2.7 Deficit Budget Procedures

Introduction
This section of the Guide sets out what is expected of schools to meet the requirements of the Scheme for Financing Schools in respect of schools which are identified as having a potential revenue deficit during the course of the financial year or have a deficit revenue budget at the year-end. The requirements of the Scheme are set out in section 4, the main points of which are:

- Schools are required to carry forward deficit balances
- Schools are not allowed to plan for a deficit budget
- In certain circumstances schools are required to submit a recovery plan

Scrutiny of School Budgets
LA finance staff aim to identify schools that are at risk of having a potential deficit and use various factors in determining such schools.

Upon receipt of the annual Schools Budget Plan, LA finance staff carry out a range of checks on the schools planned income and expenditure which are designed to identify any obvious errors or omissions and to ensure the budget is reasonable and achievable. The checks result in:

- Acceptance of the budget or
- Clarification of queries and/or amendment of the budget

If a school is unable to substantiate or explain elements of its budget that have been queried then the LA has right to reject the school's budget plan if it feels it is unreasonable or unachievable.

All schools are expected to monitor their actual income and expenditure against budgeted. Through regular budget monitoring and control schools are expected to identify at an early stage any potential variance between actual and budgeted expenditure.

However, for schools that are identified as having a potential deficit, the school's own budget monitoring is supplemented by monitoring by LA finance staff. The reasons for this include:

- Authority for spending decisions has been delegated to the school's Governing Body but it is the LA, via the Chief Finance Officer, where statutory responsibility lies for all the financial affairs of the Council (including schools)
- A budget deficit could impact on the school's future educational standards of the school.

Depending on the outcome of this scrutiny, LA finance staff may write to the school to express concerns about the school's financial position, recommend action or to request further information. Such a letter is, in the first instance, to the school's Headteacher and is clear about the action and response required from the school.

If the requested response / action is not forthcoming then LA finance staff may write to the chair of the school's Governing Body and / or inform the Chief Education Officer of concerns that the educational standards of the school are in danger of being impaired by the school's financial management.

It is important that action is taken to prevent a significant deficit, which will hinder the school's development and result in the procedures set out below.

Scheme Requirements – Schools which have a deficit at the year-end
The Scheme requirements are as follows:
"Schools with a revenue deficit in excess of 2% of their budget share at the end of any one year, or a revenue deficit in excess of 1% of their budget shares in two successive years, are required to submit a recovery plan with their balanced budget plan. The recovery plan to be agreed with the Chief Finance Officer and the Chief Education Officer must include details of

1. savings, efficiency gains and/or increases in income with implementation dates
2. a breakdown of income budgets with sources of income and timetable for the collection of income
3. the school's management procedures for authorising expenditure and its financial monitoring and control system"

Scheme Requirements – Licensed Deficits
"Schools may not generally plan for a deficit budget. In exceptional circumstances, a deficit revenue budget may be permitted, which must have the written approval of the Chief Education Officer and Chief Finance Officer and conform to the following terms and conditions:

1. the maximum period of deficit budgets to be 3 years; although in exceptional circumstances this may be extended to 5 years;
2. the purpose of the agreed deficit must be to avert or reduce the need for redundancies or other budgetary saving in the immediate financial year that are not required to produce a balanced budget over a longer period;
3. 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. a recovery plan being agreed with the Chief Finance Officer and the Chief Education Officer, which must include details of:
    - savings, efficiency gains and/or increases in income with implementation dates,
    - a breakdown of income budgets with sources of income and timetable for the collection of income,
    - the school's management procedures for authorising expenditure and its financial monitoring and control system

5. the Chief Education officer being satisfied that the school's staffing establishment is appropriate to the size and nature of the school and that the agreed deficit and recovery plan will enable the school to maintain standards;

6. the Chief Finance Officer being satisfied as to the soundness of the school's financial management and its ability to meet the reduction of deficit schedule;
7. the total amount of deficits outstanding not exceeding 100% of the total schools balances at the beginning of the financial year.

School Recovery Plan

The school will be required to submit:

- an annual School Budget Plan setting out the planned income and expenditure (for revenue and capital)
- a 3 Year Budget Plan (numerical spreadsheet) which should incorporate the savings, efficiency gains and increases in income over the years
- a descriptive Recovery Plan giving details of the savings, efficiency gains and increases in income over the years
- the school's staffing establishment
- the school's financial management arrangements

The proposals for "savings, efficiency gains and/or increases in income" must be reasonably certain and within the control of the Governing Body/Headteacher and not subject to external events or the approval of an external body which has given no indication of a likely decision. The plan must include sufficient detail for LA officers to understand the proposals and be confident that they will be realised in the financial amounts stated, supporting documents/statements will assist the explanation. Examples might be:

- replacement of highly paid teachers by teachers at a lower scale point must be supported by details of staff turnover and/or age profile of existing staff.
- Savings from a proposed new cleaning contract would give cost and specification of existing contract compared to reduced specification/ estimated cost
- Additional income from lettings would need to be supported by a list of current users and payments, known future users and payments and/or a realistic plan to market the use of facilities/sports pitches to potential users.
- Additional income from increased pupil numbers should be supported by trends data, housing development within catchment area, etc.

