

To: Schools Forum
Date: 14 September 2023

**2023-24 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 respect of existing licensed deficits, all four schools have experienced further financial difficulties and are seeking increased deficit limits. Despite the challenging financial circumstances, only one new deficit agreement is requested.
- 2.3 If agreed, the total aggregate level of deficits would stand at £0.815m, a £0.320m increase on the £0.495m approved for 2022-23. At this level, licensed deficits would amount to 1.5% of all maintained school budgets (was 0.8% last year), with the scheme permitting a maximum deficit limit of 3% annual income.
- 2.4 With four of the five schools seeking financial support being the smallest 1 form of entry schools, work will be undertaken to establish whether any additional financial support is required to this cohort.
- 2.5 Supporting schools on deficit recovery plans is expected to continue over the medium to 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 the following deficit limits for 2023-24:**

- i. **Ascot Heath Primary School £0.500m;**
- ii. **Cranbourne Primary School £0.080m;**
- iii. **The Pines Primary Schools £0.035m;**
- iv. **Winkfield St Mary's Primary School £0.160m;**
- v. **St Michael's Easthampstead Primary School £0.040m.**

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 The Forum has previously considered options for supporting schools in financial difficulty and this report reflects the decisions taken.

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.
- 6.6 In general, licensed deficits are granted interest free, loans require an interest payment.

Additional funding that is not required to be repaid

Background and summary

- 6.7 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
- 6.8 At this point in time, no additional financial allocations have been agreed for 2023-24 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

- 6.9 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.
- 6.10 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.
- 6.11 There are no loan agreements in place with schools.
- 6.12 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.

- 6.13 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.
- 6.14 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

- 6.15 The Schools Forum has previously agreed licensed deficit arrangements to manage a shortfall in general income compared to required spend and 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. The 4 schools with existing licensed deficit agreements have yet to develop a full repayment plan. The current status of each of these, together with any recommended changes, are set out below.
- 6.16 There is one new request for a licensed deficit agreement. Considering the significant financial challenges that schools have faced in the recent past, this is considered a good achievement.

Ascot Heath Primary

- 6.17 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).
- 6.18 Work by the school, supported by the council, identified a range of deficit reduction measures which together with a steady increase in pupil numbers indicated the potential for a return to a surplus by 2025-26. However, during 2022-23 rather than reducing the deficit to the expected £0.250m, there was an increase to £0.323m. The main cause for the change in financial performance relates to staffing costs, and in particular additional spend on Learning Support Assistants of £0.101m. The additional spend related to supporting pupils with Education Health Care Plans, long term staff absence and additional capacity to prepare for the next Ofsted inspection.
- 6.19 Initial work undertaken by the school in preparing the 2023-24 and beyond medium term budget had indicated an increase in the deficit in the first year as additional staffing capacity was phased out, with future years all forecasting a surplus. However, reviewing the forecasts has identified an overstatement of income, with the outturn for 2023-24 now likely to increase further to £0.500m and remaining at around that level for the remaining 4 years.
- 6.20 As previously advised, 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. This has significantly progressed and is now expected to conclude in 2023-24 with a net receipt in excess of £0.300m.

There is a maximum £0.250m of revenue funds available to “swap” with the capital receipt. If this does complete, the forecast year-end deficit would reduce to around £0.250m.

- 6.21 At this stage, the recovery plan excludes the impact from any potential capital receipt “swap” and **the Forum is therefore recommended to agree a deficit limit of £0.500m for 2023-24 and that further work continues to produce a plan to return to a surplus, maximising any revenue receipt from the sale of the caretaker accommodation.**

Cranbourne Primary School

- 6.22 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.

The updated medium term budget forecast is for the £0.085m deficit from 2022-23 to reduce by £0.005m to £0.080m by 2023-24 financial year end. Early forecasts for 2024-25 and beyond include an expected reduction in pupils, which for a 1 FE primary school is particularly difficult to manage. Therefore, at this stage the **Forum is recommended to agree a £0.080m deficit limit for 2023-24 and that further work continues to produce a plan to return to a surplus.**

The Pines Primary

- 6.23 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 with the school achieving a £0.032m surplus at the end of 2022-23.
- 6.24 Recognising future changes in pupil numbers, the school reduced the Published Admission Number from 2 to 1 FE from September 2022 and restructuring the budget and associated plans accordingly, including managing the phased opening of a Special Resource Provision has resulted in changes to original budget expectations. The 2023-24 budget plan now forecasts a £0.035m deficit at year end, before returning to an in-year balanced budget in 2024-25. **The Forum is recommended to agree a £0.035m deficit limit for 2023-24 and that further work continues to produce a plan to return to a surplus.**

Winkfield St Marys

- 6.25 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, with surplus places affecting income levels, and lost income due to the pandemic, and rising staffing costs from pay progression and increased numbers of pupils with SEND the deficit had increased to £0.094m. As a consequence, the Forum agreed a revised deficit limit of £0.100m, with a full recovery plan yet to be completed.

