

DEFICIT BUDGETS IN SCHOOLS – POLICIES AND PROCEDURES

Overarching Responsibility for Managing the School Budget

1. School governing bodies are the responsible accountable body for managing the school budget.

Current Policy (NCC Scheme)

2. The current main policy for schools' deficits is contained in the NCC Scheme for Financing Schools as follows:

“2.9 Submission of budget plans

Each maintained school is required to submit a budget plan, which takes account of the major categories of expenditure and income, on the NCC Budget Proposal Form, by the first Friday in May. Schools should, when constructing their annual budget plan take into account their estimated carry forward deficit/surplus balance as at the previous 31st March.

NCC will provide schools with the data which it holds which is considered necessary for efficient planning by schools, e.g. estimated inflation rates.

The school's formal annual budget plan must be approved by the Governing Body or a committee of the governing body. Any changes to this i.e. variations of budget during the year should also be approved by the Governing Body or committee as outlined in the Schools Financial Management Handbook.

4.4 Obligation to carry forward deficit balances

Schools must carry forward from one financial year to the next any shortfall in school budget share relative to their expenditure for the year plus/minus any balance brought forward from the previous year. This will be affected through a deduction from the following year's budget share.

4.5 Planning for deficit budgets

It is not permissible for schools to budget for a deficit, except in those circumstances set out in 4.9 below. School budget plans must be prepared with a view to breaking even or creating a surplus at the end of the financial year.

Where schools have reason to anticipate a deficit the NCC S151 Officer (Director of Finance) must be informed immediately.

4.6 Charging of interest on deficit balances

Schools will not be charged interest on any unplanned year end deficits as a matter of course. However, where an unplanned overdraft occurs on a school's local bank account, although NCC will underwrite such an overdraft, the school's budget will be charged any interest or other costs that arise.

4.7 Writing off deficits

NCC cannot write off the deficit balance of any school.

4.8 Balances of closing and replacement schools

When a school closes, any balances (whether surplus or deficit) reverts to the L.A The LA can decide to transfer any closing surplus to a successor school.

Balances on schools converting to academy status

The national guidance on this changes over time so the latest guidance will be used at the point of conversion.

4.9 Licensed deficits

A school may be allowed to plan for a deficit budget in exceptional circumstances with the agreement of the NCC S151 Officer (Director of Finance) and subject to the following restrictions:

- (1) The maximum length over which a school may repay the deficit is normally three years from the beginning of the next financial year in which the deficit arises, and the financial position will be subject to ongoing monitoring and annual review.*
- (2) A deficit arrangement will only be allowed where the continuing existence of a school is deemed viable.*
- (3) The minimum size of a licensed deficit is 1% of the schools indicative budget and the maximum level is 15%.*
- (4) The maximum proportion of the collective school balances held by NCC which will be used to back the total of deficit arrangements is 10%.*
- (5) Arrangements for individual schools will be determined by the NCC S151 Officer (Director of Finance) or their nominated officers, in agreement with the school Governing Body. The Governing Body must formally agree to abide by any requirements laid down as a pre-condition to accepting the deficit arrangement."*

Further Guidance and Procedures

3. The following guidance and procedures are produced in support of the statutory policy outlined above.
4. **Submission of a Business Case and Deficit Recovery Plan**
 - a. All schools are required to include use of the carry forwards (including overspends from the previous financial year) on their Budget Proposal Form.
 - b. Where a deficit of 1% or more is identified by the school as part of the budget planning process, a business case and recovery plan for a licensed deficit to be authorised is to be submitted to LGSS Schools Finance by the Chair of Governors in an agreed format at the same time or before the Budget Proposal Form.
 - c. Schools should know well in advance of the year end that they are heading for a deficit) so they should carry out pre-emptive work to identify savings and produce/submit the business case and recovery plan in good time before the start of the subsequent financial year.
 - d. Schools should also work in close liaison with LGSS Human Resources (or their own HR advisor) to ensure that their proposed savings can be met and that all relevant documentation including a business case for any redundancy costs to be met by the local authority is submitted in accordance with NCC redundancy policy.
 - e. Where the recovery of the deficit is likely to impact on teaching standards, the school should also liaise closely with the phase Principal Improvement Manager within the NCC Learning, Skills and Education division.
 - f. Where there are delays in producing a recovery plan, the Chair of Governors and Headteacher will be required to meet with LGSS Schools Finance to explain the reasons for the delay and for actions to be agreed.
5. **Authorisation of Licensed Deficits**
 - a. The business case and recovery plan will be scrutinised by LGSS Schools Finance who will liaise with the school, and LGSS Human Resources (or the school HR advisor) and the phase Principal Improvement Manager within Children, Families and Education as required to resolve any queries or concerns they may have regarding the information provided. Any such queries are to be resolved as quickly as possible.