If a school requires significant savings to breakeven it is likely staff costs will have to be reduced because of the large part of school resources spent on employees. If this is the case schools should ensure that Personnel advice is obtained on the correct procedures to avoid legal challenges from individuals or trade unions. Schools should also be aware that lengthy procedures can decrease the amount of savings in a financial year. The LA may bear the cost of redundancies necessitated by the schools financial position subject to LA approval in advance.

Income budgets need to be analysed as to sources of income to check whether the sources will produce the same or different levels from previous years. The value and the profile of previous year's receipts would be useful. The planned timetable for receipt of income is important to monitor likely total value.

Schools with licensed deficits and recovery plans: required standards for authorising expenditure and financial monitoring and control

Whilst it is important that the Governing Body and the Headteacher have a clear understanding of how the deficit arose, the school's management procedures for authorising expenditure and its financial monitoring and control system are critical to ensure that financial plans are implemented and the problem of another deficit is avoided. The school will expected to demonstrate the following standards are adhered to.

Budget Preparation

- The budget must be prepared by the Head assisted appropriately and include all income and expenditure that might reasonably be expected to arise in the relevant year. The budget and recovery plan must be approved by the full governing body.

Budget Monitoring

- Head/senior management team/Governor representatives - monthly budget monitoring reports should be produced by the school's finance officer for all categories of income & expenditure showing expenditure to date and sums committed but not yet paid and a forecast of the year end position. These must be considered monthly in term time and action taken on all budgets that may overspend or virements recommended to governors where such action is beyond the powers delegated to the Head.

- Governors – the monthly reports must be considered by the Governing Body no less than termly.

- Budget holders - departmental or other devolved budget holders must receive monthly budget monitoring reports from the school's finance officer showing expenditure to date and committed against their budgets.

- Payroll – payroll transaction reports must be checked monthly by the Head or other nominated officer against the school's documentation on staff's pay and/or the individual's budget estimates to detect errors. Payroll transaction reports should be annotated, signed and dated accordingly.

Budgetary Control

- Governance - in relation to financial decisions the roles and responsibilities of the governing body, finance committee (and other committees if appropriate), headteacher and other staff must be set out in writing, including financial limits of authorising expenditure and approving budget virements.

- Expenditure - each category of expenditure must have a named school employee responsible for that budget head and for authorising expenditure (with a deputy authorised to act in their absence) [the method of authorisation must be in writing and can take various forms e.g. authorising a purchase order, appointing staff and authorising salary payments, overtime etc.]

- Devolved budgets – where a budget head is usefully divided amongst more than one budget holder, the above paragraph must be followed but devolved budgets may be allocated with delegated authority for spending a specific part (amount) of the budget.

- Income budgets - each category of income must have a named school employee responsible for overseeing that budget head.

- Trading activities - where a school activity is running on a trading basis, e.g. catering, accounts must be prepared containing all reasonably identifiable income & expenditure on a monthly basis. A named officer must be accountable for the trading activity and receive the reports. A report on the trading position should be included in the quarterly/termly reports to governors.

Under the Scheme for Financing Schools (1.6), schools are required to prepare their own Financial Management Policy and Procedures, which the Governing Body must approve and ensure is implemented, this document should include the above and submission of the document may meet this requirement.

Timetable
Where a school has a significant end of year deficit, it should have had this drawn to their attention by the LA and be taking action to curtail the extent of this. In these circumstances the school will be expected to submit its recovery plan based on an estimated deficit with the balanced annual School Budget Plan by 1 May. When the actual deficit is known, by the end of May, if there is a significant increase the school will be required to submit a revised recovery plan and annual school budget before the end of the summer term.

Where a school has a brought forward surplus but plans a deficit budget for the new financial year, the full Governing Body must consider and approve a draft deficit budget and recovery plan by the 1 May and report it to the Chief Finance Officer within five working days to facilitate consideration and agreement by the LA of the Licensed Deficit.

Monitoring Implementation
Clearly a school following monitoring procedures should manage to implement its plan and achieve a balanced budget, however should the school identify a difficulty with any aspect of the plan it should immediately consider alternative ways of making good the deficiency and implement the appropriate action. It should notify the LA of the item not proceeded with, the reason why and the alternative it is proceeding with.

If after considering a range of options the Governing Body feels it is unable to meet it recovery plan, it must notify the LA as soon as it has reached this conclusion, explaining the difficulty and the options considered and why it was unable to proceed with these. The LA may review the school’s budget and consider what options the school could pursue. It may issue a direction to the Governing Body.

The LA will monitor the school's budget from the monthly financial returns and request specific information as necessary to evaluate the school's financial position.

Suspension of delegated powers
As set out in the Scheme, failure to meet the requirements set out above or implement an agreed recovery plan may lead to specific directions being made to the Governing Body by the LA of action required to achieve a balanced budget.

Failure to implement specific directions may lead to a formal notice being made to the Governing Body that the LA intends to suspend delegation under Section 51 and Schedule 15 of the Schools Standards & Framework Act 1998.

The Code of Practice on Local Authority – School Relations advises under Annex 1 paragraph 36 that LEAs have the power to suspend the governing body's right to decide how to spend its delegated budget, in cases where they judge that the governors:

a. have been guilty of a substantial or persistent failure to comply with any requirements under the Authority' scheme for financing of its schools; or
b. are not managing the delegated budget satisfactorily. Examples of this might include but are not limited to: where there have been breaches of probity or a school is operating with a substantial deficit, which the governing body has no satisfactory plans to contain and eliminate.