

Guidance for Maintained Schools Facing Financial Challenges

Contacts	
<p>Schools Facing Financial Challenges (SFFC) Support Service (Learning and Systems Leadership Directorate)</p> <p>Business Development Consultant: Lindsay Jackson</p> <p>lindsay.jackson@walthamforest.gov.uk</p> <p>020 8496 6337</p>	<p>Education Finance Team (EFT) (Finance and Governance Directorate)</p> <p>Head of Education Finance: Raina Turner</p> <p>educationfinance@walthamforest.gov.uk</p> <p>020 8496 6805</p>

CONTENTS

1. Introduction
2. Schools Facing Financial Challenges
3. Deficit Budgets
4. Licenced Deficit Procedure:
 - A) On identifying a potential deficit budget
 - B) Notification and Supporting Documentation
 - C) Initial Meeting
 - D) Submitting a Deficit Recovery Plan
 - E) LA Approval
5. Cash Advances
6. Loan Scheme
7. Monitoring a Budget and Recovery Plan
8. Notice of Concern
9. Suspension of Financial Delegation

Appendix 1: Preparation prior to identifying need for Licenced Deficit

Appendix 2: Licenced Deficit Request Form

1. INTRODUCTION

This guidance is designed for schools facing financial challenges and provides a procedure that must be followed if a school considers that a balanced budget cannot be achieved and that a Licenced Deficit budget is needed.

2. SCHOOLS FACING FINANCIAL CHALLENGES (SFFC)

All schools are facing financial challenges, but when schools meet one or more of the following criteria, the SFFC Support Service will request a meeting with the Chair of Governors, Headteacher and School Business Manager in order to agree management actions to mitigate risks to the school:

- Reserves below the recommended thresholds (Primary schools 3% of their annual income; Secondary and All-through schools 2% of their annual income)
- There is a trend of drawing down reserves to support what would otherwise be deficit budgets
- Repeat requests for cash advances
- Extending loan terms
- Not having three-year budget plans
- The three-year plan indicates a risk of entering a deficit

3. DEFICIT BUDGETS

Waltham Forest's Model School Financial Regulations (page 11) state that:

"A deficit budget is one where the total income for the new financial year and the brought forward reserves are insufficient to meet planned expenditure for that year."

The Regulations state that schools cannot plan for a deficit budget. This means that if a potential deficit is identified at any stage of the budget planning or monitoring process for any year, the school is responsible for ensuring that appropriate management action is identified and undertaken to achieve a balanced budget.

It is essential that the Headteacher ensures that the Local Authority (LA) and Governors are kept informed from the point a potential deficit is identified through to its resolution.

The LA may intervene if a school refuses to set a balanced budget by issuing a notice of concern and ultimately by suspending delegation.

For advice on staff terms and conditions the school's HR provider should be contacted.

If at any point you need further clarification you should contact the Education Finance Team (EFT) or the SFFC Support Service.

4. LICENCED DEFICIT PROCEDURE

A) On identifying a potential deficit budget

If a potential deficit becomes apparent whilst the school is setting its annual budget, or becomes apparent mid-year, the following steps should be followed:

- Check all the figures and the assumptions that have been made;
- Identify the cause of the forecasted deficit, for example, a falling roll;
- Undertake a benchmarking exercise to assess the schools spending against others similar-sized schools;
- Discuss and draw up a range of Management Actions to mitigate the financial risk; and
- Advise Governors and the LA.

These management actions should be incorporated into budget modelling with a view to being able to produce a sustainable, balanced budget.

If the deficit is unavoidable the school must formally notify Governors that the LA is to be approached to discuss a Licenced Deficit. This notification must be noted in the Governing Body meeting minutes.

B) Notification and Supporting Documentation

Following Step A, contact the EFT by e-mail, outlining the deficit position. The EFT will notify the SFFC Support Service.

In the case of a current year deficit that was not previously anticipated, a full explanation will be required as to how this has arisen, together with evidence of internal monitoring and reports to Governors.

Schools will be required to provide the following information:

- A completed licenced deficit request form;
- A draft Three Year Budget and Recovery Plan;
- Copies of Governing Body/Committee minutes of meeting where deficit was discussed;
- Budgeted School Development Plan;
- List of creditors and debtors; and
- Cash-flow forecast and previous month's bank statement

Additional information may be requested according to the time of year or the precise nature of the school's difficulty. The school may be contacted with specific questions related to the information you have submitted.

C) Review Meeting

On receipt of the licenced deficit request form and the other information listed above, the Headteacher and Chair of Governors will be contacted by the EFT to organise a review meeting, alongside the SFFC Support Service to discuss the documents submitted.

