

**TO: SCHOOLS FORUM
15 SEPTEMBER 2011**

**SUPPORT TO SCHOOLS IN FINANCIAL DIFFICULTIES
Director of Children, Young People and Learning**

1 PURPOSE OF REPORT

- 1.1 The purpose of this report is to update members of the Schools Forum on:
- i. proposals for licensed deficit arrangements for schools;
 - ii. proposals for support to schools in financial difficulty;
 - iii. amendments to how the LA funded school improvement budget may be used to support schools at risk of entering an Ofsted category of concern;
 - iv. the confirmed amount of Dedicated Schools Grant for 2011-12.

2 RECOMMENDATIONS

That the Schools Forum:

- 2.1 **NOTES that Cranbourne Primary School, Fox Hill Primary and College Town Junior School are all on target to meet the terms of the previously agreed licensed deficit arrangements (paragraphs 5.4 to 5.6);**
- 2.2 **SUPPORTS the proposal to allocate £0.150m from the budget to support schools in financial difficulty to Easthampstead Park Secondary School to aid recovery from the Notice to Improve, on the terms set out in the body of the report (paragraph 5.15);**
- 2.3 **NOTES that the LA funded budget to support school improvement will in future be directed to schools at risk of entering an Ofsted category as well as those in categories 4 or 5 of the LA's policy for school improvement (paragraph 5.17);**
- 2.4 **NOTES the confirmed amount of Dedicated Schools Grant for 2011-12 is £75m, £0.476m more than anticipated when the budget was set, and that proposals for budget changes, if relevant, will be presented to the Schools Forum for consideration in October (paragraphs 5.19 - 5.20).**

3 REASONS FOR RECOMMENDATIONS

- 3.1 **It is appropriate for the Schools Forum to be aware of, and where relevant, comment on these financial matters.**

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Offering a lower level or no financial support to the schools concerned, but this is considered inappropriate as support is required to assist schools in returning over the short to medium term to a stable financial position whilst at the same time achieving school improvement targets.

5 SUPPORTING INFORMATION

Background

- 5.1 The LA has two main options to support schools in financial difficulty. Firstly, where it is apparent that a school is experiencing medium term difficulties that over time can be readily managed and the school return to a surplus, a licensed deficit can be agreed that allows for a temporary overspend that is eventually fully repaid. Secondly, where significant budget difficulties exist, but where it is unreasonable to expect a school to be able to solve these through the management of their normal budget allocations, or where a school is at risk of falling into one of the Ofsted categories of causing concern, additional funding can be provided.

Licensed Deficits

Background and summary

- 5.2 There are circumstances where schools may experience budget difficulties and in order for the school to continue to function effectively, a temporary overspend of budget allocation may be desirable. The Scheme for Financing Schools has provisions to allow for this through licensed deficits which provides for a short term over spending so that schools have sufficient time to manage expenditure reductions that demonstrate the ability to fully repay any over spending within an agreed period. A summary of the circumstances in which a deficit may be agreed is as follows:
1. Where a school would not otherwise achieve its improvement targets
 2. A major building project is proposed
 3. It would not be reasonable to effect immediately the savings required as a result of a significant reduction in pupil numbers.

The conditions required for approval of a licensed deficit are set out in full in Annex A.

- 5.3 As a preliminary to presenting licensed deficit proposals for comment and agreement, officers of the LA undertake detailed reviews of school requests. This usually involves discussions with the Headteacher, Chairman of Governors and Bursar. In considering 2011-12 requirements, no new licensed deficits are proposed as schools have been able to manage their budgets from within their annual income. All existing deficit arrangements have been reviewed, and no changes are proposed to the terms currently in place at the three schools. Additional financial support is proposed for one school which has just been issued by Ofsted with a Notice to Improve.

