

Managing a deficit budget

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Introduction

All schools need to take a longer-term view of their financial position, not a year-on-year approach. As a minimum, schools should set up a three-year budget plan (possibly a five-year plan) which is regularly reviewed and rolled forward, looking at how they can remain sustainable and continue to deliver excellent educational outcomes. As part of this, schools will need to carefully consider their staffing mix, and plan how they will make most effective use of their staff.

School financial health is one of the most important objectives in the immediate future as budgets are constrained and costs – particularly those in relation to staff – rise above proposed increases in income.

The key areas for consideration when managing your budget are:

- Overall budget – income and expenditure
- Staffing structure
- Banking practices
- Reporting procedures
- Existing processes and procedures
- Collaboration with other schools
- Income generation

Assessing efficiency

The DfE provides a collection of advice and resources for school leaders and governors to carry out financial health checks [here](#).

Tools for schools to assess their level of efficiency and investigate particular lines of spend to find opportunities for savings include:

- An **efficiency metric**, which indicates how a school's efficiency compares to similar schools.
- A **benchmarking report card**, which encourages comparisons of spending data between similar schools.

- A **top-ten checks list**, which provides guidance as to the types of questions governing bodies may wish to ask their school leadership teams relating to financial health.

All schools, whether academies, community schools, voluntary aided or voluntary controlled schools, need to secure the maximum efficiencies possible to make ends meet. Schools need to look to workforce planning and procurement economies to consider how pressurised budgets can deliver a high-quality teaching and learning model.

Budget planning and deficit

Maintained schools are required to submit a budget plan, which takes account of the major categories of expenditure and income. When putting together an annual budget plan, schools should take into account their estimated carry forward deficit/surplus balance as at the previous 31st March.

LA finance teams provide schools with data considered necessary for efficient budget planning, for instance estimated inflation rates. The headteacher must take the proposed annual budget plan to the school governors for approval.

If a school develops a shortfall in their budget, this will eventually be carried forward into the following year's budget – at this point the school should begin the process of planning for deficit budgets.

Licensed deficits

Schools are generally not permitted to budget for a deficit; however, some LAs allow schools to in extenuating circumstances, called 'licensed deficits' – these are subject to a series of restrictions and limitations, and will be outlined by your LA.

If a school needs to set a deficit budget, the LA must be informed immediately. The LA will stipulate:

- The maximum length over which a school may repay a deficit, including plans to ensure the deficit does not continue indefinitely – this will not exceed three years.
- The circumstances in which a deficit arrangement can be agreed.
- The maximum size of deficits that can be agreed.
- The maximum proportion of collective funds held by the LA that will be used to support the deficit arrangement.

In an ideal world, the school budget plans should be agreed with a surplus (or at least breaking even) at the end of the financial year.

In-year deficit

A school might find itself in a situation whereby it overspends its budget during the financial year. This is known as an in-year deficit and should be reported to the LA so that a three-month plan can be put in place.

Forecasting

The vicious circle of financial health makes a deficit budget extremely difficult to manage for some schools, for example due to staffing costs. Staffing generally equates to a majority proportion of a school's budget, so schools must have a long-term plan that takes into account potential staffing changes through retirement, mobility, progression, change in numbers, etc.

If a governing body forecasts that it is going to have a deficit, it should submit a business case and deficit recovery plan to the LA as soon as possible and before the budget proposal is due.

As far as possible, it is at this point that schools should actively look to identify savings and cost efficiencies – attention should be paid to the staffing, purchasing of resources, school contracts and income generation. All this information will be submitted through the business case for the LA to consider.

If the LA agrees with the proposed business case and recovery plan, then they will authorise the licensed deficit – this can generally take up to a month.

The school will be officially notified by the LA stating:

- The maximum deficit allowed for each year covered by the authorisation;
- The period covered by the authorisation;
- The monitoring and reporting requirements; and
- Measures which may be taken if the school fails to adhere to the agreed plan or the terms and conditions.

Making savings

The LA has a responsibility to regularly monitor deficits.

As schools continue to move forward and the full implications of the funding formula become apparent, there is a risk that more schools will be forced into working with a deficit budget. The DfE still insists that schools should be able to manage by making cuts and savings – time will tell; however, schools should be making efficiencies with their budgets by closely analysing their spending and ensuring that they operate as efficiently as possible.

Schools can take advantage of the new national spending deals on offer in the DfE's [Schools' Buying Strategy](#), and there are many opportunities for schools to look at the ways in which they generate income such as:

- Improving procurement.
- Making better use of the resources you already have.
- Boosting your income.
- Improving networking opportunities.

To avoid and/or make up for shortfalls in your budget:

- **Align the budget with the school improvement plan:** This helps you ensure you prioritise funds to be allocated where they can drive improvement or maintain high

education standards. When doing this, consider the school's financial position and how this may change over the next year. Use the school improvement plan to get a solid understanding of what you need, and what you already have that can be utilised better.

- **Challenge every area of spending:** Challenge every department to provide evidence of the impact that spending in those areas is having on pupils, then evaluate the value of this on the pupils to ensure funding is prioritised towards areas of the most positive impact.
 - **Make allowances for unplanned expenditure:** There will be things you can't budget for that will take priority when the need arises, for instance issues relating to health and safety – review unplanned expenditure on a case-by-case basis and work out where in your budget you can offset this.
 - **Offset declines in funding:** If your school suffers a reduce in funding, review what is required, challenge areas of spending and see how existing resources can be utilised better.
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