**Financial Control No.5**

**Guidance for Schools in Financial Difficulty incorporating the Licensed Deficit Application**

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**5.1 Introduction**

Kent County Council Scheme for Financing Schools states: schools can only plan for a deficit budget in exceptional circumstances and only with a Licensed Deficit approved by the Local Authority.

**Financial assessment and challenge by Governors**

When first aware of a potential deficit the school should:

* Check all the figures and the assumptions that have been made
* Identify the cause of the forecast deficit e.g. a falling roll
* Undertake a benchmarking exercise
* Discuss and draw up a plan of Management Action

# This action should be incorporated with a view to being able to amend the figures so that the Three Year Budget Plan does not result in a deficit in any of the three years.

# If this is not possible the school will have to submit a Licensed Deficit Application together with their Governor approved Three Year Budget Plan and Management Action Plan.

Schools will be required to submit a Licensed Deficit Application on an annual basis, if they continue to set a Three Year Budget Plan with a deficit in any of the three years. The maximum length allowed should not exceed three years – see section 4.9 of the Scheme for Financing Schools.

The limits detailed below apply to each individual year of the Three Year Budget Plan where applicable:

A Licensed Deficit, up to and including the lower of either £20,000 or 2% of a school’s predicted total annual income budget (CFR codes I01 to I18), must be approved by the Head of Schools Financial Services.

A Licensed Deficit in excess of £20,000 or 2% of a school’s predicted total annual income budget (CFR codes I01 to I18) must be approved by the Director of Education.

The LA is not likely to approve the Licensed Deficit Application if:

In any one year of the plan the deficit exceeds the total of CFR codes I01, I02, I03, I05 and I18 by

* 12% for Primary, Specials and Pupil Referral Units and
* 7.5% for Secondary Schools

The plan shows a deterioration in the financial position, resulting in an overall deficit.

If a school refuses to set a balanced budget or comply with the Kent County Council Scheme for Financing Schools, the LA may intervene by identifying the action a school could take and ultimately by suspending delegation (see section 5.7).

The School Support Team provides the Schools Funding Forum with an annual update on the latest position of schools in deficit.

**A Three Year Budget Plan showing a deterioration in the school’s financial position resulting in a deficit by the third year or shows a deteriorating deficit position over the period of the plan, will NOT be approved by the Local Authority.**

**5.2 Applying for a Licensed Deficit**

In exceptional circumstances, a deficit budget plan (deficit recovery plan) proposed by a Governing Body to phase the restoration of a fully balanced budget, over a two or three year period, will be considered by the Local Authority. This Budget Plan must be submitted with a completed Licensed Deficit Application and Management Action Plan (see Appendices 1 and 2) in accordance with the statutory returns timetable.

**Management Action Plan (Appendix 2)**

The purpose of the Management Action Plan is to record the actions that have been incorporated into the Deficit Recovery Plan to restore the budget plan to a balanced position.

This may be through a combination of income generation and/or a reduction in expenditure. The reduction in expenditure may include reducing staffing and making redundancies (see Financial Control No.5a, Application for Approval of Redundancy Costs).

**Supporting Documentation**

# The school may be required to submit a combination of the following:

* FGB budget ratification minutes
* The last October and January census information
* Detailed salary budget calculations
* The latest approved staffing structure
* Copy of the latest payroll report and payroll reconciliation
* School Funding Template, which corresponds with the budget
* Other documentation that is deemed necessary by the School Support Team

**Approval**

Following the submission of all relevant documentation, validation checks will be completed by the School Support Team. Checks will include that the Management Action Plan incorporates sufficient detail and that the required level of savings can be achieved within specified timescales. Areas that are unclear or do not appear to be achievable will be queried by the School Support Team and further clarification sought from the school.

Written confirmation will be sent to the school along with a copy of the approved Licensed Deficit Application.

# Ongoing Monitoring and analysis

Schools are required to check their financial position against the agreed Licensed Deficit Application and Management Action Plan and submit the following documents as per an agreed timetable to the School Support Team:

* Monthly monitoring with full details of any significant variances
* Scanned copies of the following documents for validation purposes:
	+ FMS6 Income & Expenditure Report (produced at the same time as the monitoring)
	+ FMS6 Reconciliation Report (produced at the same time as the monitoring)
	+ FMS6 Unreconciled transaction listing (produced at the same time as the Reconciliation report)
	+ A copy of the latest reconciled bank statement at the time of completing the reconciliation report
* An emailed copy of the school’s School Funding Template (latest version which is populated and reconciled to the KCC advances and includes reviewed forecasts on all tabs).

The School Support Team will analyse the School’s monthly submission in line with the agreed LDA and MAP and will provide feedback to the School. In some cases, further information may be requested.

**5.3 Year end forecast deficit identified during the year**

If, following the submission of a balanced Three Year Budget Plan, a forecast deficit is identified during the year the School must contact the SFS School Support Team.

