

5 July 2018

**Item 11****TITLE OF REPORT: Applying to Set a Deficit Budget**

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**Purpose of the Report**

To provide Schools Forum with the current procedure in place for schools who need to set a deficit budget.

**Background**

A request was made during May's Schools Forum meeting for the Forum to receive a copy of procedure for schools who need to set a deficit budget.

The copy of the current procedure is attached in appendix 1, and was last updated in January 2018 following Internal Audit recommendations.

**Proposal**

That Schools Forum notes the content of the procedure.

**Recommendation**

It is recommended that Schools Forum notes the content of the attached procedure.

**For the following reason(s):**

- To inform Schools Forum on the current Deficit Budget process.
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# **APPLYING TO SET A DEFICIT BUDGET**

**January 2018**

## **APPLYING TO SET A DEFICIT BUDGET**

### Introduction

The Gateshead Scheme for Financing Schools (GSFFS) sets out the financial relationship between the authority and the maintained schools which it funds, and puts in place requirements relating to financial management and associated issues which are binding on both the authority and on schools.

Section 4.5 of the GSFFS prohibits schools from setting a deficit budget, except in extenuating circumstances and with the prior permission of the Council.

A deficit budget is defined when a schools planned expenditure is greater than its planned income inclusive of all reserve funding in any financial year.

A hyperlink to the GSFFS is set out below:

<http://www.gateshead.gov.uk/DocumentLibrary/Education/Strategies/Scheme-for-financing-schools.pdf>

In order to ensure that all schools comply with this requirement the GSFFS requires:

- Schools to return a governor approved annual budget to the Council by the 31st May each year.
- Schools unable to set a balanced budget must make an application to the Council to apply for a deficit budget.

Schools should only apply for a deficit budget where they cannot set a balanced budget (i.e. where planned expenditure is equal to or less than planned income inclusive of all reserve funds) without seriously impacting on the educational provision at the school.

A deficit budget in excess of either £10,000 or 2% of the schools/PRUs annual budget (including expected additional income) must be approved by the Strategic Director, Corporate Resources and the Director of Learning and Schools.

A deficit budget below either £10,000 or 2% of the schools/PRUs annual budget (including expected additional income) can be approved by the Business Partner (Schools).

The application for a deficit budget allows the Council to provide the support needed to prepare a deficit recovery plan that sets out the action the school will take to achieve a sustainable balanced budget position over an agreed period of time. The Council has no power to write off the deficit balance of any school.

A deficit recovery plan will usually cover a two year period however in exceptional circumstances where a school cannot deliver a recovery plan over two years without seriously affecting its educational provision, a deficit recovery plan can be extended to three years.

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Corporate Finance, EducationGateshead and other Council Officers will work with any school entering into a deficit budget to ensure that the school have taken all reasonable steps to formulate an achievable deficit recovery plan and to ensure that the school is no longer in a deficit budget position at the end of agreed deficit recovery plan period.

A deficit budget will only be approved in circumstances, where the school cannot balance its budget in year without a significant impact on the provision of education.

If schools persistently fail to implement the actions agreed under their deficit recovery plan and fail in reducing their deficit, the council will be challenge and ultimately may lead to further intervention by the Council.

The following range of support is available to schools applying to set a deficit budget:

- Recovery planning training, and possible peer mentoring from Business Partner (Schools) and EducationGateshead
- Advice from Human Resources and EducationGateshead
- Financial management advice – strategic financial planning, financial systems and controls, multiyear budget projections from Financial Advice & Support team

## Applying to Set a Deficit Budget

### **Step 1: Submit Application for Deficit Budget**

If a school is in a deficit budget position they must submit an application for a deficit budget and a deficit recovery plan by the 31<sup>st</sup> of May.

The Deficit Recovery plan will demonstrate how the school intends to balance their budget over the agreed period of time. This may be through a combination of income generation and/or a reduction in expenditure.

The recovery plan must be supported by a multi-year budget showing the cumulative effects of the proposed action.

Appendix 1 shows an example deficit budget application.

Where schools are unable to complete a deficit recovery plan, the Council will determine the appropriate type support required by the school to enable it to complete a plan based on:

- Significance of the deficit both in year and cumulative
- Length of time the school has been in deficit
- Level of financial competency based on audit and compliance checks
- Governor involvement
- Benchmarking data
- Contextual data
- Curriculum Audit

Financial advice, information and training will be available to support schools in recovering from a deficit financial position by Council officers.

- Telephone support providing advice and guidance
- Recovery planning training – these sessions will be aimed at those schools that with some additional financial training and advice are able to effectively control and manage their future financial position. Schools may find that by working with colleagues in other schools were applicable, (peer mentoring), they are able to share ideas and best practice which result in reducing the financial deficit of the school.
- Consultancy Support – this support will be provided to those schools where the magnitude of the deficit makes it difficult for them to resolve the position without professional advice and some intervention by the Council.
- Contingency for schools in significant financial difficulty - schools that meet certain criteria may receive additional funds from the contingency fund; decisions on allocation of the contingency are made by the Council if in line with the Scheme for Financing Schools and the Financial Difficulty Funding Criteria) and or a sub group of the Schools Forum. All allocations will be reported to the Schools Forum.

