

2022-23 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 Schools Forum in respect of proposals for additional financial support to schools, in particular, approval of new or amended applications for licensed deficit arrangements. An update is also provided on the current position in respect of previously agreed financial support arrangements.

2 Executive summary

- 2.1 Schools can experience financial difficulties for a number of reasons and these can ordinarily be 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 In setting 2022-23 budgets, good progress has been made by schools in terms of reducing the aggregate level of licensed deficits held to below the previously agreed limits. The expectation last year was that £0.685m would be outstanding in licensed deficits as at 31 March 2023 and this is now expected to reduce by £0.190m to £0.495m. At this level, licensed deficits would amount to 0.8% of all maintained school budgets (was 1.3% last year).
- 2.3 3 schools have fully repaid their licensed deficits, with 4 remaining in place.
- 2.4 Work continues with two schools where progress is being made on deficit recovery plans but where a full repayment schedule has yet to be formulated. £0.150m of deficits have yet to be accompanied by a recovery plan that demonstrates a return to surplus. This is expected to continue over the long term.

3 Recommendations

- 3.1 **That subject to the school governors confirming the relevant financing schedule and compliance with the associated terms and conditions of the deficit scheme the Schools Forum AGREES:**
- a. **the licensed deficit agreement with full repayment plan for Ascot Heath Primary School be amended to permit a deficit of up to £0.250m for 2022-23, £0.150m for 2023-24 and £0.075m for 2024-25 before returning to a surplus in 2025-26.**
 - b. **that further work continues with schools that have yet to formulate a full repayment plan, with the following deficit limits agreed for 2022-23:**
 - i. **£0.100m for Winkfield St Mary's Primary, and**
 - ii. **£0.110m for Cranbourne.**

3.2 That the Schools Forum NOTES the following schools have fully repaid their licensed deficits:

- i. **Sandhurst Secondary**
- ii. **Harmanswater Primary**
- iii. **Easthampstead Park Secondary**

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 medium 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 deficits 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 Where a school converts to an academy with a **licensed deficit**, statutory Regulations and DfE Policy determines that if the governing body makes the application which is approved through an Academy Order, then the deficit transfers with the school on the terms agreed with the LA and requires to be repaid. Where the conversion is as a result of the school being eligible for intervention through Part 4 of the Education and Inspections Act 2016, and underperforming schools which the Secretary of State judges are not strong enough to become an academy without a strong sponsor, the debt remains with the LA and will be charged against the Schools Contingency and funded through the Dedicated Schools Grant.
- 6.5 Any **loan agreements** in place for the purchase of significant one-off capital assets will require repayment through the agreed terms irrespective of the conversion type, unless the LA and school agree to liquidate the loan and pay it off at the point of transfer.

Additional funding that is not required to be repaid

Background and summary

- 6.6 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 (FE) school judged good or better that have more than 5% empty places
- 6.7 At this point in time, no additional financial allocations have been agreed for 2022-23 that schools do not need to repay, other than £0.040m for 1 FE schools judged good or better that have more than 5% empty places. The Schools Forum will receive a report on all allocations agreed at the conclusion of the financial year.

Licensed Deficit and Loan Arrangements

Background and summary

- 6.8 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.
- 6.9 In accordance with government requirements, the loan scheme is only available to support schools in the purchase of a capital asset, with a licensed deficit arrangement option used to support schools with a shortfall in general income compared to required spend.
- 6.10 There are no loan agreements in place with schools.
- 6.11 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;

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

- 6.12 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.
- 6.13 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 should be notified without delay and will need to be agreed with the Director responsible for schools and the Director responsible for 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.

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. This includes a number of schools where full recovery plans had yet to be established. The current status of each agreement, together with any recommended changes, are set out below.
- 6.15 There have been no new licensed requests from schools for 2022-23.

