

MEETING:	SCHOOLS FORUM
DATE:	23 SEPTEMBER 2011
TITLE OF REPORT:	PROPOSALS FOR A FINANCIAL DIFFICULTY RESERVE
OFFICER	SCHOOLS FINANCE MANAGER

CLASSIFICATION: Open

Wards Affected

County-wide – All Schools

Purpose

To approve a financial difficulty reserve that facilitates the allocation of funding to schools in serious financial difficulty.

Recommendation

- THAT** School Forum is asked to approve the following principles regarding use of the Financial Difficulty Reserve:
- The school must be responsible for half the deficit on a long term repayment basis
 - The deficit must be in excess of £500k for a high school and £200k for a primary school
 - Schools must suffer a loss of a minimum of 50% of pupils
 - Funding will only be released after consideration by Schools Forum on a case by case basis in accordance with these principles. And in light of the local authority's view on the strategic commissioning of school places.

Key Points Summary

- The report sets out a policy for dealing with schools in serious financial difficulty and sets up a Financial Difficulty Reserve for funds to be drawn down from on an individual school by schools basis as each particular case is approved by Schools Forum.

Alternative Options

- 1 There are no alternative options for consideration.

Reasons for Recommendations

- 2 A number of schools and groups of schools can experience financial difficulty. Herefordshire, like other local authorities, has processes and working arrangements in place to assist schools in managing change and financial difficulties. It is the expected position that schools will manage to a balanced budget and that any short term difficulties are managed by schools. Herefordshire also has a longstanding policy of encouraging schools to explore collaboration to address resource and financial issues. However, there are exceptional situations where some schools face financial difficulties which are beyond the abilities of a school to manage. This can arise due to a dramatic fall in roll over a relatively short period. There may also be instances where school closure may leave a deficit.
3. This report proposes a set of principles that will need to be approved by Schools Forum, that sets out how funding could be allocated from a new contingency, named “the Financial Difficulty Reserve”, to help clear the debt. Other authorities will have similar arrangements for the use of financial difficulty funding as it is a permitted expenditure within the Schools Budget.
- 4 The DfE advise that the use of the financial difficulty contingency is funded within the Schools Budget and hence the cost falls to Dedicated Schools Grant (DSG).

Introduction and Background

5. There are a set of arrangements in Herefordshire, as in other local authorities that have established the expectation of schools managing within budgets. Herefordshire schools take such responsibilities very seriously and governors and staff work with local authority officers to achieve this. There are arrangements for financial and school improvement support, and procedures for short term licensed deficits where required. The licensed deficit agreement that schools with a deficit are required to complete generally requires repayment over three years and only in exceptional circumstances is a five year agreement signed
6. However, there are circumstances where this approach does not address significant issues that result in deficits, primarily via significant loss of pupil numbers over a relatively short time, and also where a school closes.
7. School Forum originally considered setting up a reserve for schools in financial difficulty in 2007/08 and £91k was allocated as a budget. However, no further work was done to establish a policy for schools wishing to access this funding, or establishing a set of parameters to define clearly what constitutes a school in financial difficulty. As no further work was undertaken the budget was returned to DSG for re-allocation in 2008/09.
8. Dilwyn school closed on the 31st August 2011 and although the accounts are not yet finalised a deficit of at least £15,000 is forecast. In future there may be instances of school closure, with a deficit. Two schools closed in Herefordshire with surplus balances (Brilley primary school in August 2007 and St Mary’s Hope in March 2005). However, due to the increasingly difficult financial circumstances it may be that that any future school closures will do so with a financial deficit.
9. Additionally, there are two schools that have suffered a catastrophic loss of pupils likely to result in a loss in excess of 50% of pupils, over a five to seven year period. Such a loss of pupils is beyond a schools ability to manage, and inevitably results in the school’s budget decreasing faster than the schools ability to reduce staffing costs to mitigate the deficit. In such circumstances a deficit is incurred before the pupil numbers and budget can be stabilised.

Agreed recovery plans for the schools are put in place and head teachers and governing bodies are committed to addressing the deficit. In such cases, in order to avoid disadvantaging the education of the current pupils at the school, the recovery plan agreed with the school is proposed to require the school to find half the deficit by repayment on a long term basis, say over ten years and the other half of the deficit to be met from Dedicated Schools Grant.

10. The proposed use Financial Difficulty Reserve would be for use on a longer term basis, for exceptional circumstances, rather than the current licensed deficit agreement.
11. It must also be noted that school funding regulations do not permit school deficits to be written off unless the school closes and hence a policy needs to be agreed by Schools Forum for the use of the Financial Difficulty Reserve to assist such schools to return to financial health. School funding regulations require that the principles are agreed with Schools Forum.
12. It is proposed that the following principles should be adopted by Schools Forum regarding use of the Financial Difficulty Reserve
 - a. The school must be responsible for half the deficit on a long term repayment basis
 - b. The deficit must be in excess of £500k for a high school and £200k for a primary school
 - c. Schools must suffer a loss of a minimum of 50% of pupils
 - d. Funding will only be released after consideration by Schools Forum on a case by case basis in accordance with these principles. And in light of the local authority's view on the strategic commissioning of school places.
13. The Local Authority will assist Schools Forum in these considerations, including a strategic assessment of the requirements for the school or schools in question in terms of population and sufficiency
14. Aylestone Business and Enterprise College will be the first school where help from the reserve is necessary and will need to be considered in detail by Schools Forum. In summary, pupil numbers at the school have fallen from 1,255 in January 2004 to 689 in January 2011 and are forecast to fall further to below 550 pupils. The new Headteacher appointed in September 2008 has taken all practical steps to reduce costs in line with the reducing student numbers. Staffing has been restructured repeatedly and the school has been through the redundancy process in each year for the last five years. Premises costs have also been reduced over the same time period.
15. Examination results at Aylestone have improved significantly with the best ever GCSE results in 2011. The headline figures representing Aylestone's results this year exceed those expected from schools within the top 25% of similar schools nationally for the first time in the history of the school. The results represent a 25% improvement in results over three years and reflect the dedication and commitment of pupils, teachers and the Senior Leadership Team, including governors, in difficult circumstances..
16. The school and local authority have a draft action to reconfigure the school's capacity to 550 pupils and, as part of this, to decommission surplus accommodation, which will also reduce premises costs. The council is also seeking capital funding with the DfE in order to rebuild the school. The financial position of the school also needs to be resolved. The school forecast that the deficit will rise to a maximum of £600k and that the year on year budget will balance from 2014/15. The governing body has been asked to agree a long term repayment plan of £30k per year over ten years from 2015/16. The remainder of the deficit would in due course (if the expected deficit was reached) require a similar contribution from Dedicated Schools Grant in consultation with Schools Forum. The principles for the financial difficulty reserve would be

used to address this situation

Key Considerations

17. None identified.

Community Impact

18. None at this stage.

Financial Implications

19. The financial details will be further explored once the principles are agreed – but this will be around identifying schools in this position, the overall financial consequence, and what level of contingency will need to be held.
20. £236k of the DSG underspend from 2010/11 is to set aside to provide a reserve for schools with deficits and this will need to be topped up in future years to provide sufficient funding to cover the expected costs.

Legal Implications

21. There are no legal implications arising from the consultation paper.

Risk Management

22. £236k of the DSG underspend from 2010/11 has been set aside to provide the contingency and this will need to be topped up in future years to provide sufficient funding to cover the expected costs.

Appendices

23. None

Background Papers

24. None.