- b. Where necessary, the matter may be referred to the Head of School Standards and Effectiveness who may recommend more formal intervention to the Director Children, Families and Education (CFE) i.e.:
- issuing a local authority warning notice
 - instigation of an Interim Executive Board
 - removal of the school delegated budget
- c. Once the above scrutiny process has been completed, the business case and recovery plan will be presented to the LGSS CFE Strategic Finance Manager who will formally authorise the licensed deficit, subject to any further queries which might arise. This process should be complete within one month of receipt of the business case and recovery plan –any delay will be notified to the school.
- d. The annual recovery plan and approach for any schools with deficits greater than £50k (Primary, Nursery or Special) or £100k (Secondary) will need to be authorised by the Head of School Standards and Effectiveness.
- e. The school will be notified of the decision in writing which will include any terms and conditions attached to the authorisation which will include:
- 1) The maximum deficit allowed for each year covered by the authorisation;
 - 2) The period covered by the authorisation;
 - 3) The monitoring and reporting requirements; and
 - 4) Measures which may be taken if the school fails to adhere to the agreed plan or the terms and conditions.

A copy of the authorisation letter will be sent to LGSS Human Resources (or the school HR advisor) and the Head of School Standards and Effectiveness.

6. **Managed Deficits**

- a. Any deficits which are below the 1% threshold for licensed deficits will be deemed to be “managed deficits”. Budgets with a managed deficit should be recovered to a balanced position by the end of the financial year.
- b. On receipt of a Budget Proposal Form which shows a managed deficit, the Schools Finance team will confirm the reporting requirements in the letter agreeing to the budget.
- c. The school will be required to submit a copy of their Cumulative Expense Analysis Report to LGSS Schools Finance by either the 15th of each month (or every 2 months) as stated in the deficit approval letter for the financial year concerned which will be scrutinised by the Schools Finance team.

- d. Where there is evidence that the school will not achieve a balanced budget by the financial year end the Schools Finance team will discuss this with the Headteacher (and where necessary Chair of Governors) to identify and agree further savings to be made to achieve the necessary target.
- g. In the event that the school is still forecasting it will be unable to deliver a balanced budget by year end, the matter is to be referred to the Group Accountant, School funding who will decide what action may be taken.

7. **Monitoring and Reporting**

- a. All schools with an licensed deficit or managed budget) will be required to submit either a monthly or 2 monthly deficit monitoring report to LGSS Schools Finance by the 15th of the month during the period covered by the licensed deficit to demonstrate current and forecast expenditure.
- b. The format of the monitoring report will be as follows:
 - 1) A covering note from the chair of governors explaining the progress made during the period and the reasons for any deviation from the agreed recovery plan and the actions being taken to rectify the situation.
 - 2) A copy of the Cumulative Expense Analysis Report as at the submission date.
- c. Where any non-delivery within the submitted recovery plan occurs, schools will be required to outline the reasons for variances and identify alternative mitigating actions to deliver the deficit recovery plan.
- d. The monitoring reports will be scrutinised by the Schools Finance team who will raise any concerns (which will include failure to submit the monitoring reports on time) directly with the Chair of Governors or Headteacher in the first instance.
- h. In the event that the monitoring report is not received within 14 days of the due date, the Schools Finance team will notify the Group Accountant, School funding, who will recommend to the LGSS Strategic Finance Manager what follow up action may be required, which may include:
 - 1) Notifying LGSS Human Resources (or the school HR advisor) and the phase Principal Improvement Manager within the Learning, Skills and Education division.
 - 2) Calling the Chair of Governors and Headteacher in for a meeting to discuss the situation.
 - 3) Referring the matter to the Assistant Director Learning, Skills & Education who may recommend more formal intervention to the Director Children, Families and Education i.e.:

- issuing a local authority warning notice
 - instigation of an Interim Executive Board
 - removal of the school delegated budget
- i. The School team will maintain a central monitoring spreadsheet which will contain the details of all maintained schools with agreed deficits and the following information:
- 1) Details of all licensed and managed budgets;
 - 2) Dates when monthly reports have been received;
 - 3) Comments and concerns including meetings held etc; and
 - 4) Proposed dates of academy conversions.

This information will be shared on a regular basis with senior school improvement colleagues.

8. **In-Year Deficit**

When a potential new deficit is identified during the financial year either by the school or by LGSS Schools Finance as part of their monitoring, the following process will apply:

- a. The potential deficit will be acknowledged by the LGSS CFE Strategic Finance Manager, who will confirm to the chair of governors in writing the requirement for monitoring reports to be submitted and any other requirements.
- b. A copy of the letter will be sent to LGSS Human Resources (or the school HR advisor) and the phase Principal Improvement Manager within the Learning, Skills and Education division.
- c. The school should develop their plans for recovering the deficit as soon as a potential deficit is identified with support from LGSS Schools Finance and a formal business case and recovery plan is to be submitted within 3 months of the in year deficit being identified (or with the next budget proposal whichever is earlier).
- d. Details of the in year deficit will be entered onto the monitoring spreadsheet by the Schools Finance team.

9. **Accelerated Cash Advances for Deficit Schools**

Schools with a deficit budget will only be permitted to apply for an accelerated cash advance up to the value of their authorised deficit.

Any application will need to identify when the accelerated cash advance will be repaid.

10. **Further Advice**

Further advice on planning schools budgets should be sought from LGSS Schools Finance. Any queries relating to this policy should be submitted via Finschools@northamptonshire.gov.uk