The meeting, which should include the school business manager, will discuss what actions to manage the deficit have been taken and are planned by the school and any further risks to the schools budget. It will also discuss whether a SFFC action group should be established to support the school.

Any decisions agreed at the meeting will be minuted, including whether the application for a licenced deficit remains the best way forward.

If agreement cannot be reached at the first review meeting or further information, support or guidance is needed, further meetings will be held until the school is in a position to submit an acceptable Budget and Recovery Plan.

These further meetings are likely to include EFT working with the school business manager to discuss the school's financial information in detail and will inform the work plan of any SFFC action group.

D) Submitting a Deficit Recovery Plan

Following the review meeting the school may be required to make agreed adjustments to the draft Budget and Recovery Plan and resubmit the plan to the EFT before a licenced deficit is agreed.

The final Budget and Recovery Plan must: show that the school will return to a surplus position within three years; be approved by the Governing Body; and signed by the Chair of Governors. This may require the school to call an extraordinary meeting of the Governing Body. In cases of the most acute financial challenges, a four or five year recovery plan may be permitted.

The signed Budget and Recovery Plan must be submitted by email to the EFT in line with the date agreed at the review meeting.

If the Budget and Recovery Plan does not show that the school will return to a surplus position within a maximum of five years it will be rejected and the LA will ask the Governing Body to review its position.

E) Local Authority Approval

The Budget and Recovery Plan needs to be approved formally by the Director of Children's Services (the Deputy Chief Executive for Families and Homes) and the Chief Finance Officer (the Strategic Director for Finance and Governance) on a joint recommendation by the SFFC Support Service and the EFT.

Once approved a confirmation letter and copy of the authorised application will be sent to the school by the EFT. The approval will detail the maximum limit of any deficit in any year ("the licenced deficit") and any other conditions including details of the LA's monitoring requirements, with which

the school must comply. Confirmation of approval will normally be issued within two weeks of final submission.

Please note: A licenced deficit is not approved until this confirmation letter is received by the school.

5. IN-YEAR CASH ADVANCES

If schools have short term cash flow issues (e.g. in-year) the LA may agree to provide a cash advance which will be recouped from budget shares in the current financial year.

The school will need to write a letter to the EFT detailing the size of advance required and the proposed repayment period. This must be signed by the Headteacher and the Chair of Governors.

Once agreed, the advance is usually paid out within the next school budget share.

6. LOAN SCHEME

For schools with agreed licenced deficits or where longer term cash flow issues may arise, a loan may be granted. The loan may be given to the school in one of two ways:

- Cash lump sum; or
- Cash profiled over the months of the year.

The school will need to write a letter to the EFT specifying the loan sum, desired payment method and proposed repayment plan.

Repayment of the loan will be over an agreed period of time (maximum of three years). Annual repayments will be recovered as:

- Cash lump sum; or
- Deduction profiled over the months of the year.

Once approved, it will be paid to the school as per the agreed terms.

Note: Schools should treat the outstanding amount of this loan as a liability at year end.

Note: Loans should be re-paid to the LA before converting to an academy.

Note: Schools may need a deficit plan but not need any cash e.g., creditors set up at the financial year-end may take a school into a deficit in budget terms but the school may still have sufficient cash in the bank.

7. MONITORING A BUDGET AND RECOVERY PLAN

During the period covered by the Budget and Recovery Plan the school will not be permitted to make any material changes that are not already included in the plan, without prior agreement of the SFFC.

In the event that a school considers that increasing staff levels is a necessity, they must contact the SFFC Support Service before any action is taken.

The school's progress against the Budget and Recovery Plan will be reviewed regularly.

8. NOTICE OF CONCERN

Failure to keep within the terms of this guidance will put the school at risk of being issued with a formal Notice of Concern.

As outlined in the Model Financial Regulations "The Local authority may issue a notice of concern to the Governing Body of any school it maintains where, in the opinion of the Director of Families and Housing:

4.2.1) the school has failed to comply with any provisions of the scheme; or

4.2.2) where actions need to be taken to safeguard the financial position of the Local Authority or the school."

Such a notice will set out reasons and evidence for it being made and may place on the Governing Body restrictions, limitations or prohibitions in relation to the management of funds delegated to it. For details of what these may include please see the Model Financial Regulations.

9. SUSPENSION OF FINANCIAL DELEGATION

Withdrawal of delegation will not normally be initiated as the LA expects to work in partnership with Governors to address concerns before such a stage is considered necessary. The LA will suspend delegation if a school consistently fails to meet the LA's stated requirements and/or continues to exceed agreed deficit recovery plan limits.