### **Step 2: Deficit Budget Application Checked and Validated**

Following the submission of the deficit budget application and a deficit recovery plan a number of validation checks will be completed by the Council to ensure that the plan is reasonable.

These checks include:

- Comparing the current year's income and expenditure budgets with previous years' actual income and expenditure to identify any significant differences and verify that the budgets are reasonable and accurate.
- Checking that the correct balances have been accounted for in the current year and all funding delegated by the Council has been taken into account.
- Ensuring actions included in the recovery plan are realistic and that by implementing them the required level of savings can be achieved.
- Any areas that are unclear or considered unachievable will be queried with the school/PRU and clarification sought.

Where the plans are deemed to be suitable, they will be passed to the Strategic Director, Corporate Resources and the Director of Learning and Schools for approval (where the deficit being recovered is in excess of either £10,000 or 2% of the schools/PRUs annual budget or if they are below this limit to Business Partner (Schools))

Where the plans are not deemed to be suitable the school will be requested to review their budget and recovery plan and submit revised versions for review and approval.

### **Step 3: Deficit Application and Deficit Recovery Plan Approved**

Written confirmation from the Council will be sent to the school and its Chair of Governors once the deficit recovery plan has been approved. If accepted the portfolio holder for Children and Young People will be briefed.

### **Step 4: School Deficit Recovery Monitoring**

The school must have robust internal budget monitoring arrangements in place to ensure that the deficit recovery plan is being achieved. The progress of the deficit recovery plan should be communicated to the governors and the Business Partner (Schools) on a regular basis.

Where a school's financial position worsens they will be referred to Group Accountant (Schools), Business Partner (Schools) and Education Gateway for more intensive support.

### **Additional Council Monitoring and Intervention**

Further Council monitoring and intervention will be required where:

- The school is persistently in breach of the Scheme for Financing Schools
- The school will not set a balanced budget
- The school will not engage in the deficit budget process
- The deficit is worsening and no action is being taken by the school
- There is evidence of financial mismanagement by the school

Intervention is proposed to escalate at three levels.

1. Financial Review Meeting
2. Notice of Concern
3. Suspension of delegated financial powers

## **1 - Financial Review Meeting**

Schools that do not return a balanced budget or apply for a deficit budget may be required to attend a Financial Review Meeting with the Council.

A similar requirement will apply to schools with a worsening deficit and also for those schools who persistently breach the Scheme for Financing Schools.

The review meeting will include Senior Officers from Corporate Resources, Educationgateshead, Human Resources Advice, the Headteacher and Chair of Governors or representative Governor.

The meeting will:

- Review the financial position of the school
- Seek an explanation from the school about the action being taken to safeguard the school's financial position
- Assess what support and challenge the school may require
- Agree an updated action plan
- Account for interest to be charged on the deficit to recognise the seriousness of the situation for the school.

## **2 - Notice of Concern**

A school that continues to refuse to take the necessary action will be required to attend a meeting with senior officers. Following this meeting they will be given a formal notice of the action the Council recommends they should take to bring the budget back in to balance including the possible charging of interest on the deficit. The school will be given a month to respond.

## **3 - Suspension of Delegation**

Where a school still refuses to take the action identified by the Council the ultimate sanction will be to suspend delegation following a meeting with the Director of Learning and Children and the Strategic Director, Corporate Resources. Under the suspension of delegation the Council would take control of the budget and take the necessary action before returning control to the Governing Body. During the suspension school staff would be responsible to the Council for the day-to-day financial administration in the school.

## **Step 5: Reporting and Review**

The Council will consider the financial position of schools with a deficit budget each term. Any significant detrimental variances from the deficit recovery plan will be raised with the school who will be asked to provide an explanation and details of the management action they are taking.

A summary report will be provided to the Schools Forum on an annual basis. The Council will report to portfolio holders where it is felt that intervention is required.

## Appendix 1

### Gateshead Metropolitan Borough Council

#### Application for Deficit Budget

Please complete the following information:

1. Name of school: ABC School
2. Value of deficit: £100k
3. Deficit recovery period: 2 years
4. Reasons for deficit: Falling pupil numbers and resultant funding over the past 2 years has resulted in current staffing structure being too high and financial unsustainable.
5. Summary of actions taken to eliminate deficit and financial impact of each action (savings made or additional income generated to reduce deficit):  
  
Staff Restructure – Saving £100k – see 3 year plan for details
6. Date of Governing Body resolution requesting the deficit: 19/01/18

We understand that we will:

- Consult with Corporate Resources prior to advertising any new posts.
- Not commit the school to any further expenditure other than that included in our recovery plan without Corporate Resources approval.
- Implement the savings within the timescale agreed.
- Notify Corporate Resources of any deviation from the recovery plan (once completed) for example long term sickness, disputes.
- Provide any other information as and when required by the Council
- Be liable for interest charges on the deficit
- Arrange for our Chair of Governors/ Management Committee to attend a Council Deficit Recovery training sessions

Name:

Name:

Signed:

Signed:

Position: Chair of Governors

Position: Head Teacher

Date:

Date:

Please also provide the following information:

1. Minutes of Governing Body meeting where deficit budget request was agreed to be made
2. A three year budget plan forecast demonstrating the changes in income and expenditure anticipated by the school together with the financial impact of the management action to clear the deficit.
3. An up to date budget forecast position