

**CYNGOR SIR POWYS COUNTY COUNCIL.**

**CABINET  
26<sup>th</sup> July 2016**

**REPORT AUTHOR:** County Councillor Arwel Jones, Portfolio Holders for Schools and County Councillor Wynne Jones  
Portfolio Holder for Finance

**SUBJECT:** Brecon High School – Financial Management

---

**REPORT FOR:** For Information

---

**1. Summary**

- 1.1 The Governing Body of Brecon High School have for a number of years had a significant challenge in setting a balanced budget.
- 1.2 Pupil numbers across Powys have been reducing in the secondary sector and continue to fall. The funding delegated to schools is driven in the main by the pupil numbers on roll at each school. With reduced levels of funding the Governors are expected to review and reduce annual expenditure to a level that does not exceed the funding available.
- 1.3 With approximately 77% of the schools expenditure relating to staffing it is this area of the budget from which the majority of the savings have been required. The reductions have to be balanced with the delivery of the statutory requirements which the school has to fulfil.
- 1.4 Brecon High were in a significant deficit position at the 31<sup>st</sup> March 2013 and a loan of £432k over a 10 year was approved for the school to enable them to manage and clear the deficit over a longer period.
- 1.5 The Governing Body are once again faced with a projected deficit position in addition to the remaining balance of the loan.
- 1.6 This report provides an update on the current and projected financial position of the school.

**2. Background**

- 2.1 The Scheme for the Financing of Schools requires that *“planned expenditure must not exceed the resources available to the school, taking into account any balances due to or from the school for the previous year, without specific approval by the County Council under*

*para 4.9 (unlicensed deficits). Failure to set a budget within the resources available may lead to the issue of a notice of concern with accompanying restrictions on powers of expenditure or to the withdrawal of delegated powers from the school.” (Section 2.2 submission of budget plans)*

- 2.2 Sections 4.5 to 4.9 of the scheme provide the requirements in terms of deficits budget, these sections are included in Appendix A.
- 2.3 At the end of 2011/12 Brecon High school had accrued a deficit budget in the region of £700k and on the 5th February 2013 Cabinet recognised particular circumstances at the school and contributed a sum of £120k funded from corporate reserves towards the cumulative deficit.
- 2.4 On the 30th July 2013 Cabinet resolved to approve a loan to Brecon High of £432k to be repaid over a ten year period. £43,200 to be paid annually from 2014/15.
- 2.5 Brecon High School underwent an Estyn Inspection in 2012 and were placed in the category of requiring “significant improvement”. During a follow up inspection in February 2014, the school was downgraded to requiring special measures. A new Headteacher commenced at the school in November 2014.
- 2.6 On the 24th March 2015 Cabinet approved the deferment of the loan repayment for 2015/16 to reduce the budgetary pressure whilst the school is striving to raise standards and be removed from requiring special measures. A number of conditions were imposed by Cabinet when approving the deferment as follows:-
  - The governing body sets a balanced budget for 2015/16 and 2016/17 and then subsequent years;
  - There will be no overspend against the planned budget;
  - Any underspend at the end of each financial years 2015/16 and 2016/17 will contribute towards repayment of the loan;
  - Any virement in the budget of over £5,000 is approved by the Council’s School Finance manager in consultation with the Professional Lead (Finance) and Head of Schools and the Portfolio Holder for Education.
  - To recalculate the loan repayments over the remaining term of the loan.
  - No consideration will be given to any further loan repayment deferments.
- 2.7 However, due to the improved financial position at the school as at the 31st March 2015 the Governing Body decided not to take the deferment and made the annual repayment.

2.8 The financial position of the school over the last 5 years is provided in the table below.

Year	2011/12	2012/13	2013/14	2014/15	2015/16
Balance B/F	(655,206)	(704,012)	(431,896)	95,129	209,846
In Year Position	(48,806)	272,115	527,025	114,718	(102,740)
Balance C/F	(704,012)	(431,896)	95,129	209,846	107,107
Loan Outstanding			(432,000)	(388,800)	(345,600)
Approved Budget C/F	(862,739)	(655,982)	70,545	59,893	36,045
Outturn Position	(704,012)	(431,896)	95,129	209,846	107,107
Improvement	158,727	224,086	24,583	149,953	71,062
Pupil numbers funded Pre 16	639	637	644	628	577
Pupil numbers funded Post 16	119	127	114	114	87

2.9 Since the provision of the loan the school has maintained a surplus budget position and has met the annual repayment terms of the loan. The Outturn position for each of the last 5 years has been an improved position against the budget set, as shown in the table above, however the position began to deteriorate in 2015/16 which probably reflected the fall in pupil numbers from 2014.