For further details on the suspension of financial delegation, please see the Model Financial Regulations.

Appendix 1: Preparation prior to identifying need for Licenced Deficit

If a potential deficit becomes apparent whilst the school is setting its annual budget, or becomes apparent mid-year, the following steps should be followed until the deficit is removed or LA support is requested:

Steps	Completed
Check all the figures and the assumptions that have been made to compile budget	
Identify the cause of the forecasted deficit, for example, a falling roll	
Undertake a benchmarking exercise to assess the schools spending against others similar-sized schools (Benchmarking tools are available at https://www.gov.uk/guidance/schools-financial-efficiency-financial-benchmarking)	
Discuss and draw up a range of Management Actions	
Incorporate management actions into budget modelling to produce a sustainable balanced budget	
Complete licenced deficit request form	

Appendix 2: Licenced Deficit Request Form

Please forward completed four page application and supporting documents to:
educationfinance@walthamforest.gov.uk

Please type your answer in the box following each question or name the relevant document you are attaching.

Section 1: School details

School	
Chair of Governors	
Headteacher	
School Business Manager	

Section 2: Financial Overview

2.1 Revenue balances

Closing Revenue balance 2017/18	£
Planned cumulative revenue closing balance 2018/19	£

2.2 Contributing factors

Please provide a brief financial summary of the past three years and the factors that have contributed to your school setting a deficit budget?

For example: has there been one significant issue that has led to the current financial situation? Has the school been carrying an in-year deficit for a number of years? Has the school had a falling pupil roll?

2.3 Management actions

What management actions has the school taken so far to avoid setting a deficit budget?

For example: Staffing restructures; Renegotiation of contracts; Increased lettings; exploration of other income opportunities

2.4 Benchmarking

How does the school compare with similar schools in regards to its financial performance?

Please provide details.

Benchmarking tools are available at <https://www.gov.uk/guidance/schools-financial-efficiency-financial-benchmarking>)

	Your school	Name of comparison school	Name of comparison school(s)
Reason for choosing school to benchmark against	NA	<i>similar PAN size? PFI school?</i>	<i>similar PAN size? PFI school?</i>
Total expenditure per pupil			
Percentage of total school budget share spent on staffing			
Percentage of total school budget share spent on Premises			
Percentage of total school budget share spent on Supplies and Services			
Other			

Section 3: Recovery Plan

3.1 Numbers of years until balanced budget

How many years will it take your school to achieve a balanced budget position

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3.2 Management Actions

What management actions will you take to ensure that the budget is balanced within the agreed time period? Please be prudent when forecasting, provide notes and explanations and add any additional rows as required.

Management Action	Year 1	Expected saving £	Year 2	Expected saving £	Year 3	Expected saving £
<i>e.g. Reduce In-Year PAN for years 1 and 2</i>	X					
<i>e.g. Reduce Teaching staff and/or SLT in line with new PAN numbers</i>			X			
<i>e.g. Review and negotiate savings of 2.5% on all contracts</i>	X		X		X	
Expected savings	Year 1	£	Year 2	£	Year 3	£
Forecasted cumulative revenue closing balance		£		£		£

3.3 Risks:

What are the risks which may jeopardise achieving this planned recovery, how have they been identified these risks and what can be done to mitigate them?

Risk	Identified through	Mitigation
<i>e.g. Falling number of pupils on roll</i>	<i>Falling numbers of children joining nursery / surrounding school information</i>	<i>Spoken to pupil place planning re possible in-year variations to PAN</i>
<i>e.g. High number of staff on maternity leave</i>	<i>Staffing demographics</i>	<i>Insurance cover</i>

3.4 Cash flow

Do you require a cash advance or loan to manage a short term or long term cash flow issues?

Please tick		How much is required?	How do you proposed to repay this money to the LA?
	Yes, cash advance	£	<i>I.e. 6 equal payments from monthly budget share between September and February</i>

	Yes, Loan	£	<i>I.e. 24 equal payments from monthly budget share between July 2018 and June 2020</i>
	No, neither needed	N/A	

Section 4: Supporting documents

Please ensure that you have attached the following documents:

Required supporting documentation	Please tick to confirm attached
Three Year Budget Plan for next 3 years	
Recovery Plan	
Copies of Governing Body/Committee minutes of meeting where deficit has been discussed	
Current budgeted School Development Plan	
Cash-flow forecast	

Section 5: Signed on behalf of the school by

Chair Of Governors PRINT name:	Signature:	Date:
Head Teacher PRINT name:	Signature:	Date: