

ARRANGEMENTS FOR ADDITIONAL FINANCIAL SUPPORT TO SCHOOLS
Executive Director of People

1 PURPOSE OF REPORT

- 1.1 The purpose of this report is to seek agreement from the Forum in respect of proposals for additional financial support to schools, in particular, approval of new or amended applications for licensed deficit arrangements.
- 1.2 Updates are also provided on the current position in respect of previously agreed financial support arrangements as well as the funding allocations made to date to schools in financial difficulties under the powers delegated by the Forum to the Executive Director of People.

2 EXECUTIVE SUMMARY

- 2.1 Schools can experience financial difficulties for a number of reasons and these can normally be readily resolved over the medium term. To help manage change through a planned rather than reactive process, the Schools Forum can agree support measures to maintained schools.
- 2.2 The on-going challenging financial environment together with needing to respond to the Covid Pandemic has resulted in more challenging circumstances for schools, and whilst no new deficit applications have been requested, a number of revisions to existing agreements are being proposed.
- 2.3 Despite significant assistance from the council, the medium term recovery plans being developed with relevant schools forecast £0.690m of aggregate deficit balances where a repayment date has yet to be proposed.. All of these schools also face challenges around standards and effectiveness, and more time is required to reach a solution that meets both of these needs.
- 2.4 Despite this, there is an overall reduction of £0.198m in the expected aggregate deficit balance at the end of 2020-21 compared to what was expected at this point last year.

3 RECOMMENDATIONS

That the Schools Forum AGREES:

- 3.1 That subject to the school governors confirming the financing schedule and compliance with the associated terms and conditions of the deficit scheme:**

That the following existing licensed deficits be amended as follows:

- 1. Sandhurst Secondary School's licensed deficit agreement be amended to a maximum deficit of £0.260m, for full repayment by 31 March 2023 (paragraph 6.16).**
- 2. Harmans Water Primary Schools receives a licensed deficit of up to £0.115m for full repayment by 31 March 2023 (paragraph 6.17)6.16.**

3.2 That the council continues to work on repayment schedules with the following schools, and that subject to the school governors confirming the financing schedule and compliance with the associated terms and conditions of the deficit scheme, that maximum deficits are as follows:

- i. Ascot Heath Primary School receives a licensed deficit of up to £0.220m.**
- ii. The Pines Primary School receives a licensed deficit of up to £0.150m.**
- iii. Winkfield St Mary's receives a licensed deficit of up to £0.020m**
- iv. Easthampstead Park receives a licensed deficit of up to £0.300m.**

4 REASONS FOR RECOMMENDATIONS

4.1 It is appropriate for the Schools Forum to be aware of, and where relevant, comment on these financial matters that are intended to provide short term assistance to schools in financial difficulties.

5 ALTERNATIVE OPTIONS CONSIDERED

5.1 A range of options are set out in the supporting information.

6 SUPPORTING INFORMATION

Background

6.1 The LA has two main options to support maintained schools requesting additional financial support. Where significant budget difficulties exist, and 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 in, or at risk of falling into one of the Ofsted categories of causing concern, additional funding can be provided that does not need to be repaid.

6.2 Alternatively, licensed deficit and loans can be agreed. In accordance with DfE requirements, licensed deficits can be used to assist a school that is experiencing medium term financial difficulties that over time can be readily managed and the school return to a surplus, or a loan can be used where a capital investment is proposed but the school does not yet have the full resources to afford the purchase. Governing bodies are required to agree to fully repay any amounts, including where relevant, any associated interest, before such arrangements are agreed. More information on terms and conditions of financial support are set out below.

6.3 Neither of these options are available to academy schools.

6.4 Additional funding that is not required to be repaid

Background and summary

6.5 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, this de-delegated budget has been returned to the Council for central management. The agreed criteria to be used to

allocate this funding is if, in the opinion of the Director responsible for schools and the Director responsible for Finance, a school:

1. was 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. was in or likely to fall into one of the Ofsted categories of causing concern, including serious weaknesses or special measures.
3. was a 1 form of entry school judged good or better that have more than 5% empty places

6.6 Due to the requirement to focus on responding to the challenge of the Covid pandemic, at this point in time no additional financial allocations have been agreed that schools do not need to repay.

Licensed Deficit and Loan Arrangements

Background and summary

6.7 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 deficit and loan arrangements which provide for additional short-term funding so that schools have sufficient time to manage expenditure reductions or receive additional income that demonstrates the ability to fully repay any over spending within an agreed period. Both the Schools Forum and Executive Member for Children, Young People and Learning need to agree requests.

6.8 In accordance with government requirements, the loan scheme is only available to support schools in the purchase of a capital asset, with a new licensed deficit arrangement option used to support schools with a shortfall in general income compared to required spend.