Deficits where a full repayment plan remains in place

Sandhurst Secondary School

- 6.16 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. Very good progress was made in repaying the deficit with a £0.050m remaining balance at the start of 2021-22 which was expected to be fully repaid by the end of 2022-23 financial year.
- 6.17 With the school converting to an academy from 1 February 2022, the deficit balance at that point in time was fully repaid. **No action is required from the Forum.**

Harmans Water Primary School

- 6.18 For a number of years, the school benefitted from a significant surplus balance which was accumulated when the school was experiencing full 3 FE admissions but has recently been adapting to being much closer to a 2 FE admission. The school therefore restructured the budget over the medium term to reflect the reduced pupil numbers.
- 6.19 The financial limits previously agreed were 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. Last year's updated recovery plan indicated good progress on deficit recovery and that the deficit limit can be reduced to £0.070m for 2021-22 before returning to a surplus in 2022-23. The school returned a £0.021m surplus at the end of 2021-22 financial year and therefore no longer requires an approved deficit. **No action is required from the Forum.**

Deficits where a full repayment plan is in place

The Pines Primary

- 6.20 The school has experienced fluctuating pupil numbers, and whilst these have been increasing, it has resulted in complicated and costly classroom organisation. At the end of 2019-20, there was an cumulative deficit of £0.167m which was forecast to increase to over £0.200m. Very good progress has been made since on managing this down and it had reduced to £0.034m at the end of 2021-22.
- 6.21 Recognising future changes in pupil numbers, the school will be reducing the Published Admission Number from 60 to 30 from September 2022 and restructuring the budget and associated plans accordingly. This indicates that the deficit at the end of 2022-23 will remain at a similar level to the £0.034m achieved for 2021-22, before returning to a surplus in 2023-24. This is unchanged from the current approved licensed deficit. **No action is required from the Forum.**

Ascot Heath Primary

- 6.22 The school has experienced a reduction in pupil numbers of 71 between the 2018-19 and 2020-21 budgets which equated to an annual loss in per pupil funding of around £0.296m and contributed to the accumulated year-end deficit at 31 March 2021 of £0.327m (22% of annual income and an increase in deficit of £0.107m).
- 6.23 Considerable work has been undertaken to develop a medium-term budget, with the Forum previously agreeing deficit limits of £0.330m for 2021-22, £0.300m for 2022-23, £0.200m for 2023-24 and £0.105m for 2024-25 before returning to a surplus in 2025-26. On-going work by the school, supported by the council, has identified further deficit reduction measures, with a request to reduce the deficit limits to £0.250m for 2022-23, £0.150m for 2023-24 and £0.075m for 2024-25 before returning to a surplus in 2025-26. **The Forum is recommended to agree the revised deficit limits.**
- 6.24 There is the potential to complete the sale of the caretaker's accommodation which could yield a net, one-off capital receipt of around £0.200m. This would be "swapped" with revenue funding held by the Council to then be applied in its entirety to reducing the remaining deficit. There are a number of external restrictions that are complicating the sale which are being progressed. The exact sum, if a sale can be achieved, will depend on resolving the remaining issues and how strong the property market remains at that time.
- 6.25 At this stage, the recovery plan excludes the impact from any potential capital receipt "swap".

Deficits where a full repayment plan has yet to be developed

- 6.26 Forum members will recall that despite substantial work by schools with assistance from the council, in some instances, in considering budgets, it is not always possible to formulate a medium-term plan that demonstrates a return to surplus.
- 6.27 There are 2 schools in this position, both of which are making progress in difficult circumstances and are highlighted directly below.

