**Licensed Deficit Application & Agreement Form**

This agreement is between the Executive Director Childrens and Families Services and the Governing Body of

Enter school name here.

1. **Introduction:**

A school must apply for a licensed deficit if it is unable to produce a financially balanced budget, i.e., its forecasted expenditure exceeds the brought forward revenue reserves and total income expected in the year. A licensed deficit is the amount agreed by the school and the Local Authority, which the school permitted to overspend in the current financial year. The minimum size of an agreed deficit will be £10,000, and the maximum will be 10% of a secondary or 20% of a primary or special school’s budget in the year of application.

1. **Scope**

Subject to section 4.9 of Barnet’s Scheme for Financing Schools, this agreement authorises the Governing Body to maintain a deficit revenue balance for a period not exceeding three financial years.

No interest will be levied on the deficit sum. The Executive Director Children and Families Services does retain the right to levy an interest surcharge where the Governing Body fails to carry out activities agreed in the deficit recovery plan.

The licensing of the deficit only applies to the financial year in view. The approval will be based on the three-year recovery plan provided. The value of subsequent years’ deficits will be formally approved at the beginning of those years and must not exceed those agreed in the three-year recovery plan. A school cannot assume that approval will be automatically given.

The application must detail the reason for the deficit (e.g. long-term sickness, significant unexpected drop in pupil numbers, etc.) and must accompany a detailed recovery plan setting out how and over what period the deficit is to be recovered. If a request for a license deficit is declined, the local authority will contact the Head Teacher and the Governing Body to discuss the next steps.

Please return the completed application form, three-year recovery plan and the cashflow forecast to the Barnet Schools Finance Team via Schools.Accountancy@barnet.gov.uk no later than 15th of May.

1. **Reasons for Deficit:**

Please include in this section the reasons for the first year’s budget deficit, the circumstances leading up to the current position and any additional information to support your request to licence the deficit.

|  |  |
| --- | --- |
| **Areas and Reasons for Deficit** | **Financial cost to the school (£’000)** |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |

1. **Recovery Plan:**

## Please set out in detail the actions that you propose to take in order to get the school budget back into balance at the end of the proposed term. You should include details of the savings identified and when they are expected to reduce the deficit, changes to current circumstances and any additional funds that you might expect to receive in future years. These savings should reflect in the appropriate years in the budget forecast template. Schools will be required to state the amount and the CFR code under which the mitigations are expected to deliver in each financial year.

|  |  |  |  |
| --- | --- | --- | --- |
| **Action for recovery** | **Financial year** | **CFR Code** | **Proposed savings/ income (£’000)** |
|  |  |  | £ |
|  |  |  | £ |
|  |  |  | £ |
|  |  |  | £ |
|  |  |  | £ |
|  |  |  | £ |
|  |  |  | £ |
|  |  |  | £ |
|  |  |  | £ |
| **Total** |  |  | £ |

1. **Summary of the Recovery Plan**

|  |  |
| --- | --- |
|  | Yes / No |
| Does the period of deficit exceed 1 year? |  |
| If the deficit period is more than one year, does the recovery plan shows a recovery within 3 years? |  |
| Is this the first year of your licensed deficit agreement? |  |
| Detailed Deficit recovery plan completed & attached? |  |
| Does the school require a cash advance? |  |
| Advance request completed & attached? |  |

1. **Review:**

The Head Teacher and Governing Body should review progress against the deficit recovery as an integral part of their financial management of the school and reporting regularly to the Barnet Schools Finance Team on progress. Any matters of concern should be referred promptly to the Barnet Schools Finance Team for consideration.

Notwithstanding this, if the school remains in deficit, delivery of the Deficit Recovery Plan shall be discussed and reviewed at least annually but the Governing Body of the school and revised plan submitted the Barnet Schools Finance Team.

1. **Termination:**

If, in the opinion of the Executive Director Childrens and Families Services, there has been insufficient progress in implementing the agreed deficit recovery plan or the school is experiencing further financial difficulties then the Agreement may be terminated.

On termination the Executive Director Childrens and Families Services shall take any further steps to consider necessary having regard to the Scheme for Financial Schools and other courses of action that may be available. The Executive Director Childrens and Families, Barnet may consider the withdrawal of financial delegation.

1. **Agreement:**

We understand that the school will:

* Implement the action detailed in section 4 in the Application for Licensed Deficit, within the timescales agreed.
* Not commit the school to any further expenditure other than that included in the recovery plan submitted, without reducing expenditure in other areas.
* Report any material error or variance to this Application for Licenced Deficit to the Barnet Schools Finance Team as soon as it becomes apparent, including all relevant documentation.
* Provide monthly budget monitoring reports to the Barnet Schools Finance Team via Schools.Accountancy@barnet.gov.uk by the end of the following month, which clearly indicated a yearly outturn forecast.
* Provide any other information as and when required by the Local Authority.