Update on previously agreed licensed deficits

Cranbourne Primary School

- 5.4 The Schools Forum has previously agreed a £0.050m licensed deficit for Cranbourne Primary, that was made on an interest free basis, to be fully repaid by 31 March 2013. This was required to support the one form entry school during a period of operating with small class sizes in older year groups that were gradually being replaced with full classes at the age of admission, thereby increasing the overall budget income due to the school. Whilst the actual over spend at 31 March 2011 was £0.002m above the agreed limit, further changes to the medium term budget plan have been made that indicate a return to surplus by 31 March 2013.

Fox Hill Primary School

- 5.5 The Schools Forum has previously agreed to a £0.040m licensed deficit for Fox Hill Primary, on an interest free basis, to be fully repaid by 31 March 2013. Fox Hill Primary School is a one form entry school in an area of high deprivation and had been experiencing a fall in pupil numbers. A range of expenditure reductions have since been implemented, which coupled with a steady rise in pupil numbers indicates a surplus balance at 31 March 2013.

College Town Junior School

- 5.6 The Schools Forum has previously agreed to a £0.045m licensed deficit for College Town Junior, on an interest free basis, to be fully repaid by 31 March 2013. Due to the impact of high pupil mobility from nearby service families, it is subject to significant changes in number on roll and this resulted in the 2009-10 number on roll of 300 reducing to 260 for 2010-11, and per pupil funding falling by around £0.070m. The expenditure reductions implemented indicate that the school will return to a surplus balance by 31 March 2013.

Arrangements for review

- 5.7 The governing body of a school receiving agreement to a licensed deficit has to agree a medium term budget plan which will be kept under review by the LA on at least an annual basis. If it becomes apparent that any significant differences occur in the underlying budget and expenditure assumptions, then this may require subsequent changes, which will need to be agreed with the Director of Children, Young People and Learning and the Borough Treasurer and endorsed by the Executive Member. Should any changes be proposed to these arrangements during the year, they will be presented to the Schools Forum for comment, prior to a decision by the Executive Member.

Support to schools in financial difficulty

- 5.8 School Funding Regulations allow for additional funds outside the normal operation of the Funding Formula to be provided to schools considered to be in financial difficulty. In agreement with the Schools Forum, funding of £0.304m has been set aside in the School's Budget for this purpose. The criteria to be used to allocate this funding has also previously been agreed, and a school would qualify for additional financial support if, in the opinion of the Director of Children, Young People and Learning and the Borough Treasurer, they:

1. were unable to set a balanced budget and were in need of a licensed deficit arrangement at the start of the relevant financial year, and/or
 2. were likely to fall into one of the categories of causing concern, including notice to improve and special measures without additional financial support
- 5.9 Where additional funding is agreed, it is on condition that the senior managers and relevant governors of each school attend regular monitoring meetings with officers of the Council, provide such financial and other information that is requested, and do not make any significant deviations in spending, either in magnitude or by type without the approval of the Director of Children, Young People and Learning.
- 5.10 On the basis of the detailed work undertaken by officers of the Council, one school is considered to be in need of additional financial support.