- 6.26 2022-23 financial year saw the deficit increase to £0.143m. This was mainly linked to staffing where vacancies required higher cost supply teachers and long-term sickness absence requiring additional Learning Support Assistants. Additionally, building maintenance costs over spent by £0.011m.
- 6.27 Latest work on the 2023-24 budget plan includes a reduction in costs of Senior Leadership Team, however, there are a number of other cost pressures that have been included, including increased utility costs, essential subscription fees together with unexpected increases in the school meals catering contract and cleaning where recruitment difficulties have required moving to a contracted service at additional cost. Provisional pupil number information for the 2024-25 budget indicates a reduction in pupil numbers of 6 which will create further financial difficulties.
- 6.28 Taking account of the latest information, the current deficit is forecast to increase and **the Forum is recommended to agree a £0.160m deficit limit for 2023-24 and that further work continues to produce a plan to return to a surplus.**

Request for new licensed deficit

St Michael's Easthampstead Church of England Voluntary Aided Primary School

- 6.29 Is a 1 FE primary school, that as a result of a period of instability that began during the pandemic, has been recognised as a school needing support with a Standards Monitoring Board in place to agree an action plan and monitor progress against improvement targets. During this period, the school has experienced significant changes to the Senior Leadership Team, including a period where an Executive Headteacher and acting Deputy Headteacher have been required to stabilise the school.
- 6.30 At the same time, the school is transitioning from a reduction in Planned Admission Number from 35 to 30 which impacts on the level of funding received. To progress these dual challenges in a managed way, in the short term, a deficit budget will be required.
- 6.31 The current medium term financial plan indicates a £0.040m deficit at the end of 2023-24, £0.090m in 2024-25 and £0.130m for 2025-26. This is an initial plan with an expectation that reductions can be made through further work with the aim of achieving an-in year balanced budget by the end of 2025-26, at which point a repayment plan of the accumulated deficit will be considered.
- 6.32 **The Forum is recommended to agree a £0.040m deficit limit for 2023-24 and that further work continues to produce a plan to return to a surplus.**

Summary loan / deficit position

- 6.33 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 breakdown of the current and proposed arrangements by school.

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

Item	Previously agreed (net advances)	2023-24 changes proposed	2024-25 impact	2025-26 impact	2026-27 impact	Future years
Total advances	£495,000	£505,000	£155,000	£135,000	£0	£0
Total repayments	£0	-£185,000	-£105,000	-£95,000	£0	£0
Total	£495,000	£320,000	£865,000	£905,000	£905,000	£905,000
Net Total Current Year	£815,000		1.5% of annual budgets			
Maximum advances (3% of school budgets)	£1,588,000					
Advances as % of permitted maximum	51%					
Balance available for new deficits	£773,000					
Change to previous year	£320,000		£50,000	£40,000	£0	

6.34 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.

6.35 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 £1.588m, with £0.773m currently available for further deficit approvals, should more eligible requests be made.

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

[Funding and regulatory financial framework | Can-Do | Bracknell Forest \(bracknell-forest.gov.uk\)](https://www.bracknell-forest.gov.uk/funding-and-regulatory-financial-framework-can-do)

1 FE primary schools

6.37 It has previously been reported to the Forum that the simplified Schools National Funding Formula (NFF) is best suited to primary schools of 2 FE and over. This is primarily as a result of the pupil driven nature of the NFF and the relatively small fixed lump sum allocation that is now paid which is a more significant funding source to the smallest schools. Additionally, smaller schools have fewer opportunities to benefit from economies of scale when experiencing falling rolls which is a key factor in the financial challenges being faced.

6.38 Taking account of changes to be introduced by the DfE for allowing funding allocations to schools with falling rolls, as detailed on the separate 2024-25 initial budget proposals agenda item, it is proposed to review options for supporting relevant schools, for the Forum to consider as part of the 2024-25 budget setting process.

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:
Paragraph 4.9: Licensed deficit arrangements – November 2021 update**

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	Deficit Limit at 2022-23 year end £	2023-24 £	2024-25 £	2025-26 £	2026-27 £	Repayment date to be confirmed £	Comment
Advances in year							
Ascot Heath Primary	250,000	500,000	500,000	500,000	500,000	500,000	Final repayment date to be determined
Cranbourne	110,000	80,000	80,000	80,000	80,000	80,000	Final repayment date to be determined
St Michael's Easthampstead	0	40,000	90,000	130,000	130,000	130,000	Final repayment date to be determined
The Pines	35,000	35,000	35,000	35,000	35,000	35,000	Final repayment date to be determined
Winkfield St Mary's	100,000	160,000	160,000	160,000	160,000	160,000	Final repayment date to be determined
Total	495,000	815,000	865,000	905,000	905,000	905,000	