

**Meeting:** Finance Sub-Committee  
**Date:** 22<sup>nd</sup> February 2017  
**Title:** Financial impact of Academisation

---

**Authors:** Mark Longstaff, John Haynes Tel: (0191) 643 8089

**Service:** Commissioning and Investment

**Wards affected:** All

---

## 1. Purpose of the Report

1.1 To present to Finance Sub-Committee:

- The potential financial impact on the Council of the academisation of schools *and*
- How the Council is managing this risk

## 2. Recommendations

2.1 Finance Sub-Committee are asked to note the content of the report.

## 3. Background

Academies are independent state schools that are directly funded by Government. Every Academy is required to be part of an academy trust, which is an exempt charity and company limited by guarantee. Every academy trust enters into a funding agreement with the Secretary of State for Education that sets out the requirements that apply to individual academies and the conditions to which the payment of grant is subject.

There are a number of different types of academies. Some academies have sponsors, while other schools convert to become academies without a sponsor. The first academies were mainly underperforming secondary schools but, since 2010 legislation has been introduced that opened the programme to all secondary, primary, special schools, pupil referral units and post 16-institutions. Free schools, university technical colleges (UTCs) and studio schools are new academies that open in response to parental demand and basic need.

More recently changes in government direction have slowed the programme of change and the need for all schools to become academies.

#### 4. Current position in North Tyneside

4.1 The current mix of Schools in North Tyneside ('the Council') is summarised in the table below.

| School 'Type'                             | Primary (including First and Nursery) | Secondary (including Middle, High) | All Age  | Special  | Pupil Referral Unit PRU | Total     |
|-------------------------------------------|---------------------------------------|------------------------------------|----------|----------|-------------------------|-----------|
| Maintained (Community & Foundation Trust) | 43                                    | 14                                 | 0        | 5        | 1                       | 63        |
| Voluntary Aided (VA)                      | 12                                    | 0                                  | 0        | 0        | 0                       | 12        |
| Academies                                 | 1                                     | 1                                  | 1        | 0        | 0                       | 3         |
| <b>Total</b>                              | <b>56</b>                             | <b>15</b>                          | <b>1</b> | <b>5</b> | <b>1</b>                | <b>78</b> |

#### 5. Main area of potential financial impact and Council's approach to managing the risk.

- External Funding to North Tyneside Council Education Services Grant (ESG)
- Funding from Schools to the Authority by way of Service Level Agreements.
- Deficit and Surplus Balances of Schools at the point of transfer.
- Schools Business Rates

##### 5.1 External Funding to North Tyneside Council Education Services Grant (ESG)

The Education Services Grant (ESG) was introduced in to cover the cost of the services that local authorities provide centrally to schools but that academies must secure independently.

ESG is paid to authorities and academies on a per pupil basis as an un ring fenced grant. Nationally since 2013/14 the level of ESG reduced by £200m , with a further £600m being announced in the 2015 Spending Review with the majority of that reduction being felt by authorities in 2017/18.

| Financial Year | Level of ESG £M |
|----------------|-----------------|
| 2013/14        | 3.755           |
| 2014/15        | 3.603           |
| 2015/15        | 2.876           |
| 2016/17        | 2.623           |
| 2017/18        | 1.200           |
| 2018/19*       | 0.423           |

\*Provisional Forecast

Notwithstanding some transitional support in 2016/17 the forecast level of £423k is the equivalent of £15 per pupil and would be the element of grant reduction for any future schools that become academies.

For example a two form entry Primary school (420 pupils) would equate to a further grant reduction of £6,300. A Secondary School of 900 pupils would equate to a grant reduction of £13,500.

### **Managing this risk.**

As part of the budget setting process the level of anticipated grant reduction is a key feature and as such the grant reductions notified to date have been factored in. However any in year changes in status would be a pressure on the budget.

## **5.2 Funding from Schools to the Authority by way of Service Level Agreements.**

Over 30 services are currently provided and purchased by schools via Service Level Agreements .For the 2016/17 the forecast level of income from the portfolio of Services was just over £8m.

Schools irrespective of their status continue to consider purchase decisions annually based upon Value for Money. Academisation in itself should not result in decision to stop purchasing these services en-masse however academies being formed as part of a wider chain may be encouraged to use the provider of services of wider Multi Academy Trust.

### **Managing this risk.**

Services to Schools in North Tyneside continue to be highly regarded by Schools in the borough and to date the three Academies continue to purchase a high number of services .This offer is continually being developed and enhanced to ensure the level of buy back remains high within the borough as well as any opportunities to trade beyond the boundaries.

### 5.3 Deficit and Surplus Balances of Schools at the point of transfer.

When a maintained school becomes an academy, legislation sets out a process for the transfer of any surplus or deficit at the point of conversion.

The key issue is the route to becoming an academy. **Converter academies** are those that convert (whether as a stand alone academy or as part of a multi academy trust) by means of an academy order made by application from the governing body. Schools which are eligible for intervention within the meaning of Part 4 of the Education and Inspection 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**.

**The treatment of respective balances is as follows:**

| Academy Type | Surplus Balance      | Deficit Balance                                       |
|--------------|----------------------|-------------------------------------------------------|
| Converter    | Transfers to Academy | Transfers to Academy (Re-imbursment of deficit to LA) |
| Sponsored    | Transfers to Academy | Remains with LA                                       |

#### **Managing this risk.**

North Tyneside continues to have a very strong Educational offer with over 96% of pupils attending a good or outstanding school. Therefore this continued high performance against current measures mitigates the risk of interventions towards sponsored academies.

Currently we have one secondary school with an Academy Order and a preferred sponsor that has an approved deficit .At the point of transfer this deficit will transfer to the Local Authority.

### 5.4 Schools Business Rates

Schools that are Academies, Free Schools, Foundation, Trust or Voluntary Aided qualify for Business Rates relief as they are given 'Charitable Status' giving them the same relief as a registered charity. This equates to 80% of the 'rateable' value of the school. Community Schools pay full Business Rates to the Council. As a result if a Community School convert to being an Academy the Council would lose 80% of the Business Rates that it would previously have received.

#### **Managing this risk.**

Currently the majority of schools in North Tyneside are already covered by 'Charitable Status' either as part of the North Tyneside Learning Trust, Voluntary aided Schools as part of Diocesan arrangements or indeed all of the Special Schools. Therefore this is already accounted for within the Authority and mitigates the impact somewhat of future academy transfers.