



LICENSED DEFICIT AND CAPITAL LOAN PROCEDURES FOR SCHOOLS

Guidance Document

SCHOOLS FINANCE TEAM

March 2020





CONTENTS

Section		Page
1	Introduction and objectives	1
2	Timescales	1
3	Licensed Deficit	2
	<ul style="list-style-type: none"> • Features 	
	<ul style="list-style-type: none"> • Application Process 	
	<ul style="list-style-type: none"> • Monitoring and Management 	
4	Capital Loan	3
	<ul style="list-style-type: none"> • Features 	
	<ul style="list-style-type: none"> • Application Process 	
	<ul style="list-style-type: none"> • Monitoring and Management 	
	<ul style="list-style-type: none"> • Payment/Repayment Terms 	
5	Non Compliance with Funding Terms and Conditions	4

Version Tracker

Date	Meeting	Update
11/5/17	Schools Forum	Draft procedure presented
20/6/17	Schools Forum	Amended to reflect feedback from Schools Forum and SBMs
05/03/2020	Schools Forum	Update - Timescales

APPENDICES

A	Managed Deficit Application Form	 Licensed Deficit Application Form- ver:
B	Budget Recovery Plan	 Recovery Plan v2.xlsx
C	Capital Loan Application Form	 School-loan-applicati on-form.doc
D	Capital Loan – Budget Plan Forecast	 Copy of Budget-plan-financial

1. INTRODUCTION AND OBJECTIVES

This guidance document outlines the Local Authority's procedures for Licensed Deficits and Capital Loans.

Licensed Deficit

Wigan Council's Scheme for Financing Schools prohibits a school from planning for a deficit when preparing its budget, however it is recognised that there are sometimes exceptional circumstances in which a school ends the financial year in a deficit position.

As the Local Authority does not have authority to write off a school's deficit balance, this procedure outlines the Licensed Deficit facility available to a school to assist it in addressing the deficit financial position and ensure that in future years a balanced budget can be set.

The maximum length of time that a Licensed Deficit can be in place is three years.

Where the school deficit position at year end is less than 1% of the total resources it is expected that the deficit will be removed by the end of year 1.

Where the school deficit position 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 a longer term plan to address the deficit is permitted that will result in the deficit being removed over a 2 or 3 year period.

In exceptional circumstances, a longer recovery period may be agreed, however this must be supported by a robust business case and a fully costed recovery plan.

Capital Loan

This facility is used to finance a capital project scheme which the school cannot fully fund from its own or other resources.

2. Timescales

It is the school's responsibility to inform the Local Authority, at the earliest opportunity, if it is experiencing or likely to experience financial difficulties within the current and/or future financial years. This will enable the Local Authority to provide the necessary financial support and challenge in year to assist the school; and also discuss with the school any potential longer term solutions that may be required.

Where the school cannot address the deficit immediately and it is likely that it will be in a deficit position at the financial year end, it is important that the school applies for a Licensed Deficit for the subsequent year before the 1st March. Similarly a Capital Loan must be applied for before the 1st March.

3. Licensed Deficit

Features

- 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.
- In exceptional circumstances a longer recovery period may be agreed, up to a maximum of 5 years. Prior to submitting an application for a deficit recovery in excess of 3 years, the school must first consult with the LA's school's finance team and obtain agreement to progress an application on this basis.
- The Local Authority will not charge the school interest on any managed budget deficit and will work with the school to mitigate any bank charges arising from this deficit position.
- The Licensed Deficit Scheme is backed by schools cumulative balances. The total value of approved Licensed Deficits and Capital Loans must not exceed 40% of the schools cumulative balances. This percentage will be reviewed annually to take in to consideration existing deficits and the level of cumulative school balances.
- In exceptional circumstances the Licensed Deficit may exceed £250k however this will be dependent on the viability of the Budget Recovery Plan. It is important to note that the DfE expect that a Licensed Deficit should be recovered over a 3 year period and therefore it is not possible to extend the recovery period beyond this timeframe.

Application Process

- The school must inform the Finance team by the 1st March that it plans to set a deficit budget by completing an application form.
- The application form must include a Budget Recovery Plan that outlines the actions that the school intend to take to balance the budget. Both documents must be approved by the Governing Body and signed by the Chair of the Governing Body and the Headteacher.
- In developing the Budget Recovery Plan the school should ensure that appropriate advice is sought from the school's HR to ensure all employment matters are addressed.

- The application form and Budget Recovery Plan will be reviewed by Finance who once satisfied that it is a financially viable plan will recommend that the Licensed Deficit is approved by the Director of Resources in consultation with the Director of Children's Services.
- Once approved by the Local Authority the school will be informed of this by letter.

Monitoring/ Management

- The school must submit a monthly budget monitoring report to Finance by the 14th of the following month.
- The school must report to Finance any reasons why there is a variance between the monitoring report and the Budget Recovery Plan including any remedial actions that are to be undertaken to ensure that the Recovery Plan remains on track to deliver a balanced budget by the agreed date.
- Deviations to the recovery plan are not permitted without the approval of Finance. Any changes should not increase the duration of the Recovery Plan so that it exceeds the approved recovery period.
- On a quarterly basis (in line with the LA budget monitoring returns) the school must submit a status report providing an update as to whether the actions in the recovery plan have been implemented and the actual savings achieved.

4. Capital Loan

Features

- The capital loan must relate to an approved project as listed below:
 - Expenditure on building projects such as extensions, alterations or refurbishments
 - The purchase of equipment such as furniture, gym equipment or specialised curricular items
 - The provision of IT equipment and facilities
 - External works such as fencing and playground works
 - Security works
- Minimum loan is £10,000 and the maximum sum allowed is 10% of a school's original budget share, for the current year up to a maximum of £100,000.
- The minimum repayment period is two years and the maximum repayment period is 5 years
- The school can apply for a loan whilst still holding balances as long as the balances are retained for legitimate reasons.

Application Process

- The school must complete a school loan application form approved by the Governing Body and signed by the Headteacher and the Chair of Governors.
- A budget plan forecast should be submitted with the application form to evidence that the school can afford to make the loan repayments.
- In relation to building projects, an aided school should consult with the Diocese. A transfer of assets may subsequently be required once the project has been completed.
- The loan application form and Budget Plan Forecast will be reviewed by Finance who once satisfied that it is a financially viable plan will recommend that the loan be approved by the Director of Children's Services and Director of Resources.
- Once approved by the council the school will be notified in writing of the decision.

Payment/Repayment Terms

- The funds are retained centrally as those schemes must be included within the council's capital programme. The invoices for the scheme are therefore paid for by the council.
- There are fixed repayment terms.
- The rate of interest is fixed on an annual basis using the prevailing Public Works Loans Board rate for 5 year annuity loans.
- Annual loan repayments are deducted from the summer term advance before it is deposited into the school bank accounts.

Monitoring/Management

- The school is required to submit to the council a Project Completion Form which must be certified and returned to the council when the project has been completed.
- The school's financial position will be monitored through the termly submission of budget monitoring reports to the Finance team.

5. Failure to Comply with the Terms and Conditions of the Funding

It is important that governors and senior management at the school ensure that the Budget Recovery Plan and the terms and conditions of the loan agreements are adhered to. As failure to do so may result in the Local Authority taking the following steps to ensure that

the school's finances are safeguarded, the budget position improves and a balanced budget ultimately set:

Step 1 –Request a financial review meeting to discuss with governors and the Headteacher the current financial position and agree actions to be undertaken to ensure that the Budget Recovery Plan is delivered.

Step 2 – Issue the school with a Notice of Concern if the actions referred to above are not adhered to.

Step 3 - Remove the school's delegated budget. Withdrawal of delegation will not normally be initiated as we expect to work in partnership with Governors to address concerns before such a stage is considered necessary. The authority will not hesitate, however, to withdraw delegation if a school consistently fails to meet the Local Authority's stated requirements, and/or continues to exceed agreed deficit recovery plan limits.

6. Further Advice

Further advice can be obtained from the Finance Division – Finance Team:

Anthony Meehan	01942 827364 - centrex 2364	anthony.meehan@wigan.gov.uk
John McDonald	01942 489465	j.mcdonald@wigan.gov.uk