

20 September 2017

SCHOOLS CONTINGENCY – ISSUES

Report of the Operations Director, Education

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1. Purpose

- 1.1 To seek the approval of Forum to charge part of the forecast closing deficit of Cheshunt school to the schools budget.

2. Summary

- 2.1 This paper gives details of the deficit at Cheshunt School and requests Forum's agreement that part of it be charged to the schools contingency budget to support closing/amalgamating schools and general schools facing financial difficulty

3. Recommendations

- 3.1 The Forum is asked to agree that £605,000 of the forecast deficit on closure of Cheshunt School be charged to the de-delegated secondary schools contingency budget in 2017-18, and to agree that the consequential overspending of this budget of £576,000 is met from the 2018-19 Schools Budget (using the resource provided by the DSG carry-forward).

4. Background

- 4.1 Forum has for some time been sighted on the financial challenges facing small secondary schools ineligible for Falling Rolls Funding. As discussed at the last meeting, a small group of secondary schools are operating beyond reasonable norms; challenged both by their dis-economy of scale, challenging cohorts and disadvantaged by a school funding system which has led to an inequitable level of financial support for schools operating in these circumstances.

- 4.2 As Forum is aware, the LA has been working actively with this group of schools to ensure that they reach a sustainable financial trajectory, which for most is securing a pathway to Sponsored Academisation. Given a multitude of complex challenges facing these schools in the short and medium term that need to be addressed, securing pathways for these schools takes many months.
- 4.3 The LA received approval from the DfE over the summer for its proposal (agreed by Forum in June 2017) to dis-apply school funding regulations and create a central budget to support the forecast lagged growth anticipated in a set of secondary schools working in particularly challenging circumstances. This has enabled discussions with relevant MATs to advance, and the five conversions are planned for this year.
- 4.3 The conversion of Cheshunt School is at the most advanced stage of all the conversions, with the Regional Headteacher Board expected to make a decision on Sponsored Academy Conversion later this month. Formally, Cheshunt School will close at the point of conversion with a deficit budget, which will not transfer to the new Academy. Given both DfE Guidance on the Treatment of Balances of Converting Schools, and the School Funding Regulations, this paper seeks the approval of Forum to charge the cost of part of this deficit to the contingency 5. Contents of report

5. Circumstances of Cheshunt School

- 5.1 Alongside a number of smaller secondary schools, Cheshunt School saw a marked deterioration in its financial health in 2015/16. A drastic fall in pupil numbers saw it operating at a significant diseconomy of scale and facing chronic, financial deficit. Subsequently, the LA put a Financial Action Group in place to secure a pathway to financial sustainability. Whilst this process delivered significant savings to the school, reducing the forecast deficit by £2.1m over a three year period, it became apparent that the diseconomy of scale at Cheshunt was such that the school could not reach a position of break-even unless it was able to secure additional funding streams such as Falling Rolls Funding or Minimum Funding Guarantee that some smaller schools were able to access.
- 5.2 During the Financial Action Group process Cheshunt was inspected and whilst judged to be good in some areas, overall it was judged to be 'Requires Improvement'. This was significant because had the school achieved an overall rating of Good it would have received a total of £1.4m in Falling Rolls funding in 2016/17 to 2017/18, which would have enabled the school to balance its budget.
- 5.3 The school can also be considered unfortunate given that it wasn't eligible for protection funding resulting from its large and sudden drop in pupil numbers which historically a number of schools in Hertfordshire received funding protection for. This was because this drop took place after the change in School Funding Regulations which meant that schools experiencing a large and sudden drop in pupil numbers are no longer

afforded a 5% cash protection. Both protection and falling rolls funding allocations are met from the Schools Budget.

- 5.4 It was evident following the outcome of the Ofsted inspection and the school's resulting ineligibility for Falling Rolls Funding, that Cheshunt was no longer viable as a stand-alone school. The Financial Action Group achieved reductions and efficiencies to the point that further reductions would precipitate a collapse in standards as the LA undertook an options analysis on the future if the school.
- 5.6 A review of next steps focused both on closure and on Cheshunt entering a MAT to enable greater economies of scale to be realised. The resulting financial model demonstrated that the cost of the two options was broadly similar. Closure of the school would have resulted in a deficit of places locally and the forecast indicated that rising demographics in the area would likely necessitate the opening of a new school in place of Cheshunt soon after closure (at significant additional cost to the schools budget). Moreover, closure would have represented a significant disruption to the education of both Cheshunt pupils and to neighbouring schools asked to absorb significant numbers of pupils exiting the school.
- 5.7 On the basis of the initial analysis, it was determined that MAT Sponsorship was the preferred option. Consequently, a number of MAT Sponsors were approached with one confirming interest in conducting due diligence on admitting Cheshunt to their MAT. Following negotiations over recent months, a deal has been reached and Cheshunt is set to become an Academy in December 2017. Officers at both HCC and HfL believe strongly that this is the best possible solution for educational outcomes for pupils.
- 5.8 It is estimated that at the point of conversion, Cheshunt School will have a deficit of £1.1m.

6. Treatment of the closing deficit

- 6.1 DfE regulations require that the deficit is written off by the Authority at the point of conversion and such a deficit may be charged against the general contingency budget. However, given that this budget is only de-delegated from maintained pupils and there is now a small number of secondary maintained pupils, the conversion of any school with a deficit budget will result in an over spend. The charging of an overspend on de-delegated budgets to the DSG Schools Budget has to be specifically approved by the Schools Forum.
- 6.2 It is proposed to charge a portion of the closing deficit to the de-delegated contingency, with the remainder being met from the County Councils own funds.

It is suggested that the element charged to the contingency would be calculated as follows;

Cheshunt's Falling Rolls Fund allocation for 2017/18, had it been eligible, multiplied by 9/12s (the proportion of the year for which it is expected to be a maintained school)

$$£807,006 \times (9/12) = £605,255$$

The overspend on the de-delegated secondary contingency budget would therefore be £576,000

	(£)
Cheshunt closing deficit charged to contingency	(605,000)
Budget for secondary contingency	29,000
Overspend	(576,000)

7. Conclusion

7.1 The Forum is asked to agree the recommendation in Section 3.