Easthampstead Park Secondary School

- 5.11 Members of the Forum will be aware that Easthampstead Park Secondary School has been in financial difficulties for a number of years due to a significant fall in pupil numbers. This started in 2008 when the school was placed into the National Challenge programme to increase the number of Year 11 students gaining five or more good grades at GCSE, including English and mathematics. Despite significant improvement in GCSE and A level performance, comfortably exceeding the National Challenge floor standard, it has proved difficult for the school to overcome the misleading publicity concerning the potential closure of the school and pupil numbers have continued to fall.
- 5.12 In setting the 2010-11 budget, a detailed review of the curriculum planning and other spending was undertaken with the school, which culminated in school staff in consultation with officers of the LA and the chair of governors identifying nearly £0.500m of on-going savings over the three years to April 2013. This included reducing the size of the Senior Leadership Team (SLT) from eight to five members by removing three Assistant Heads (two Assistant Head Teachers were given voluntary redundancy in May and another has left the school to take up a post as a Deputy Head Teacher in September), though it was recognised that this could adversely affect the school's capacity for further improvement. Taking account of all the planned reductions, there remained a funding gap which the Director of Children, Young People and Learning, recommended should be financed through a £0.200m allocation from the budget to support schools in financial difficulty. This was subsequently supported by the Schools Forum on the expectation that further financial support would not be required, although it was recognised that changes of the magnitude required to the school budget clearly come with risks around deliverability and the impact on school improvement.
- 5.13 The school and LA have reviewed this medium term budget plan and a number of changes have been made, including increasing income from use of school assets, improved procurement on some of the facilities management contracts together with further planned reductions in staffing. These revisions have enabled the school to maintain anticipated costs to estimated income for the next two financial years.
- 5.14 However, in June 2011, the school was inspected by Ofsted and issued with a Notice to Improve (NTI) due to insufficient progress being made by pupils with SEN or low prior attainment. The inspection team however noted that many important aspects of the work of the school had improved significantly and the school has clear and proven capacity to improve.

- 5.15 Taking account of the requirements for further improvements, the Director of Children, Young People and Learning, has allocated additional resources from the LA budget in terms of specialist personnel and £10,000 from the budget for school improvement to fund actions in the LA Action plan. In addition to this support, the Director considers that additional direct financial support to the school is also required. In discussions with the Head Teacher and Chair of Governors, the most effective means of supporting the school would be to fund an additional Assistant Head Teacher, thereby ensuring that there are sufficient resources and expertise within the SLT to address all the concerns raised by Ofsted and maintain the progress made in recent years. This post would be funded for a period of 17 months and cost around £0.090m. Further short term financial support is also proposed to enable the school to meet improvement targets, including the purchase of additional learning resources of £0.060m, making a total financial contribution from the £0.304m budget to support schools in financial difficulty of £0.150m, which the Forum is requested to support.
- 5.16 To assist the school during the period of NTI, a Management Intervention Board (MIB) will be created to advise the guide the Governing Body on the school's strategies for improvement and their financial, personnel and health and safety operations. The MIB will have an independent chair and representation from the senior management and governors of the school and LA. It is proposed that the MIB has responsibility for agreeing the use of the £0.060m additional resources proposed above to enable the school to meet improvement targets, subject to endorsement by the Director. This funding would be accounted for separately from the main school budget.

Use of LA School Improvement budget

- 5.17 The LA funds a budget from its own resources of £0.040m which is allocated to schools to support school improvement. In line with the recommendations made by the Schools Forum in December 2010, these funds are used to support schools in categories 4 (normally having been issued with Notice to Improve by Ofsted) or category 5 (normally placed in Special Measures by Ofsted). As the overall number of schools in categories decreased in the academic year 2010-11, the LA will in future also use these funds to support schools deemed to be at risk of entering an Ofsted category.

Confirmed amount of 2011-12 Dedicated Schools Grant (DSG)

- 5.18 Members of the Forum will be aware that each year the Schools Budget is set on the basis of estimated income from the DSG as the DfE does not confirm pupil numbers until July. For 2011-12, the DSG was estimated at £74.524m.
- 5.19 The DfE has now confirmed that the final DSG allocation will be £75m, which is £0.476m more than assumed in the budget. In setting the budget, an allowance of £0.219m was made for the possible over estimation of pupil numbers and to cover potential in-year increases in the volatile, high cost budgets that the LA manages, mainly around special educational needs. Adjusting for this provision means that the DSG was under estimated by £0.257m. This difference is generally accounted for from a funding adjustment for low take-up of the free entitlement to early years education for 3 years. The DfE had originally consulted on the proposal to remove this adjustment, but was not ultimately implemented, but the final calculation by the Council was not updated for this late change.