2.10 The projected financial position submitted by the Governing Body, shown in the table below, sees the surplus position at the end of March 2016 falling into an immediate deficit in 2016/17. With further reductions in pupil numbers projected for the following 2 years the current forecast is an increasing deficit to £967k by 2018/19 if no further action is taken to address the situation, this is in addition to the outstanding loan of £216k.

Year	2015/16 Budget	2015/16 Actual	2016/17 Cabinet	2017/18 Projected	2018/19 Projected
Delegated Funding	2,932,223	2,917,395	2,658,366	2,495,700	2,453,323
Net Expenditure	3,106,024	3,020,135	2,952,227	2,896,731	2,832,746
Balance B/f	209,846	209,846	107,107	(186,754)	(587,785)
In Year Position	(173,801)	(102,740)	(293,861)	(401,031)	(379,423)
C/F Balance	36,045	107,107	(186,754)	(587,785)	(967,208)
Loan Outstanding	(345,600)	(345,600)	(302,400)	(259,200)	(216,000)
Pupil numbers funded Pre 16	577	577	512	453	440
Pupil numbers funded Post 16	87	87	85	79	64

2.11 In producing the budget plan for 2016/17 officers from both Finance and the schools service have assisted the school in reviewing their curriculum plan and expenditure across all budget headings. As a result the Headteacher submitted 2 budget plans. The first which the school felt was a realistic plan included some staff reductions and results in the plan submitted by the Governing Body. The second plan produced a balanced budget for 2016/17, the result of reducing

expenditure to that level considered the reduction of 10 members of staff, the school concluded that this was not an acceptable option as it would have considerable impact across the school and would inevitably have a detrimental affect on the progress made in improving standards at the school and its ability to maintain progress against the Estyn recommendations and in progressing to be removed from the category of special measures, the impact included the following:-

- increase class sizes to over 30 in core subjects and over 40 in non-core subjects,
- significant reductions of curriculum options at Key stage 4,
- reduction in support for ALN pupils,
- increased workload for teaching staff limiting their availability for leadership roles and pupil support,
- Health and Safety concerns resulting from class sizes and whether the accommodation itself could accommodate these class sizes,
- potential teacher union action,
- pupil behaviour

Both the consultant who has reviewed the budget and officer in the school service confirm that the level of reduction of ten staff would significant consequences to the schools ability to be removed out of Special measures

- 2.12 Delays in developing the proposed budget plan particularly the taking forward of the staffing reductions identified are exacerbating the deficit position. The business case to take this forward has now been prepared.
- 2.13 Cabinet considered a report on the 5<sup>th</sup> July 2016 on Schools Budgets and recommended that Brecon High Schools budget was not licensed and a notice of concern be issued to the Governing Body and that the Governing Body submit a recovery plan to the authority by the 16<sup>th</sup> September 2016. It was agreed that Cabinet would consider what action to take at its meeting on 26<sup>th</sup> July.

### **3. Recent support and findings**

- 3.1 In order to further assist the school, the schools service commissioned the support of an ex Headteacher, Mr. Haydn Davey, who has supported other Powys Secondary schools in reviewing their curriculum and budget plans. He visited the school on the 17<sup>th</sup> June 2016 and was supported by a member of the staff from the schools Finance Team.
- 3.2 Mr. Davey's work reviewed the work undertaken by the school, assessed the financial position of the school and its ability to balance the budget over the next few years.