6.9 The main impact of the change in DfE criteria for the award of loan is that schools converting to an academy as a result of intervention and underperforming schools which the Secretary of State judges are not strong enough to become an academy without a strong sponsor will no longer need to repay loans unless they are for the purchase of significant one-off capital assets. Any accumulated deficit at the point of transfer will fall onto the general contingency and financed from with the overall Schools Budget.

6.10 A summary of the circumstances in which a licensed deficit may be agreed is as follows:

1. Where a school would not otherwise achieve its improvement targets;
2. It would not be reasonable to effect immediately the savings required as a result of a significant reduction in pupil numbers;
3. A major building project is proposed;
4. To finance an invest to save scheme.

Annex A sets out the full details of the licensed deficit scheme.

6.11 As a preliminary to presenting a deficit or loan 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.

- 6.12 The governing body of a school receiving agreement to financial support has to agree a medium-term budget plan which has been formulated from known facts, with a realistic provision for future events, and that it is kept under review with 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 Executive Director of People and the Director of Finance 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 and Executive Member for a decision.
- 6.13 The Covid pandemic has created additional financial pressures on many schools, as well as the considerable responsibilities and additional workloads required to maintain pupil education in a safe environment. Together with the impact on the Council, this has impacted on the progress made with some schools on balancing budgets.

Update on existing licensed deficits

- 6.14 The Schools Forum has previously agreed licensed deficit arrangements to manage a shortfall in general income compared to required spend. The current status of each agreement, together with any recommended changes, are set out below.

Current arrangements where a change is now proposed

Sandhurst Secondary School

- 6.15 The Forum agreed a £0.510m deficit for Sandhurst Secondary School in 2018-19, reducing to £0.385 in 2019-20, £0.175m in 2020-21, before generating a surplus in 2021-22. Taking account of updated school performance targets, the Forum agreed a revision to the deficit agreement with a maximum over spending of £0.440m in 2019-20, reducing to £0.220m in 2020-21, then £0.060m in 2021-22 before generating a surplus in 2022-23.
- 6.16 The council has maintained monthly budget monitoring review meetings with the Head Teacher, Business Manager and senior governors and whilst good progress has been made on managing and planning the budget, a further revision is considered appropriate. The current proposal is for a maximum deficit of £0.260m for 2020-21, reducing to £0.080m for 2021-22 before returning to a surplus in 2022-23. The Forum is requested to agree this revision.

Harmanswater Primary School

- 6.17 For a number of years, the school benefitted from a significant surplus balance which was accumulated when the school was experiencing full 3 Forum of Entry (FE) admissions but is now adapting to being much closer to a 2 FE admission. With relatively large 3 FE group sizes now starting to leave the school and being replaced with closer to 2 FE numbers, at this stage last year a medium-term deficit of £0.190m was being predicted, with a full repayment plan yet to be developed. Significant progress has been made on a budget plan with a full recovery plan now in place. This proposes a maximum deficit of £0.115m for 2020-21, £0.090m for 2021-22, £0.040m for 2022-23, before returning to a surplus in 2023-24. There are a number of elements to the recovery plan, some of which are complex and will therefore need to be kept under review. The Forum is requested to agree this revision.
- Schools in financial difficulty where a repayment plan has yet to be developed

- 6.18 Forum members will recall that last year was the first time that despite substantial work and assistance from the council, including the making of staffing and other reductions, for some schools, it was not possible to formulate a plan that could demonstrate a return to a surplus.
- 6.19 Whilst these schools have made progress in their financial planning, the key period to formulate budget plans coincided with the Covid pandemic which has clearly needed to take the highest priority. Furthermore, 2 other schools with existing deficit arrangements have needed to revise their budgets and have yet to complete balanced medium-term plans. A high-level summary of the current position for each is as follows:
1. Ascot Heath Primary school: Has experienced a reduction in pupil numbers of 71 between the 2018-19 and 2020-21 budgets. This equates to an annual loss in per pupil funding of around £0.266m which has contributed to the accumulated year-end deficit of £0.220m. Whilst work has been undertaken to develop a medium term budget, this has coincided with an amalgamation and is not yet at the stage where an update can be presented. Therefore, no change to the existing £0.220m maximum deficit is proposed.
 2. The Pines Primary school: Has recently been expanded back to a 2 FE, and whilst numbers are increasing, it is at a slow rate and during the transition results in complicated and costly classroom organisation. The year-end deficit at 31 March 2020 was forecast at £0.213m, but was managed down to £0.167m. A further reduction to £0.150m is planned for 2020-21, and whilst a number of potential budget options have been developed, further work is required on future year budgets.
 3. Winfield St Marys. Winkfield St Mary's Primary School was granted a licensed deficit of £0.030m to be fully repaid by 31 March 2021. This would allow the school to put in place a cost reduction plan in a measured way to recover the £0.025m overspending recorded at the end of 2017-18. Good progress was made on the initial repayments, however, the final £0.010m repayment schedule due for 2020-21 is not now considered affordable as some anticipated income has not materialised and costs have increased at a higher rate to income as pupil numbers have reduced. A deficit of £0.020m is now expected.
 4. Easthampstead Park Secondary received a £0.450m loan in 2016 which was expected to be repaid by an increase in pupil numbers which has in fact occurred at a lower rate than originally expected and has yet to reach the forecast level. Repayments of £0.090m had been made to March 2019 at which point the loan was converted to a licenced deficit. During 2019-20 the school received unbudgeted one-off income of £0.159m and effected other cost reductions and efficiencies of £0.140m to reduce the deficit to £0.060m. With pupil numbers continuing to remain below those expected, the deficit is forecast to increase to £0.160m by the end of 2020-21 and £0.300m for the following 2 years, before returning to below £0.100m. Whilst the financial position at the school has significantly stabilised, with further work planned to continue the recovery, a fully balanced medium term plan has yet to be developed.
- 6.20 The ability to repay deficits is generally dependent of increases in pupil numbers raising future income at a faster rate than associated cost increases, by reducing costs, or a combination of both. For example, being able to open a new class with 25 pupils would generate around £0.095m of income for a primary school with a teacher costing around £0.045m. A full class of 30 would generate around £0.130m. When pupil numbers are in decline, schools face the opposite situation, with income reducing at a far faster rate than the directly associated costs that can be removed.

6.21 For a number of schools in financial difficulty, pupil numbers are not forecast to increase significantly over the medium term, which is therefore presenting additional challenges and dictating the need to look at longer term solutions than has ordinarily been the case.

Proposed approach to schools that are unable to develop a medium-term financial recovery plan

6.22 At this moment in time, 4 schools are reporting year end deficits, 3 of which are significant, where full recovery plans have yet to be developed, which equates to an aggregate deficit of balance on budgets to be fully recovered of £0.690m. This is a reduction of £0.293m compared to the £0.983m last year.

6.23 The council wants to work closely with schools to develop recovery plans but accepts that achieving high standards is also a priority and is itself directing considerable resources towards school improvement. There is the further challenge of managing schools during the Covid pandemic. It is therefore proposed that the council continues to work with the schools to balance budgets over a longer 3-5 year period.

6.24 In order for the schools concerned to be in a position to work towards the initial budget plans that have been produced, the Forum is recommended to agree maximum amounts of deficit only at this stage, at the amounts detailed above, with an update on likely repayment schedules to be provided by the end of the financial year.

6.25 Successfully managing school budgets is recognised by the DfE as a national issue which has facilitated improvement through the commissioning of School Resource Management Advisers (SRMAs). SRMAs have worked with 3 BF schools to make recommendations on best use of schools' revenue and capital resources to deliver educational outcomes. Relevant schools have incorporated suggestions in their plans as appropriate.

Summary loan / deficit position

6.26 Table 1 below provides a summary of aggregate outstanding deficit arrangements for each school, assuming the proposals in this paper are agreed. Annex B provides a more detailed breakdown of the current and proposed arrangements by school.

Table 1: Summary Schedule of School Loan and Licensed Deficit Requests

Item	Previously agreed	2020-21 new requests	2021-22 impact	2022-23 impact	2023-24 years	Repayment date to be determined
Total advances	£1,323,000	£171,000	£180,000	£0	£0	£0
Total repayments	£0	-£569,000	-£245,000	-£130,000	-£40,000	£0
Total outstanding	£1,323,000	-£398,000	£860,000	£730,000	£690,000	£690,000
Total 2020-21	£925,000					
	32.32%					
Maximum borrowing @ 40% balances	£1,145,000					
Change from last year	-£198,000		-£183,000	-£253,000	N/A	-£293,000

Note: previously agreed balance reduced by £0.080m to reflect correction to Harmanswater Primary School request

Academy schools

- 6.27 Whilst new loan / licensed deficit arrangements are not available to academy schools, at the point of conversion, Brakenhale had an outstanding balance on a previously agreed loan.
- 6.28 In 2015 a loan of £0.190m was agreed for Brakenhale. The school converted to an academy on 1 April 2016 with an outstanding loan balance of £0.130m. As part of the transfer arrangements, it was agreed that the school needed more time to repay the loan as it recovered from a Requires Improvement Ofsted inspection judgement and built up pupil numbers. A revised repayment schedule was agreed that would result in 36 monthly repayments of £3,611 from September 2018 to 31 August 2021 and a direct debit has been put in place to enable efficient repayment.