Value of Licensed Deficit sought: £ \_\_\_\_\_\_\_\_\_\_\_\_\_\_

Head Teacher

Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Chair of Governors

Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

|  |  |
| --- | --- |
| **FOR LOCAL AUTHORITY USE ONLY**Date form received: |  |
| Head of Finance Comments: |  |
| Licensed Deficit approved for 2023/24: | £ |
| Deficit recovery period: | Years |
| Approved by Chief Financial Officer (S151): |  |
| Signed:Date: |  |
| Comments: |  |
| Approved by Executive Director Childrens and Families Services: |  |
| Signed:Date: |  |
| Comments: |  |
| School notified: | Date |
| Licensed Deficit Agreement received: | Date  |

**Excerpts from Barnet Scheme for Financing Schools:**

### **4.5. PLANNING FOR DEFICIT BUDGETS**

4.5.1. The Scheme does not allow GBs to plan and approve a deficit budget for their school in any financial year. Exceptionally, deficit budgets may be only allowed and approved by the LA in certain defined circumstances (see section 4.9).

4.5.2. In such cases, the GB shall be required to formally notify in writing, the Executive Director Childrens and Families Services, and the Chief Finance Officer of the plan to recover such a deficit in the new financial year by adjustment to that year’s budget.

4.5.3. Where a school is in financial difficulty, the LA will determine what financial monitoring system is to be used by the school.

### **4.6. CHARGING OF INTEREST ON DEFICIT BALANCES**

4.6.1. The LA will not charge interest on deficit balances.

### **4.7. WRITING OFF DEFICITS**

### 4.7.1. The LA cannot write off the deficit balance of any school.

### **4.9. LICENSED DEFICITS**

4.9.1. Schools may be exceptionally allowed by the LA, to plan for a deficit budget, where planned expenditure exceeds anticipated income including surpluses brought forward. This dispensation is termed a licensed deficit.

4.9.2. Where a school is experiencing demonstrable cash flow difficulties, the head teacher may apply to the LA to have one month of budget share in advance, while applying for a licensed deficit.

4.9.3. Funding for licensed deficit arrangements are from the collective surplus of school balances held by the LA on behalf of schools. The maximum proportion of the collective balances cannot exceed 40% where used to fund such arrangements. This proportion includes loan agreements between the schools and the LA to fund capital expenditure (see section 4.10).

4.9.4. Balances held by schools in external bank accounts remain the property of the LA (if initially made available by the LA) and therefore may legally be considered by the LA in assessing the total level of licensed deficit support to give to schools. The Secretary of State expects schools to be asked on their views on allowing the LA to take these bank accounts into such calculation.

4.9.5. The minimum size of an agreed deficit will be £10,000 and the maximum will be 10% of a secondary or 20% of a primary or special school’s budget in the year of application;

4.9.6. In exceptional cases, schools may be allowed to anticipate their budget share over a period of more than one year. In this case, the LA will not recover the full amount of the anticipated deficit as a first charge on the following year’s budget, but will recover the full amounts over a set period agreed with the school. There will be an absolute limit of three years on any continuous period during which the school’s budget can remain in deficit, before returning to a balanced position.

4.9.7. Schools are required to provide an agreed recovery plan. This should be signed off by the LA and the GB. The GB and the Headteacher are to be responsible and accountable for the delivery of the plan. Schools are required to submit tracking evidence of recovery plans to the LA at frequent specified intervals. There are additional conditions to submit monthly budget monitoring reports with cash flow forecasts during the period of recovery.

4.9.8. However, should a school fail to honour its agreement with the LA in any way (for example, by increasing its end of year deficit above the level agreed), then, at the LAs discretion, the full amount outstanding will be recovered as a first charge from the school’s allocation for the following financial year.

4.9.9. Provided the school presents evidence of proper planning, the purposes for which deficits may be agreed are as follows:

* Where there is a significant unavoidable budget reduction, it is agreed by the LA that a corresponding reduction in expenditure is unachievable within the same financial year.
* Where there has been unavoidable expenditure during the year and it is agreed by the LA that it cannot be reasonably met from the school’s resources within the same financial year. There must be evidence that the expenditure was unavoidable.

4.9.10. Deficit arrangements may only be agreed based on the anticipated budget share being insufficient to sustain the projected annual expenditure of the school.

4.9.11. Deficit arrangements will need to be agreed by both the Executive Director, Children and Families Services, and the Chief Finance Officer.

4.9.12. Under a Licensed Deficit Scheme, the only effect on budget and outturn statements is that in the latter, the balance goes into deficit because expenditure is at a higher level than the budget share. This reduces to zero by the end of the recovery period because the school has constrained its expenditure to restore a balanced outturn position. There is no payment to the school by the LA. In circumstances where a school requires a budget share advance in order not to be overdrawn at their bank, this should be treated as a cash advance and not a loan. This will have no effect on the school’s budget and outturn statements.