



**Report to:** Schools Forum

**Date of Meeting(s):** 5 March 2020

**Subject:** Licensed Deficit Procedure and Scheme for Financing Schools update

**Report of:** Eleni Ioannides – Interim Director Children and Families

**Contact Officer:** John McDonald Strategic Finance Manager  
Cath Peeling Interim Assistant Director (Education)

**Summary:** To approve changes to the Licensed Deficit scheme and the associated changes to the Scheme for Financing Schools.

**Recommendation(s):** To approve the amendment to the Scheme as outlined in the report.

**Implications:**

*What are the **financial** implications?* None

*What are the **staffing** implications?* None

**Risks:** n/a

Please list any appendices:-

Appendix 1 – Updated Licensed Deficit Procedure

## **1. Introduction**

- 1.1 In 2017, Schools Forum approved the introduction of a Licensed Deficit Scheme for schools who were unable to set a balanced budget. The scheme permits schools to enter a deficit position proving that recovery can be demonstrated within 3 years. The scheme is backed by cumulative school balances.
- 1.2 The provisions of the Licensed Deficit Scheme are included within the Scheme for Financing Schools. Any changes to the Scheme for Financing Schools require Schools Forum approval.
- 1.3 The purpose of this report is to provide a summary of the proposed changes to the scheme in light of the current financial position and also following consultation with other neighbouring Local Authorities on their approaches to school deficits.

## **2. Proposed Changes to the Licensed Deficit Scheme**

### **Recovery Timescales**

- 2.1 Our current scheme includes the following requirements in relation to the recovery of licensed deficits:
  - Any school deficit which is less than 1% of the delegated budget will be deemed to be a 'managed deficit' and recovered to a balanced position within one financial year.
  - Any school deficit position that is between 1% and 5% of the total resources and not greater than £250,000; and the school is unable to balance the budget within a 1 year period without extreme damage to the curriculum is permitted recover to a balanced position within 2 to 3 financial years.
- 2.2 Due to certain exceptional circumstances and the time requirements to undertake significant re-organisation of the school to achieve a balanced budget, some schools are experiencing difficulties in demonstrating recovery of their deficits within the current three-year timescales. This is particularly prevalent in the Primary sector where falling rolls are projected in future years.
- 2.3 Having consulted with neighbouring local authorities, it has been confirmed that all authorities, as a rule, require schools to recover the deficit within three years. However, all those consulted confirmed that their schemes provide flexibility to allow recovery over a longer period (between 4 to 6 years) where there are exceptional circumstances and the school can demonstrate recovery over this longer period. The licensed deficit scheme here in Wigan does not currently provide this flexibility.

- 2.4 Whilst we would continue to require schools to address their deficits within three years, it is proposed that similar flexibility is included within our local scheme. Therefore, where there are exceptional circumstances and recovery over a longer period can be demonstrated we are seeking to include a provision within our Licensed Deficit Scheme that permits deficit recovery up to a maximum of 5 years. All applications for the scheme must be supported by a robust business case and a fully costed recovery plan and will be subject to approval by the Director of Resources and Director of Children's Services.

### **Monitoring**

- 2.5 To further strengthen monitoring of those schools that enter our Licensed Deficit Scheme it is proposed that all schools captured by the scheme provide a progress report on a quarterly basis on the delivery of their recovery plan. This will include details of the actions taken (or being taken) and details of actual savings delivered compared with initial projections.
- 2.6 Whilst the schools in the scheme are currently required to submit a monthly budget monitoring report, the progress reports outlined above will improve transparency on the position of the actions being taken. This step also addresses one of the recommendations made to the Local Authority by the School Resource Management Advisor (SRMA) following their review in the Autumn Term 2019.
- 2.7 The proposed updated Licensed Deficit Scheme is included at Appendix 1 of this report.

### **3. Scheme for Financing Schools**

- 3.1 The Licensed Deficit scheme is outlined in our Local Scheme for Financing Schools. This currently states:

*'The maximum length over which schools may repay the deficit (i.e. reach at least a zero balance) is 3 years.'*

- 3.2 If Forum agree to increase the repayment period to a maximum of 5 years (in exceptional circumstances), it is proposed that the following amendment is made to this provision of the Scheme for Financing Schools:

*'The length over which schools may repay the deficit (i.e. reach at least a zero balance) is 3 years. However, in exceptional circumstances, a repayment period of up to a maximum of 5 years may be approved following receipt of a robust and fully costed recovery plan.'*

## **7. Recommendations**

- 7.1 To agree to the proposed changes to the Licensed Deficit Scheme repayment timescales and monitoring arrangements as outlined in 2.4 and 2.5 above.
- 7.2 To agree to the amendment to the Scheme for Financing Schools as outlined in 3.2 above.