Winkfield St Marys

- 6.28 Is a 1 FE school that was granted a licensed deficit of £0.030m in 2018 to be fully repaid by 31 March 2021. This allowed the school to put in place a cost reduction plan in a measured way, that it achieved in 2019 and 2020, and during which time the school had an Ofsted inspection which improved its rating from RI to Good. However, at the end of 2021-22 financial year, the deficit had increased to £0.094m, driven by lost income due to the pandemic, and rising staffing costs from pay progression and increased numbers of pupils with SEND. As a consequence, last year, the Forum agreed a revised deficit limit of £0.0100m, with a full recovery plan yet to be completed.
- 6.29 As a 1 FE school, there are fewer opportunities for economies of scale and efficiencies compared to larger schools which is compounded by a number on roll (NOR) of below 200 which is more than 5% below full capacity.
- 6.30 Latest work on the budget plan includes reduced employee costs through staff changes at 2022. Income receipts are also forecast to increase. However, with 2 classes each with less than 25 pupils, pupil led income will remain at no more than 200 pupils for a number of years creating difficulties in balancing the budget. Provisional pupil number information indicates a full intake of 30 pupils at September 2022.
- 6.31 Taking account of the latest information, the current deficit is forecast to remain at £0.0100m for 2022-23, before reducing to £0.085m in 2023-24 and £0.075m in 2024-25. At this stage, progress has yet to be made on a plan to return the budget to a surplus. **The Forum is therefore recommended to agree the revised deficit limit set out above and that further work continues to produce a plan to return to a surplus.**

Cranbourne Primary School

- 6.32 Is a 1 FE primary school which over spent in 2020-21 by £0.094m, mainly on staffing and building maintenance budgets. With pupil numbers expecting to gradually increase as older year groups with spare places are replaced with full admissions together with a range of budget restructures, the school successfully developed a medium-term recovery plan that returned the school to a surplus balance at the end of 2025-26. At the time of proposing this plan, it was reported that a number of elements to the recovery plan were dependent on external factors and will therefore need to be kept under review.
- 6.33 Financial performance during 2021-22 saw the deficit increase by £0.018m to £0.112m. This arose from a number of areas including higher than planned spend on staffing, building maintenance, utilities and school meals, with lower grant income and donations. The updated medium term budget forecast is for the deficit is forecast to remain at around the current level of £0.110m for 2022-23, before reducing to £0.095m in 2023-24 and £0.075m in 2024-25. At this stage, progress has yet to be made on a plan to return the budget to a surplus. **The Forum is therefore recommended to agree the revised deficit limit set out above and that further work continues to produce a plan to return to a surplus.**

Early deficit repayment

Easthampstead Park Secondary

- 6.34 Received a £0.450m loan in 2016 which was expected to be repaid by an increase in pupil numbers which has occurred but at a lower rate than originally expected and has yet to reach the peak levels initially forecast. Whilst a £0.124m surplus was achieved at the end of 2020-21, the medium-term recovery plan agreed last year envisaged a £0.100m deficit at the end of 2021-22, rising to a £0.200m deficit at the end of 2022-23. Planning beyond that point yet to commence in earnest.
- 6.35 Financial performance during 2021-22 greatly exceeded expectations as the school returned a surplus in the value of £0.220m, an increase of £0.096m from the previous year. With total statutory pupil numbers by year group generally numbering between 165 and 180 and with current forecasts for the immediate future not expected to show any significant change, the school is in a good position to sustain a surplus balance and **the Forum is therefore recommended to agree to dissolve the deficit agreement.**

Summary loan / deficit position

- 6.36 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	2022-23 changes proposed	2023-24 impact	2024-25 impact	2025-26 years	Future Years	Repayment date to be determined
Total advances	£805,000	£60,000	£5,000	£0	£20,000	£0	£0
Total repayments	£0	-£370,000	-£170,000	-£105,000	-£95,000	£0	£0
Total	£805,000	-£310,000	£330,000	£225,000	£150,000	£150,000	£150,000
Net Total Current Year	£495,000		0.8% of annual budgets				
Maximum advances (3% of school budgets)	£1,768,000						
Advances as % of permitted maximum	28%						
Balance available for new deficits	£1,273,000						
Change to previous year	-£310,000		-£165,000	-£105,000	-£75,000		

- 6.37 The Forum will be aware that the statutory Scheme for Financing Schools sets the conditions around deficit arrangements, and these must be in accordance with parameters set by the DfE.
- 6.38 The Scheme currently limits aggregate deficit permissions to a maximum of 3% of final school budgets from the previous financial year (excluding brought forwards). This currently amounts to £1.768m, with £1.273m available for further deficit approvals, should more eligible requests be made.

