

Schools Forum		
Annual Review of the Scheme of delegation and finance manual		
Yes	Item No.	8 Appendix C
Part 1	Date	17 March 2016

#### 4.10 Licensed deficits

The LA will permit schools ~~which have no deficit at 31 March 2007~~ to plan for a deficit budget in particular circumstances. The funding to allow such a deficit budget shall be provided from the collective surplus of school balances held by the LA on behalf of schools<sup>2</sup> and will pass to the school in the form of a loan.

The detailed arrangements applying to this scheme are set in the “Licensed Deficit Scheme for Schools with Delegated Budgets” which is shown in Annex E.

*NB The maximum proportion of the collective balances held by the LA which will be used to back the arrangement, shall not exceed 40%.*

#### 4.11 ~~Innovation Loan~~ Fund

##### Background

The ~~Innovation Loan~~ Fund seeks to change how major projects are implemented by allowing schools to incur the expenditure when a need is identified, then paying for the asset created or the school is facing a deficit budget situation. ~~At present schools ‘save up’ for special projects and the impact is to create a high level of balances overall.~~

Schools may only borrow from the LA this is because any borrowing by a school counts as borrowing by the LA, which is regulated by government i.e. schools may not borrow independently from banks.

##### Scheme Overview

The Authority to operate a loan scheme for schools funded by the collective balances held by schools as per 4.9.

All schools maintained by the LA will be eligible to apply for a loan facility that can be for the:

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<sup>2</sup> although it is open to the LA, in circumstances where there is no such surplus, to make alternative arrangements if it can do so within the relevant LA finance legislation.

- Purchase or replacement of equipment including computer equipment;
- Full or part funding of premises projects;
- Energy and environmental improvements;
- if in the opinion of the Director of Children Young People and Learning a school could not otherwise achieve its improvement targets (there will still be a requirement of the governing body to demonstrate repayment),
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- if in the opinion of the Director of Children Young People and Learning and Borough Treasurer a school could not reasonably be expected to effect immediately the savings required as a result of a significant reduction in pupil numbers or financial costs (there will still be a requirement of the governing body to demonstrate repayment),

The normal maximum loan will be up to 105% of the schools budget share, ~~in 2008-09 terms this equates to £72,100 for an average primary school.~~ However, subject to a detailed business plan, the Authority may approve a loan in excess of this limit, provided it is satisfied that the school can meet the ongoing commitment.

It is generally assumed that the loans will be ~~for expenditure that is capital in nature and will be~~ between two and five years unless circumstances dictate otherwise.

Equipment loans will normally be for a maximum period of three years. Only in exceptional cases will loans for equipment be extended to a maximum of five years.

Other loans may be for longer and payments delayed

### **Approval Arrangements**

- Loans up to £100,000 will be approved by the Head of Resources, Children and Young People;
- Loans between £100,000 and £500,000 will be approved by the Executive Director, Children and Young People following consultation with the Schools Forum;
- Loans over £500,000 will be approved by the Mayor and Cabinet following consultation with the Schools Forum.
- ~~These arrangements are in line with those for the approval of licensed deficits.~~
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- ~~Loans will be advanced to the schools as revenue contingency budget allocations and repayments<sup>1</sup> by deduction from budget share (after calculating minimum funding guarantee).~~
- ~~Interest charges will be calculated at bank interest rate<sup>2</sup> + 1% upon commencement and will be fixed for the term of the loan and repayments will be~~

<sup>1</sup> DfE rules do not allow Devolved Formula Capital (DFC) to be used to repay loans.

<sup>2</sup> The interest rate given on schools' bank balances in credit

~~calculated on a monthly basis.~~

There will be no charge for arranging the loan or for early repayment of the loan.

Loans to schools from the Loan Innovation Fund will not exceed 420% of the collective balances held by schools of the total. ~~In 2009/10 that would be permit loans up to £1.8m to be made.~~

## ANNEX C

### LICENSED DEFICIT Financing SCHEME FOR SCHOOLS WITH DELEGATED BUDGETS

#### 1 About the scheme

- 1.1 The licensed deficit scheme enables schools to apply to the LA for permission to end a financial year with a deficit, which will be eliminated in subsequent years. It is a way of carrying out works or making large purchases which some schools cannot fund out of their annual allocations and any budget surpluses they have set aside to date. The projects to be funded should make a demonstrable contribution to the achievement of the schools development plan.
- 1.2 A licensed deficit can also be granted where a school, has founds itself in a deficit position due to changes in circumstances e.g. significant fall in pupil numbers. The licensed deficit will be granted to reflect that cost reductions may not be possible immediately without detrimental impact on the curriculum. The deficit will be financed by a loan to the school
- 1.3 The scheme means that governing bodies would be authorised by the LA to set a deficit budget. Governing bodies may not set a deficit budget unless they have the written permission of the LA.
- 1.4 Before a planned deficit is financedapproved, the school will need to be able to demonstrate that they will be able to eliminate the deficit-loan over the agreed timescale.