Summary

- 6.29 Table 1 above confirms the significant value of outstanding deficits and loan advances. At £0.925m, this represents 32% of the forecast £2.862m aggregate of surplus balances held in the Schools Budget which are the funds used to finance advances. The scheme limits the amount of financial support to no more than 40% of the aggregate of surplus balances held in the Schools Budget, which currently amounts to no more than £1.145m aggregate deficits meaning further loans of up to £0.220m can be agreed.
- 6.30 Whilst there have been no new requests for licensed deficits, a number of schools are unable to produce a balanced medium-term recovery plan.
- 6.31 The licensed deficit scheme is once again facing pressures in terms of there being sufficient aggregate surplus balances to finance the amount of deficit requests being made. As well as the on-going financial challenges being faced by schools, BFC, like many LAs is also experiencing significant deficits on High Needs Block budgets which is likely to continue in at least the medium term. Options to continue to be able to make deficit agreements with schools are therefore being explored.
- 6.32 The current position of £0.690m of likely deficits being unmatched by a medium-term recovery plan presents a risk to financial stability at relevant schools.

7 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 7.1 The relevant legal provisions are addressed within the main body of the report.

Director of Finance

- 7.2 The financial implications of the report are outlined in the supporting information. The difficulties being experienced by a small number of schools in producing balance medium-term recovery plan indicates that the current challenging financial environment is having an effect on schools and will need to be monitored carefully to ensure schools can meet their financial obligations arising from additional financial support arrangements. The impact on agreeing deficit budgets from the increasing over spending on the High Needs Block will very soon present difficulties to the operation of the licenced deficit scheme.

Equalities Impact Assessment

- 7.3 There are no specific impact assessments arising from this report.

Strategic Risk Management Issues

- 7.4 There are strategic risks around ensuring all schools remain financially viable whilst delivering appropriate standards and effectiveness without putting excessive pressure on the Schools Budget to provide additional funds.

8 CONSULTATION

Principal Groups Consulted

- 8.1 Assistant Director: Education and Learning and People Directorate Management Team.

Method of Consultation

- 8.2 Meetings.

Representations Received

- 8.3 Incorporated into the report.

Background Papers

None.

Contact for further information

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**Extract from the BFC Scheme for Financing Schools:
Licensed deficit arrangements**

In exceptional circumstances, in agreement with the Schools Forum and Executive Member for Children, Young People and Learning, the authority will permit schools to over spend their budget allocation through a licensed deficit arrangement. The funding of such agreements would be through the collective surplus of school balances held by the authority on behalf of schools and any unspent funding in the Schools Budget Unallocated Reserve, and will be considered on an individual basis. General features of the scheme are detailed below:

Circumstances in which licensed deficit arrangements may be agreed:

1. if in the opinion of the responsible Director a school could not otherwise achieve its improvement targets (there will still be a requirement of the governing body to demonstrate repayment).
2. if in the opinion of the responsible Director for schools and the responsible Director for finance 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 licensed deficit is 3 years (i.e. reach at least a zero balance).
- arrangement for a licensed deficit will only be agreed where the governing body produces a plan which demonstrates to the satisfaction of the responsible Director for schools and the responsible Director for finance the savings or additional income required to repay the deficit within an agreed timescale.

In general the minimum size of loans 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 determined by the authority.

In general the maximum size of loans 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 determined by the authority.

- interest will be charged at 1% above the Council's cost of borrowing on the date on which the licensed deficit is agreed unless the authority agrees for it to be waived. The requirement to pay interest will be assessed on the merits of each individual application, and in general, will not attract interest.

Outline controls on licensed deficits

- the maximum proportion of the collective balances held by the authority including any unspent funding in the Schools Budget Unallocated Reserve which will be used to support the arrangement shall not exceed 40%
- the responsible Director for schools and the responsible Director for finance of the authority will make recommendations to the Schools Forum and Executive Member for Children, Young People and Learning to agree any licensed 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.

Summary school loan and deficit agreements for maintained schools – by school by year

School	Balance due at 2020-21 year end £	2021-22 £	2022-23 £	2023-24 £	Comment
Ascot Heath Primary	220,000	220,000	220,000	220,000	Repayment date to be determined
Harmanswater Primary	115,000	90,000	40,000	0	Full repayment plan in place
The Pines	150,000	150,000	150,000	150,000	Repayment date to be determined
Winkfield St Mary's	20,000	20,000	20,000	20,000	Repayment date to be determined
Easthampstead Park	160,000	300,000	300,000	300,000	Repayment date to be determined
Sandhurst	260,000	80,000	0	0	£80,000 final repayment 2022-23
Total	925,000	860,000	730,000	690,000	
BFC Academy School Summary					
The Brakenhale	18,000	0	0	0	£43,332 repayment due 2020-21
Total	18,000	0	0	0	
Grand total all schools	943,000	860,000	730,000	690,000	