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| **AGENDA ITEM** |

**Title of report: Scheme for Financing Schools**

**Author of the paper:**

**Officer to present the paper to Schools Forum: Steve Worth**

**Details on who has been consulted with on this paper to date:**

**Executive Summary:**

The report sets out:

1. The requirement for local authorities to publish a Scheme for Financing Schools and informs members of changes introduced in the latest model scheme produced by the Department of Education.
2. The proposal to consult all schools on the proposed changes.
3. The most significant change required by the Secretary of State, which prohibits the use loans for schools with licensed deficits, and the changes proposed to incorporate this in the Tower Hamlets’ Scheme.

**Details of recommendations and timescales for decisions:**

Schools Forum is asked to note the forthcoming consultation and that proposed changes will be brought to the next meeting of the Forum.

Forum is asked to comment on the proposed changes set out in Appendix 1.

1. Section 48 of the School Standards and Framework Act 1998 requires Local Authorities (LAs) to publish a Scheme for Financing Schools. The Scheme sets out the financial relationship between a LA and its maintained schools; it does not apply to academies.
2. The Department for Education (DfE) provides a model scheme that a LA can adapt to its needs. The model scheme was updated in February 2019 and Tower Hamlets is updating its Scheme to incorporate the latest guidance.
3. Some of the changes made by the DfE take the form of a ‘**directed revision’** from the Secretary of State for Education. These ***must*** be incorporated in Schemes and take effect from the date of the direction.
4. It is a requirement of Section 48 that before changes can be made all maintained schools must be consulted and agreement to the changes obtained from maintained school members of the Forum.
5. The updated Scheme will be sent for consultation in March and the outcome reported to the next meeting of the Forum. Updates will be shown as tracked changes and are in the main relatively minor and often cosmetic, such as updating terminology.
6. The most significant change is a directed revision around the use of loans from a LA to its schools. This prohibits the use of loans as a means of funding licensed deficits and restricts the use of loans to funding capital expenditure over a number of years.
7. This revision was designed to stop sponsored academies with accumulated deficits continuing to make loan repayment after conversion. The DfE would, in most cases, expect the deficit of a school becoming a sponsored academy to remain with the LA.
8. Tower Hamlets’ current Scheme allows for the use of loans to fund deficits and therefore needs to be changed. The proposed changes to the Scheme to accommodate this revision are set out in Appendix 1. The wording of the direction is shown in Appendix 2.
9. Please note that the changes do not prevent the use of cash advances to support the cashflow of schools with licensed deficits, but these cannot be treated as loans and the full value of any cash advances not repaid at year-end will be shown as part of the accumulated deficit.

**Appendix 2 Directed Revision.**

**Loan schemes**

Loans will only be used to assist schools in spreading the cost over more than one year of large one-off individual items of a capital nature that have a benefit to the school lasting more than one financial or academic year.

Loans will not be used as a means of funding a deficit that has arisen because a school’s recurrent costs exceed its current income.

If loans are made to fund a deficit and a school subsequently converts to academy status, the Secretary of State will consider using the power under paragraph 13(4)(d) of Schedule 1 to the Academies Act 2010 to make a direction to the effect that such a loan does not transfer, either in full or part, to the new academy school.