#### 2 How the scheme is funded

- 2.1 The scheme is funded on the basis that there will be significant balances accumulated by schools. It is not likely that all the schools which have surpluses will spend them in the same financial year
- 2.2 The LA can use up to a maximum of 40% of the collective balances of all schools to fund the scheme. The LA will be responsible for monitoring the overall level of school balances and will not authorise deficits if the 40% limit would be exceeded

#### 3 What the scheme can be used for

- 3.1 Where schools are in special measures the scheme is designed to ensure they can sustain a level of expenditure which will enable them to deliver the national curriculum.
- 3.2 Action plans which arise from OFSTED findings which require additional expenditure and where the school has no balances to fund the expenditure.

- 3.3. Schools that wish to invest in major equipment, projects or building works and who do not have sufficient balances to enable them to do this. These projects should be linked to either the School Development Plan or Asset Management Plan.
- 3.4 A licensed deficit can also be granted where a school, has found itself in a potential deficit position due to a change in circumstances e.g. significant fall in pupil numbers. The licensed deficit will be granted to reflect that cost reductions may not be possible immediately

#### 4 How the process will work

- 4.1 As soon as the schools identifies the need for a Licensed Deficit they must formally notify the LA in writing and contact the Finance Team for the application forms.
- 4.2 The application forms will require the following information:
- The period of the deficit. This will be a maximum of 5 years for Secondary schools and 3 years for Primary schools.
  - The amount of the deficit. This can be no higher than 10% of the schools **ISB** budget.
  - A brief explanation of the purpose of the deficit.
  - A recovery plan. This will consist of a number of specific actions being taken by the school. ~~to bring the budget into balance.~~ The costed impact of each action must be shown for each year of the deficit.
  - A summary budget plan for the period of the deficit with cross reference to the recovery plan.
  - Be authorised and signed by both the Headteacher and Chair of Governors.
- 4.3 The completed application forms must be sent to the Finance Department. Finance Officers and School Improvement Officers will scrutinise the application before recommendation for approval is made.
- 4.4 The application will need the following authorisation
- Up to £100k the Head of Resources for Children and Young People
  - Up to £500k Executive Director for Children and Young People
  - Above £500k Mayor and Cabinet
- 4.5 Once approved a confirmation letter and copy of the authorised application will be sent to the school. The financing for **Aa Licensed Deficit** is not approved until this letter is received by the school agreed through a legal contract signed by the Mayor or his representative and the chair of governors.
- 4.6 The school must the produce revised budget plans, which must include a resolution of the Governing Body.

- 4.7 Both the school and the LA must continually monitor the schools budget to ensure the agreed amount of deficit is not exceeded.

## **5 LA Responsibilities**

The LA will be responsible for ensuring that :-

the scheme is operated fairly

governors have satisfied themselves that the purpose for which the licensed deficit is sought is in the interest of the school and linked to the schools' development plans

the amount of the deficit will not exceed that which a school will be able to repay over the specified period

the medium and long term interests of the Council are safeguarded e.g. against over commitment

Requests for authorised deficits are accompanied by the appropriate forms and are checked for accuracy and compliance with guidance.

## **6 School Responsibilities**

Governing bodies will be responsible for ensuring that :-

The Licensed Deficit finance will make a demonstrable contribution to the school

The proposals are consistent with the school's Development Plan

Background information and cost estimates are accurate to the best of their knowledge

Application forms are completed and signed by the Headteacher and chair of governors

Deficit funds are used for the specified purpose

## **7 Timing**

- 7.1 Schools are required to submit budget plans to the LA before the end of the summer term and once their budget balance from the previous year has been verified. Applications for authorised deficits will need to be made and approved before the school sets a deficit budget by the end of May.

- 7.2 ~~If a potential deficit is identified throughout the financial year, then the application must be made and approved before the end of the financial year.~~