- 3.3 His report identified that in 2014/15 Brecon High School was 1 of 22 secondary schools in Wales in the 601 to 700 pupil number bracket its funding placed it 18<sup>th</sup> out of 22 schools. He concluded :-
- Brecon High School will probably end the 2016-17 year with a deficit of £200,000.
  - Substantial ERW funding in 2015-16 and 2016-17 (£152,000 and £115,000) has assisted the school in running surplus budgets. The expiry of ERW support presents a significant challenge as key posts and initiatives within the school are directly paid for by this support.
  - The decline in pupil numbers presents an enormous challenge to the school's capacity to set balanced budgets in 2017-20. Welsh medium provision at the school has not been cost effective for some time.
  - After the current redundancy procedures in 2016-17 are complete the potential for the school to achieve further savings is limited. The best possible projection suggests the school might achieve savings of £77,000 in 2017-18 and £120,000 in each of the succeeding years. Even those savings carry some risk to standards at the school.
  - Those savings will have to be balanced against the ERW posts that will have to be continued after 31 March 2017. These include the 10 TLR posts and the Attendance officer post as an irreducible minimum.
  - The projected savings suggested will not come close to the projected deficits for 2016/17 to 2018/19.
  - Furthermore even if ERW funding was continued and the loan repayments suspended there would still be a substantial deficit to be cleared.
- 3.4 The Governing Body of the school will consider Mr. Davey's report as they prepare the recovery plan requested by Cabinet.
- 3.5 A notice of Concern was issued to the Governing Body on the 6<sup>th</sup> July 2016.

#### **4. Further Action available**

- 4.1 The School Standards and Organisation (Wales) Act 2013 ("the Act") consolidates, clarifies and reforms the law in relation to intervention in schools causing concern.
- 4.2 The Welsh Government have issued statutory guidance under section 20 of the Act. The guidance is Guidance Document 202/2016 issued in March 2016 (Schools causing concern- Statutory guidance for schools and local authorities.)

4.3 A school will be “eligible for intervention” where one or more of the six grounds identified below exist

- **Ground 1**- the standards of performance of pupils at a school are unacceptably low
- **Ground 2** - there is a breakdown in the way a the school is managed or governed
- **Ground 3** -the behaviour of pupils at the school or any action taken by those pupils or their parents is severely prejudicing, or is likely to severely prejudice, the education of pupils at the school.
- **Ground 4** -the safety of pupils or staff is threatened whether by a breakdown of discipline or otherwise
- **Ground 5** –the governing body or headteacher has failed, or is likely to fail with a duty under the education acts
- **Ground 6** -the governing body or headteacher has acted, or is proposing to act unreasonably in the exercise of any of its or his or her functions under the Education Acts

4.4 Where a school is “eligible for intervention” there are a number of powers the Local Authority may use. Where a local authority decides that sufficient evidence exists to warrant the formal use of its powers of intervention, the Welsh Ministers should be notified of the type of intervention that the authority has put in place.

#### 4.5 **Local Authority Intervention Powers**

1. Requirement to secure advice or collaborate

**Purpose of intervention;** to require a school to secure advice or collaborate in order to secure improvements

**Best used;** where the school or key figures within it refuse to collaborate with an appropriate partner

2. Appointment of additional governors

**Purpose of the intervention;** to strengthen the Local Authority’s voice on the governing body and /or provide additional expertise to the governors in key areas to support school improvement

**Best used;** where the governing body needs additional expertise , or the headteacher and senior management team need further challenge.

3. The suspension of delegated authority for the governing body to manage a school’s budget

**Purpose of the intervention;** to secure control over staffing and spending decisions in order to secure improvements

**Best used;** where the governing body is providing insufficient challenge to the headteacher or senior management team of the

schools, or where the management of the budget is providing a distraction from the improvement priorities for governors

#### 4. The Appointment of an Interim Executive Board(IEB)

This requires an application to Welsh Ministers for consent to constitute the governing body as an IEB. It is a specially constituted governing body which replaces a school's existing governing body

**Purpose of the intervention;** to secure a step – change in the leadership and management of the school through the use of a specially- appointed governing body for a temporary period

**Best used;** where the governing body is providing insufficient challenge to the headteacher or senior management team of the school, is providing an obstacle to progress, or where there has been a breakdown in working relationships that is having an impact on standards

#### 5. Proposal

To commission a further independent review of the schools budget, curriculum provision and staffing arrangements. This review will also include identification of realistic efficiencies that can be made which do not adversely impact on standards and progress being made to being removed out of the category of special measures.

Review of the Recovery plan submitted by the Governing Body as requested by Cabinet at their meeting of the 5<sup>th</sup> July, 2016. Should the school not implement any identified efficiencies from the further review, the Authority may invoke powers of intervention.

