

## **NORTH NORTHAMPTONSHIRE SCHOOL DEFICIT BUDGET POLICY**

### **1. Responsibility for Managing the School Budget**

- 1.1 School governing bodies are the responsible accountable body for managing the school budget.

### **2. Current Policy (NNC Scheme)**

- 2.1 The current main policy for schools' deficits is contained in the NNC Scheme for Financing Schools as follows:

#### **Paragraph 2.9 - Submission of budget plans**

- 2.2 Each maintained school is required to submit a budget plan every year, which takes account of the major categories of expenditure and income, on the NNC Budget Proposal Form. Schools should, when constructing their annual budget plan consider their estimated carry forward deficit/surplus balance as at the previous 31<sup>st</sup> March.
- 2.3 NNC will supply schools with all school income and expenditure data which it holds which is necessary for efficient planning by schools, and supply schools with an annual statement showing when this information will be available at times through the year.
- 2.4 Schools are allowed to take full account of estimated deficits and surpluses at the previous 31 March in their budget plan.
- 2.5 The budget proposal form for submission of budget plans should take account of the consistent financial reporting framework and the desirability of compatibility with that.
- 2.6 The school's formal annual budget plan must be approved by the Governing Body or a committee of the governing body. Any changes to this i.e., variations of budget during the year should also be approved by the Governing Body or committee.
- 2.7 The date for the initial submission of the budget proposal plan is the 1<sup>st</sup> Friday in May.

#### **Paragraph 4.4 - Obligation to carry forward deficit balances**

- 2.8 Schools must carry forward from one financial year to the next any shortfall in school budget share relative to their expenditure for the year plus/minus any balance brought forward from the previous year. This will be affected through a deduction from the following year's budget share.

#### **Paragraph 4.5 - Planning for deficit budgets**

- 2.9 It is not permissible for schools to budget for a deficit, except in those circumstances set out below. School budget plans must be prepared with a view to breaking even or creating a surplus at the end of the financial year.

- 2.10 Where schools have reason to anticipate a deficit the NNC Chief Finance Officer must be informed immediately.

**Paragraph 4.6 - Charging of interest on deficit balances**

- 2.11 Schools will not be charged interest on any unplanned year end deficits as a matter of course. However, where an unplanned overdraft occurs on a school's local bank account, although NNC will underwrite such an overdraft, the school's budget will be charged any interest or other costs that arise.

**Paragraph 4.7 - Writing off deficits**

- 2.12 NNC cannot write off the deficit balance of any school.

**Paragraph 4.8 - Balances of closing and replacement schools**

- 2.13 When a school closes, any balances (whether surplus or deficit) revert to the LA; it cannot be transferred as a balance to any other school, even where the school is a successor to the closing school, except that a surplus transfers to an academy where the school converts to academy status under section 4(1) (a) of the Academies Act 2010.

**Paragraph 4.9 – Licensed deficits**

- 2.14 Schools must submit a recovery plan to NNC when their revenue deficit rises above 1% at 31 March of any year. A school may be allowed to plan for a deficit budget in exceptional circumstances with the agreement of the NNC Chief Finance Officer and subject to the following restrictions:
- a. The maximum length over which a school may repay the deficit is normally three years from the beginning of the next financial year in which the deficit arises, and the financial position will be subject to ongoing monitoring and annual review.
  - b. A deficit arrangement will only be allowed where the continuing existence of a school is deemed viable.
  - c. The minimum size of an agreed deficit is 1% of the budget share, and the maximum level is 15% of the budget share.
  - d. The maximum proportion of the collective school balances held by NNC which will be used to back the total of deficit arrangements is 10%.
  - e. Arrangements for individual schools will be determined by the NNC Chief Finance Officer or their nominated officers, in agreement with the school Governing Body. The Governing Body must formally agree to abide by any requirements laid down as a pre-condition to accepting the deficit arrangement.

### **Further Guidance and Procedures**

The following guidance and procedures are produced in support of the statutory policy outlined above.

#### **3. Submission of a Business Case and Deficit Recovery Plan**

- 3.1 All schools are required to include use of the carry forwards (including overspends from the previous financial year) on their Budget Proposal Form.
- 3.2 Where a deficit of 1% or more is identified by the school as part of the budget planning process, a business case and recovery plan for a licensed deficit to be authorised is to be submitted to NNC Schools Finance by the Chair of Governors in an agreed format at the same time or before the Budget Proposal Form.
- 3.3 Schools should know well in advance of the year end that they are heading for a deficit) so they should conduct pre-emptive work to identify savings and produce/submit the business case and recovery plan in time before the start of the subsequent financial year.
- 3.4 Schools should also work in close liaison with NNC HR (or their own HR advisor) to ensure that their proposed savings can be met and that all relevant documentation including a business case for any redundancy costs to be met by the local authority is submitted in accordance with NNC redundancy policy.
- 3.5 Where the recovery of the deficit is likely to impact on teaching standards, the school should also consult the Head of School Effectiveness at NNC.
- 3.6 Where there are delays in producing a recovery plan, the Chair of Governors and Headteacher will be required to meet with Schools Finance to explain the reasons for the delay and for actions to be agreed.

