidance and contains directions prescribed by the DfE.

The Authority recognises that school budgets are under increasing pressure with rising costs relating to pay awards including the implications of the pay awards, National Living Wage, pension contributions, apprenticeship levy and inflationary pressures on premises, equipment and materials costs. As a consequence the Authority is introducing this additional support and challenge process to help schools to deliver excellent outcomes for pupils within available resources.

The Support and Challenge Framework is aimed at helping schools currently in deficit recover financial sustainability as quickly as possible, but it is also intended to introduce earlier intervention and prevention measures for schools showing signs of future financial difficulties.

Under the framework the Authority will allocate an annual RAG rating to each school based on the three year budget plan produced by 31 May each year. Additional support will then be offered appropriate to the RAG rating of the individual school. The RAG ratings will be defined as follows:-

Rating	Definition
Red (R)	A school which is forecasting a year 1 (current year) deficit greater than £5,000 and will be requesting deficit approval.
Amber 1 (A1)	A school which has a forecasted deficit under £5,000 or a forecasted surplus in the year 1 (current year) but is forecasting a deficit of greater than £5,000 in year 2 of the three year plan.
Amber 2 (A2)	A school which has a forecasted deficit less than £5,000 or a surplus in years 1 and 2 of the 3 year plan but has a forecasted deficit of greater than £5,000 in year 3
Green (G)	A school which has a forecasted deficit of less than £5,000 or a surplus in each of the three years of the budget plan.

The purpose of categorisation and this framework is to help schools and the Authority work together to address identified areas of concern promptly and effectively. The overriding priority is the support of the school to be financially sustainable and ensure resources are being used effectively and efficiently as possible. This is first and foremost to enable children and young people to maximise their potential and ensure education outcomes for all children are maintained.

The framework outlines the additional support which will be available to schools in line with the allocated categorisation. Sections 6 to 8 outline in detail what this will include and the responsibilities of the school and the Governing Body to engage with this.

The final sections of the framework describe the circumstances where the Authority would be required to issue a Notice of concern and where the Authority would look to remove the delegated budget from the Governing Body of the School.

5. Recommendations:

Schools Forum having read this report and clearly understanding the information provided consider this report and note the following:

1. approve the changes to the Scheme for Financing Schools in respect of Licensed Deficits and the minor amendments as outlined in section a.

2. the adoption of the Support and Challenge Framework which defines the role of the Local Authority in supporting Schools in financial difficulty and sets out the expectation upon schools to engage with the deficit approval agreement.