6.39 The current scheme can be viewed here, with paragraphs 4.9 and 4.10 relevant:

<https://schools.bracknell-forest.gov.uk/wp-content/uploads/scheme-for-financing-schools-2021.pdf>

Summary

6.40 In setting 2022-23 budgets, good progress has been made by schools in terms of reducing the aggregate level of licensed deficits held to below the previously agreed limits. The expectation last year was that £0.685m would be outstanding in licensed deficits as at 31 March 2023 and this is now expected to reduce by £0.190m to £0.495m. At this level, licensed deficits would amount to 0.8% of all maintained school budgets (was 1.3% last year).

6.41 3 schools have fully repaid their licensed deficits, with 4 remaining in place.

6.42 Work continues with two schools where progress is being made on deficit recovery plans but where a full repayment schedule has yet to be formulated. £0.150m of deficits have yet to be accompanied by a recovery plan that demonstrates a return to surplus. This is expected to continue over the long term.

7 Advice from statutory and other officers

Borough Solicitor

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

Director of Resources: 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 the need for ongoing advice and monitoring to ensure schools can meet their financial obligations arising from additional financial support arrangements.

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.

Climate change impact

7.5 The recommendations from this report are not expected to have any direct impact on emissions of carbon dioxide as they relate to funding allocations to schools and will not impact on climate change.

8 Consultation

Principal Groups Consulted

- 8.1 Leaders of schools in financial difficulty, Assistant Director: Education and Learning and People Directorate Management Team.

Method of Consultation

- 8.2 Correspondence and meetings.

Representations Received

- 8.3 Incorporated into the report.

Background Papers

None.

Contact for further information

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Doc. Ref [https://bfcouncil.sharepoint.com/sites/fina/bpm/FIBPSCB-FIN9.6/Schools Forum/\(112\) 150922/2022-23 Support to schools in financial difficulties etc.docx](https://bfcouncil.sharepoint.com/sites/fina/bpm/FIBPSCB-FIN9.6/Schools%20Forum/(112)%20150922/2022-23%20Support%20to%20schools%20in%20financial%20difficulties%20etc.docx)

**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 annual income schools receive from the council through the Funding Formula for Schools. General features of the scheme are detailed below:

Circumstances in which licensed deficit arrangements may be agreed:

1. if in the opinion of the Executive Director responsible for schools 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 Executive Director responsible for schools and Executive Director responsible 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 Executive Director responsible for schools and Executive Director responsible 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:

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 annual income schools receive from the council through the Funding Formula for Schools that will be used to support licensed deficits and loan arrangements will be 3%.
- the Executive Director responsible for schools and Executive Director responsible 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 at each financial year end

School	Balance due at 2021-22 year end £	2022-23 £	2023-24 £	2024-25 £	2025-26 £	Repayment date to be confirmed £	Comment
Ascot Heath Primary	330,000	250,000	150,000	75,000	0	0	Full repayment plan in place
Cranbourne	80,000	110,000	95,000	75,000	75,000	75,000	Final repayment date to be determined
Harmanswater Primary	70,000	0	0	0	0	0	Fully repaid. Moved to surplus balance.
The Pines	75,000	35,000	0	0	0	0	Full repayment plan in place
Winkfield St Mary's	100,000	100,000	85,000	75,000	75,000	75,000	Final repayment date to be determined
Easthampstead Park	100,000	0	0	0	0	0	Fully repaid. Moved to surplus balance.
Sandhurst	50,000	0	0	0	0	0	Fully repaid. Now an academy school.
Total	805,000	495,000	330,000	225,000	150,000	150,000	