5.20 A budget monitoring report will be presented to the Forum in October that sets out the current forecast position on all budgets, together with the final surplus balance from 2010-11. At this stage a significant surplus for the year is anticipated, and proposals will be brought forward on how the surplus could be used. This could include:

- Proposals to carry forward DSG into the following financial year;
- Proposals to increase individual school budgets;
- Proposals to increase centrally managed expenditure

Next Steps

5.21 Final responsibility to approve licensed deficit requests and allocations to support schools in financial difficulties rests with the Executive Member. Comments from the Forum on these proposals will be taken into account when final decisions are taken in October.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

6.1 Nothing to add to the report.

Borough Treasurer

6.2 The financial implications of the report are outlined in the supporting information.

Impact Assessment

6.3 There are no specific impact assessments arising from this report.

Strategic Risk Management Issues

6.4 There are no specific strategic risk management issues arising from this report

Other Officers

6.5 There are no issues arising from this report that are relevant to other officers.

7 CONSULTATION

Principal Groups Consulted

7.1 Not applicable, applying agreed policy.

Method of Consultation

7.2 Not applicable.

Representations Received

7.3 Not applicable.

Background Papers

Scheme for Financing Schools
Budget plans of relevant schools
Letters from governors requesting licensed deficits

Contact for further information

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Extract from Section 4 of the Scheme for Financing Schools

4.9 Licensed deficits

In exceptional circumstances, the authority will permit schools to plan for a deficit budget. The funding of licensed deficits would be through the collective surplus of school balances held by the authority on behalf of schools, and will be considered on an individual basis. General features of the scheme are detailed below:

Circumstances in which a deficit may be agreed:

- if in the opinion of the Director of Social Care and Learning a school could not otherwise achieve its improvement targets (there will still be a requirement of the governing body to demonstrate repayment),
- if a school proposes a major building project, to be funded from its delegated budget, which would otherwise result in the project not being undertaken (there will still be a requirement of the governing body to demonstrate repayment),
- if in the opinion of the Director of Social Care and Learning a school could not reasonably be expected to effect immediately the savings required as a result of a significant reduction in pupil numbers (there will still be a requirement of the governing body to demonstrate repayment),

Outline features of the scheme.

- the maximum length over which schools may repay the deficit is 5 years [this may need to be changed to 3 years in light of the latest DCSF proposals] (i.e. reach at least a zero balance),
- arrangement for a deficit will only be agreed where the governing body produces a plan which demonstrates to the satisfaction of the Director of Social Care and Learning the savings or additional income required to repay the deficit within an agreed timescale,

In general the minimum size of deficits which may be agreed will be the lesser of the following:

Primary schools	£10,000
Special schools	£20,000
Secondary schools	£30,000

OR

For all types of school, 5% of the size of the budget share as recorded in the financial statements required under Section 52 of the SSAF Act 1998.

In general the maximum size of deficit which may be agreed will be the greater of the following:

Primary schools	£50,000
Special schools	£150,000
Secondary schools	£250,000

OR

For all types of school, 15% of the size of the budget share as recorded into financial statements required under Section 52 of the SSAF Act 1998.

- interest will be charged at 1% above the Base Rate (now Repo Rate) as determined by the Bank of England, unless the authority agrees for it to be waived. The requirement to pay interest will be assessed on the merits of each individual application.

Outline controls on licensed deficits.

- the maximum proportion of the collective balances held by the authority which will be used to support the arrangement shall not exceed 40%,
- the Director of Children, Young People and Learning and the Borough Treasurer of the authority will make recommendations to the Executive Member for Education to agree any deficits and the terms on which they are offered.

The authority may request those schools operating external bank accounts to allow some or all of those balances to support the above arrangements. Where a school has a licensed deficit, it must seek approval from the authority to spend its School Standards Grant allocation if it is not to be applied against repayment of the deficit. The authority will always agree to such a proposal, unless the proposed expenditure is considered unreasonable in the school's financial circumstances.