#### **4 Authorisation of Licensed Deficits**

- 4.1 The business case and recovery plan will be scrutinised by NNC Schools Finance who will liaise with the school, and NNC Human Resources (or the school HR advisor) and the School's Improvement Manager within Children Services as required to resolve any queries or concerns they may have regarding the information provided. Any such queries are to be resolved as quickly as possible.
- 4.2 Where necessary, the matter may be referred to the Head of School Standards and Effectiveness who may recommend more formal intervention to the Director of Children's Services i.e.:
  - a. issuing a local authority warning notice
  - b. instigation of an Interim Executive Board
  - c. removal of the school delegated budget

- 4.3 Once the above scrutiny process has been completed, the business case and recovery plan will be presented to the NNC's AD Children's Services, Children's Strategic Finance Business Partner & Assistant Director of Finance & Strategy who will formally authorise the licensed deficit, subject to any further queries which might arise. This process should be complete within one month of receipt of the business case and recovery plan –any delay will be notified to the school.
- 4.4 The annual recovery plan and approach for any schools with deficits greater than £50k (Primary, Nursery or Special) or £100k (Secondary) will need to be authorised by the Assistant Director of Education.
- 4.5 The school will be notified of the decision in writing which will include any terms and conditions attached to the authorisation which will include:
- a. The maximum deficit allowed for each year covered by the authorisation;
  - b. The period covered by the authorisation;
  - c. The monitoring and reporting requirements; and
  - d. Measures which may be taken if the school fails to adhere to the agreed plan or the terms and conditions.
- 4.6 A copy of the authorisation letter will be sent to NNC Human Resources (or the school HR advisor) and the Head of School Effectiveness.

## **5 Managed Deficits**

- 5.1 Any deficits which are below the 1% threshold for licensed deficits will be deemed to be "managed deficits". Budgets with a managed deficit should be recovered to a balanced position by the end of the financial year.
- 5.2 On receipt of a Budget Proposal Form which shows a managed deficit, the School Support team will confirm the reporting requirements in the letter agreeing to the budget.
- 5.3 The school will be required to submit a copy of their Cumulative Expense Analysis Report to School Support team by either the 15<sup>th</sup> of each month (or every 2 months) as stated in the deficit approval letter for the financial year concerned which will be scrutinised by the School Support team.
- a. Where there is evidence that the school will not achieve a balanced budget by the financial year end the Schools support team will discuss this with the Headteacher (and where necessary Chair of Governors) to identify and agree further savings to be made to achieve the necessary target.
  - b. In the event that the school is still forecasting it will be unable to deliver a balanced budget by year end, the matter is to be referred to the Senior finance business partner in Children's Service who will decide what action may be taken.

## 6 Monitoring and Reporting

- 6.1 All schools with a licensed deficit or managed budget will be required to submit a monthly deficit monitoring report to School Support team by the 15<sup>th</sup> of the month during the period covered by the licensed deficit to demonstrate current and forecast expenditure.
- 6.2 The format of the monitoring report will be as follows:
- a. A covering note from the chair of governors explaining the progress made during the period and the reasons for any deviation from the agreed recovery plan and the actions being taken to rectify the situation.
  - b. A copy of the Cumulative Expense Analysis Report as at the submission date.
- 6.3 Where any non-delivery within the submitted recovery plan occurs, schools will be required to outline the reasons for variances and identify alternative mitigating actions to deliver the deficit recovery plan.
- 6.4 The monitoring reports will be scrutinised by the Schools Finance team who will raise any concerns (which will include failure to submit the monitoring reports on time) directly with the Chair of Governors or Headteacher in the first instance.
- 6.5 In the event that the monitoring report is not received within 14 days of the due date, the Schools Finance team will notify the Finance Business Partner, School funding, who will recommend to the Children's Services Strategic Finance Business partner what follow up action may be required, which may include:
- a. Notifying NNC HR (or the school HR advisor) and the Head of School Effectiveness.
  - b. Calling the Chair of Governors and Headteacher in for a meeting to discuss the situation.
  - c. Referring the matter to the Assistant Director Education who may recommend more formal intervention to the Director of Children's Services i.e.:
    - issuing a local authority warning notice
    - instigation of an Interim Executive Board
    - removal of the school delegated budget
- 6.6 The School team will maintain a central monitoring spreadsheet which will contain the details of all maintained schools with agreed deficits and the following information:
- a. Details of all licensed and managed budgets;
  - b. Dates when monthly reports have been received;
  - c. Comments and concerns including meetings held etc. and
  - d. Proposed dates of academy conversions.

- 6.7 This information will be shared on a regular basis with senior school improvement colleagues.

## **7 In-Year Deficit**

- 7.1 When a potential unplanned deficit is identified or envisaged during the financial year either by the school (school should make the school support team aware) or by School Support team as part of their monitoring, the following process will apply:
- a. The potential deficit will be acknowledged by the Strategic Finance Business Partner, who will confirm to the chair of governors in writing the requirement for monitoring reports to be submitted and any other requirements.
  - b. A copy of the letter will be sent to NNC Human Resources (or the school HR advisor) and the Head.
- 7.2 The school should develop their plans for recovering the deficit as soon as a potential deficit is identified with support from Schools Support team and a formal business case and recovery plan is to be submitted within 3 months of the in-year deficit being identified (or with the next budget proposal whichever is earlier).
- 7.3 Details of the in-year deficit will be entered onto the monitoring spreadsheet by the Schools Finance team.

## **8 Deficit in case of an Academisation**

- 8.1 Where a school with a deficit is to open as a converter academy the deficit remains with the Academy.
- 8.2 Where a school with a deficit is to open as a sponsored academy, the deficit remains with the LA, to be funded from its core budget.

## **9 Accelerated Cash Advances for Deficit Schools**

- 9.1 Schools with a deficit budget will only be permitted to apply for an accelerated cash advance up to the value of their authorised deficit.
- 9.2 Any application will need to identify when the accelerated cash advance will be repaid.

## **10 Further Advice**

- 10.1 Further advice on planning school's budgets should be sought from Schools Finance Support Team.