#### 6. One Powys Plan

6.1 This proposal supports the key areas prioritised for improvement within the One Powys Plan.

- Transforming learning and skills - All children and young people are supported to achieve their full potential.
- Financially balanced and fit for purpose public Services - Enabling 'joined up' services for Powys citizens through public and third sector partnerships.

#### 7. Options Considered/Available

N/A

#### 8. Preferred Choice and Reasons

N/A

9. **Sustainability and Environmental Issues/Equalities/Crime and Disorder,/Welsh Language/Other Policies etc**

N/A

10. **Children and Young People's Impact Statement - Safeguarding and Wellbeing**

N/A

11. **Local Member(s)**

**The Local Member County Councillor David Meredith has commented:**

Firstly I endorse the contents of the Headteacher's response to the Report which was submitted to you on Monday, 11<sup>th</sup> July, 2016, having only received it on the previous Friday, 8<sup>th</sup> July, 2016, which I considered to be a totally unacceptable demand on any Headteacher to undertake such an exercise over a weekend.

Historical Background

Whilst paragraph 2 refers to background it does not reflect the true position and, therefore, I will give below extracts from a report, written in October, 2012, which had been requested by the Authority explain why the Governors felt that liability for a substantial part of the school deficit rested with the Authority.

A special meeting was convened between Officers of the Authority and Governors in September, 2009 to discuss the financial issues at Brecon High School. The notes of this meeting indicated that there were problems with the School's budget caused by Council settlements generally and the funding formulae in particular. Whilst the School had plans in place to reduce staff concerns had been expressed about the impact this would have on standards. The Authority was well informed of the plans and was able to cost. The Authority, at that time, never went back to the governing body to say that the planned cuts were insufficient.

I personally at a meeting with Officers of the Authority, Portfolio Holder for Education and representatives from the School, when the School had a deficit budget of £102,000 requested that arrangements be made for Officers of the Authority to visit the School to view the School's financial position at that time and advise the Governing Body as to how savings could be made. No action was taken by the Authority at that time and it was some twelve months later when the deficit had accelerated and was predicting a £285,000 in year deficit on top of the previous years. If the Authority had taken my advice and gone into the School to assist the Governing Body at that time the School would not have suffered the situation it eventually found itself in.



During the 2010 Autumn Term the Authority requested a local Headteacher to go into the School and in a draft report to the local authority the Headteacher concluded that:

“the LA has been less than effective in managing the issue of an unlicensed budget and the lack of appropriate support and challenge may have contributed to its current size. The impact of the level of repayments needed to eliminate the budget deficit and consequent damage to the education of pupils needed to be examined urgently. The LA needs to urgently review its processes of support and challenge for schools with unlicensed deficit budgets”.

Whilst the above are just extracts from the report I feel it better reflect the background than what is currently included in the Authority’s report. I am sure that Cabinet Members might consider it appropriate to have a copy of this document in order to be aware of the whole situation in which the School found itself at that time.

#### Projected Deficit

As a result of the School not being able to produce a balanced budget the Governing Body requested the Authority to send appropriate Officers in to the school to ascertain where savings could be achieved in order to secure a balanced budget. In view of the fact that the Authority did not have the expertise to undertake this exercise ‘in-house’ they engaged the services of Mr. Haydn Davey. I do not understand how can the Authority consider that it is able to set a Fair Funding Formula when it does not know if the funding resulting from the formula enables a school to deliver a balanced curriculum and at the same time raise standards.

Mr. Davey was tasked to prepare a report on:

- Brecon High School’s curriculum and budget plans 2016-20
- The current financial position of the school
- The ability of the School to balance its budget in the period 2016-20

I will not detail Mr. Davey’s conclusions as his report will be in your possession but I would like to make reference to certain points.

The report refers to the salary of the School’s Business Manager and I think that it is only right that the Cabinet is made aware that his salary was as a result of the Authority’s Job Evaluation exercise and was not determined by the School Governing Body.

The Governing Body has constantly highlighted the fact over the last six years that the School was subsidising Welsh medium education (£25,000) even more so in previous years an issue which the Authority has chosen not to address despite the fact that in November, 2011 it took the decision to bring the School up to a 2B status but never provided the funding to enable it to do so.

Even after the result of the current redundancy process in 2016-17 the report highlights the fact that the potential for the School to achieve further savings is limited. It goes on to say that the best possible projection suggests the school might achieve savings of £77,000 in 2017-18 and £120,000 in each of the succeeding years. I am seriously concerned that the report also highlights that such savings carry some risk to standards at the School and as Members will be aware we are going through a critical time and it is imperative that we continue to make the progress which has been highlighted in all recent ESTYN monitoring reports.

I understand the Authority, despite having received a report from Mr. Haydn Davey, have commissioned a further review of the Schools situation in September. If their findings are different will the Authority be commissioning a further report to ascertain which findings are correct? In 2014-15 Brecon High School was one of 22 secondary schools in Wales in the 601 – 700 pupil number bracket. Its funding placed in 18<sup>th</sup> out of the 22 schools. Can we be assured that those commissioned to undertake this exercise come from a similar size school?

The School has been in an extremely difficult position for the past six years and the uncertainty of the Authority's Secondary School Reorganisation Programme as not helped the situation. Whilst I appreciate the School is scheduled to have a new School the delay in this happening is also a burden on the School's finances within ongoing maintenance issues.

It is imperative that the Authority's Fair Funding Formula meets the needs of all pupils and from evidenced gathered in Mr. Davey's report it appears that this is not the case and it is time that the Authority ensured that it provides the necessary resources to enable them to receive the education they justly deserve.

**The Local Member County Councillor Matthew Dorrance has commented:**

Dear Councillor Thomas,

Brecon High School has faced difficult challenges in recent years. Financial support has played a significant role in the challenges faced by the school and I believe that Powys Council must ensure the focus is on the best outcomes for learners.

The Cabinet Report makes reference to a piece of work carried out on behalf of the Council by Mr. Haydn Davey. Local Councillors have not been given access to that report which appears key to the decision Cabinet will have to make. Without sight of this report, it is difficult to comment on behalf of my community.

The Cabinet Report does note that Brecon High School is in the bottom quartile of Secondary Schools in Wales (based on pupil numbers) for funding. This will obviously impact on what can be delivered at the school and the quality of that delivery. The Council should, where possible, do all it can to reduce the pressure on this school as it comes through a difficult period.

It is deeply regrettable that there is such a wafer thin focus on standards and the impact on learners in this Cabinet Report. As providers of public services, and notwithstanding the importance of sound finances, our focus must always be on the standard of the service. However, I think it is important to note that where the report does touch on standards and the impact on learners, it highlights the following risks:

- increased class sizes to over 30 in core subjects and over 40 in non-core subjects,
- significant reductions of curriculum options at Key Stage 4,
- reduction in support for ALN pupils,
- increased workload for teaching staff limiting their availability for leadership roles and pupil support,
- Health and Safety concerns resulting from class sizes and whether the accommodation itself could accommodate these class sizes,
- potential teacher union action,
- pupil behaviour

It will come as no surprise to the Cabinet that I have serious concerns around the impact and believe that allowing any of the impacts noted above in any of our schools would seriously fail the learners and our workforce.

Furthermore, the report goes on to state:

*“Both the consultant who has reviewed the budget and officer in the school service confirm that the level of reduction of ten staff would have significant consequences to the schools ability to be removed out of Special Measures.”*

Clearly, there is a significant risk for the Council and the decision the Cabinet makes will decide the future of Brecon High School. It is clear, I think, that to continue to drive the changes we must see at Brecon High School, additional funding is required. Especially as additional uncertainty created by the Council’s Secondary School reorganisation plans is creating extra pressure for the school.

Section 5 (proposal), of the Cabinet Report states:

*“To commission a further independent review of the schools budget, curriculum provision and staffing arrangements. This review will also include identification of realistic efficiencies that can be made which do not adversely impact on standards and progress being made to being removed out of the category of Special Measures.”*

However, an email of the 15th July 2016 between officers (which I have seen) stated:

*“2 colleagues have been commissioned from another local authority to carry out the further independent review of the school budget position.”*

It would appear that officers have already decided on a course of action before the Cabinet have considered the report and I would welcome comments from the Cabinet on whether they feel the outcome has been predetermined.

In addition, I have to question the motives of the Cabinet in commissioning another report so soon after the Mr. Haydn Davey report. It would be useful if the Cabinet could explain why they felt this necessary or appropriate. As I have stated, local Councillors were not given access to the report when we were asked for comments but this push for another does make me wonder if the Cabinet didn't like the original findings.

I think it also appropriate to write here that local members were only granted three working days to consider the Cabinet Report, gather evidence and respond. The Cabinet will be aware that we do not have the level of support they enjoy in terms of secretariat and dedicated officers. Therefore, I would hope that in future, they show a greater understanding of our commitment and the resources available to us.

**The Local Member County Councillor Gillian Thomas has commented:**

To make staffing cuts which would mean less support for ALN pupils or class sizes of 33+ would impact on standards.

Having a Welsh Medium Primary School in Brecon and then expecting pupils who wish to continue to travel up to 62 miles a day in some cases to Builth is farcical and this is where Cabinet took the flawed decision to consult on moving provision to Builth instead of giving options for provision in Breconshire. As a result parents and pupils voted with their feet because they thought that was what would happen.

The uncertainty of 6<sup>th</sup> Form provision is also causing grave concern and uncertainty and pupils are looking in considerable numbers at other providers.

The report which you commissioned by an Ex Head in ERW makes serious comments and I fail to see why you are commissioning a further report – just kicking the can down the road yet again instead of making a decision. I hope the buildings do not fall down and pupils are injured as the state of them is serious.

**12. Other Front Line Services**

The Head of Schools Service notes that the current budget plan submitted by the school would not be licenced due to not meeting the requirements of the Scheme for Financing Schools. The Schools Service will support the further independent review of the schools budget, curriculum provision and staffing.

**13. Support Services (Legal, Finance, HR, ICT, BPU)**

The Finance Business Partners for Schools comments that the current budget plan submitted by the Governing Body does not meet the requirements of the Scheme for the Financing of Schools and would not be licensed. The Finance team will support the further independent review of the schools budget position.

HR - The School has commenced work on a restructure of teaching staff to take effect from 1 January 2017. A business case has been produced and consultation will commence during June 2016. The School's HR team are involved in this process.

Legal- the recommendations can be supported from a legal point of view

**14. Local Service Board/Partnerships/Stakeholders etc**

N/A

**15. Communications**

**16. Statutory Officers**

The Strategic Director Resources (S151 Officer) notes the Finance Business Partner for Schools comment '...that the current budget plan submitted by the Governing Body does not meet the requirements of the Scheme for the Financing of Schools and would not be licensed.'

This is clearly of concern and requires appropriate and swift action by the school working with the council's support to ensure the position is

addressed. It is important that remedial action is taken because of the potential impact of the position on the council's overall finances.

The Solicitor to the Council (Monitoring Officer) has commented as follows: " I note the legal comment and have nothing to add to the report.

**17. Members' Interests**

The Monitoring Officer is not aware of any specific interests that may arise in relation to this report. If Members have an interest they should declare it at the start of the meeting and complete the relevant notification form.

**18. Future status of report**

Members are invited to consider the future status of this report and whether it can be made available to the press and public either immediately following the meeting or at some specified point in the future.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
<p><b>That the report is noted</b></p> <ol style="list-style-type: none"> <li><b>1. School must submit their recovery plan by 16<sup>th</sup> September 2016.</b></li> <li><b>2. School must collaborate in further independent review of budget, curriculum planning and identification of efficiencies.</b></li> </ol> <p><b>Cabinet to consider the findings of the independent review</b></p> <p><b>Should the school not comply with 1 and 2 above the Authority may invoke powers of intervention.</b></p>	<p><b>That an appropriate budget plan is submitted by the school;</b></p> <p><b>And to ensure that the school has a financial basis on which to ensure that the school continues to progress the recommendations for improvement.</b></p>

<b>Relevant Policy (ies):</b>	Scheme for the Financing of Schools		
<b>Within Policy:</b>	<b>Y</b>	<b>Within Budget:</b>	<b>Y</b>

<b>Relevant Local Member(s):</b>	<b>Cllr David Meredith</b> <b>Cllr Tony Thomas</b> <b>Cllr Evan Morgan</b> <b>Cllr Matthew Dorrance</b> <b>Cllr Paul Ashton</b> <b>Cllr Gillian Thomas</b> <b>Cllr Liam Fitzpatrick</b> <b>Cllr Melanie Davies</b>
----------------------------------	---

<b>Person(s) To Implement Decision:</b>	Schools Finance Manager and Senior Schools Staff
<b>Date By When Decision To Be Implemented:</b>	

Contact Officer Name:	Tel:	Fax:	Email:
Jane Thomas	01597826341		Jane.thomas@powys.gov.uk

**Background Papers used to prepare Report:**

Scheme for the Financing of Schools

**Extract from the Scheme for the Financing of Schools**

**4.5 Obligation to carry forward deficit balances**

A deficit balance at the end of a financial year will be treated as a deduction from the following year's budget share.

**4.6 Planning for deficit balances**

A governing body has no legal right to set a deficit budget without the consent of the Authority and should not presume that such consent will be granted. The Authority will consider approving a licensed deficit to a school in certain approved circumstances (see para. 4.9).

**4.7 Charging of interest on deficit balances**

The Authority will charge interest on deficit balances. The charge will be based on the school's closing cumulative balance at the end of the financial year. To ensure that the school will effectively repay, in real terms, the deficit sum its value will be increased each year in line with any inflation increase applied to school budget shares.

**4.8 Writing off deficits (see also section 3.6)**

The Authority has no power to write off the deficit balance of any school except for a closed school, subject to authorisation of the Portfolio Holder for Education.

**4.9 Licensed deficits**

The detailed arrangements applying to this scheme are set out below:

- (a) the maximum length of time over which a school may repay a deficit is three years, except where a longer period, not exceeding five years, has been agreed in exceptional circumstances and with the support of the Head of Schools and the Section 151 Officer. In practice the timescale will depend on the extent of the deficit and the school's ability to take early action.
- (b) deficit arrangements may be agreed in the following circumstances:
  - falling pupil numbers;
  - to spread the cost of cyclical maintenance works over two or more years;
  - other circumstances agreed by the Authority to be reasonable

In the primary sector the maximum licensed deficit which may be approved will be up to 10% of the school's budget share (including any amounts for pupil number adjustments), but with a ceiling of £50,000.



In the secondary and special sectors the maximum licensed deficit which may be approved will be up to 7½% of the school's budget share (including any amounts for pupil number adjustments), but with a ceiling of £100,000 for special schools and £150,000 for secondary schools.

A school with a planned deficit of less than £500 and a planned underspend in the following financial year will not have to apply to have the deficit approved.

Up to a maximum of 40% of the collective school balances may be used to back the arrangements for licensed deficits. Schools holding balances in their own bank accounts may be invited to participate.

The arrangements for licensed deficits will be operated by the Strategic Director: Resources, working within the accounting requirements of the County Council as set out by the Section 151 Officer.

Schools wishing to apply to the Authority to set a deficit budget will be subject to detailed terms and conditions agreed between the governing body, headteacher and the Authority's officers. Restrictions on expenditure and a higher level of budget monitoring will be required by the school and the Authority for the period of the deficit and until such a time as the Authority is satisfied that the school has met repayment targets and is in a position of financial stability. The Authority will appoint a named officer / adviser to support the school in analysing its finance, curriculum and staffing needs.

Requests for licensed deficits will not normally be approved unless the school can produce a recovery plan which, in the view of the Authority, is realistic, prudent and does not exceed three years (exceptionally 5 years). The Authority's named officer / adviser will have a key role in determining whether the recovery plan can be recommended to the Authority as fulfilling these criteria.

Schools have a duty to identify potential deficits and to plan recovery action early. The Authority expects the recovery plan to be submitted by 1st May. The format of the recovery plan, and arrangements for its submission, will be specified by the Authority. The recovery plan will have to be updated at least annually until the school returns to a cumulative surplus budget and is in a position of financial stability. Failure to comply with the agreed recovery plan will mean the re-activation of the process set out in para 2.16.

The Authority will impose additional restrictions on a school during the term of the licence, as part of the licence, including but not limited to:

- the right of approval of staffing appointments and any other changes to staffing that increase costs;
- the right of approval of contracts over a specified value;
- restriction of expenditure to agreed plans and removal of powers of virement;
- a requirement to purchase the full Local Authority financial support package;
- agreed repayment targets, etc.

- the written agreement to the terms by the Chair of Governors, following a resolution passed by the full governing body.

The named officer / adviser will be the first point of contact for the school in relation to these restrictions. He or she will make appropriate recommendations to the Strategic Director: Resources and Head of Schools Service. The need for and extent of such restrictions will be assessed on a school by school basis