The School Support Team will assist in producing a recast of the budget plan to establish the current and longer term financial position of the School. Support and advice will then be provided to assist the school with mitigating, all, or as much of the current year deficit as possible.

If the total deficit cannot be eliminated by year end, the School must comply with 5.4 below. If the school is then unable to set a balanced Three Year Budget Plan the following year, the school must comply with 5.2 above.

**5.4 Ending the financial year in deficit – not identified during the year**

Any school submitting a balanced Three Year Budget Plan but subsequently end the year in an unexpected deficit will be required to submit monthly monitoring to an agreed timetable to the School Support Team during the following financial year. The School Support Team will assess the monitoring and provide feedback to the school.

Any school ending a financial year in an unexpected deficit position and subsequently submits a deficit recovery Three Year Budget Plan, will be subject to the Licensed Deficit process.

**5.5 Updating the current Three Year Budget Plan (Healthcheck)**

It is recommended as good practice to revisit the current Three Year Budget Plan at pertinent points in the financial cycle. October/November is an appropriate time to complete this exercise as new data is available to the school e.g.:

* Changes in pupil numbers, HNF applications
* Staffing changes and outcomes of pay awards
* Change to current year forecast as per half year monitoring

To obtain a procedure note to assist with this process, contact the SFS Helpdesk or the School Support Team.

**5.6 Bank balances and cash flow**

Schools are not permitted to go overdrawn. If a school anticipates this may occur, they must contact SFS School Support Team immediately for advice (03301 651001).

Monthly manual reconciliations should alert schools to a potential overdrawn position at the bank, therefore it is important to ensure this process is completed at least on a monthly basis.

A template is available on KELSI to assist schools in managing their cash flow to avoid an overdrawn position.

**5.7 Local Authority (LA) intervention**

There are three levels of intervention the Local Authority will apply where:

* The school is persistently in breach of the Scheme for Financing Schools
* The school will not set a balanced budget/or engage in the LDA process
* The deficit is deteriorating, and no action is being taken by the school
* There is evidence of financial mismanagement by the school
* Proposed action / plan is not adequate
* Ongoing non-approval of the Licensed Deficit Application
* The school’s financial position deteriorates further from the agreed Licensed Deficit

Level 1 – Financial Review Meeting

This will take place when a school:

* Is in breach of the terms of the Scheme for Financing Schools
* Does not engage in the Licensed Deficit process
* Does not identify realistic Management Action to address the deficit
* Deviates from the financial position as agreed under the Licensed Deficit

The review meeting may include the Director of Education, other Senior LA Officers, the Headteacher and the Chair of Governors. The meeting will:

* Review the financial position of the school
* Seek an explanation from the school regarding the action (or lack of) being taken to safeguard the school’s financial position
* Assess what support and challenge the school may require
* Agree an action plan to secure a sustainable budget
* Seek agreement to produce a Revised Three Year Plan and a revised Licensed Deficit Application

***Outcomes from Financial Review meetings will be formally noted and sent to the School.***

Level 2 – Notice of Concern

A school that continues to refuse to take the necessary action will be sent a Notice of Concern formally listing the action necessary to bring the budget back in to balance. See Financial Control No.4, Governors’ Guidance notes on the Management of School Finances.

Level 3 – Suspension of Delegation

Where a school still refuses to take the action identified, the ultimate sanction will be to suspend delegation following a meeting with the Director of Education. Under suspension the LA 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 LA for the day to day financial administration in the school including personnel decisions where there are monetary implications.

**5.8 Support and contact details**

If a school requires advice regarding their financial position and potential budget pressures, a member of the School Support Team will contact the Headteacher, Finance staff and/or Governors. A subsequent meeting may be required in conjunction with the Assistant Director of Education and/or the School Improvement Advisor.

This will be based on:

* Significance of the deficit both in year and cumulative
* Length of time the school has been in deficit
* Level of financial competency
* Benchmarking data
* Contextual data
* Bank balance/statements

The above requirements may vary according to the time of year or the precise nature of the school’s difficulty and SFS may request other information where necessary.

**SFS Contact details**:

Contact the School Support Team via the SFS Helpdesk: 03301 651001 or email: schoolsupport@theeducationpeople.org

**Additional support**

Should the school require assistance during this process additional support will be available. In some cases, this will be chargeable depending on the school’s individual circumstances.

**Licensed Deficit Application Form Appendix 1**

|  |  |
| --- | --- |
| DfE No:  | The Governing Body of schoolwish to apply for a Licensed Deficit  |

We confirm that: (please tick):

|  |  |
| --- | --- |
|  | A governor approved Three Year Budget Plan has been submitted  |
|  | with the supporting KELSI budget template |
|  |  |
|  | A Management Action Plan has been **signed** and submitted |

|  |  |
| --- | --- |
|  | We agree to provide supporting documentation on request |

|  |  |
| --- | --- |
|  | We give permission to the School Support Team to access BPS |

We understand that we will:

* Consult with the School Support Team prior to advertising any new posts
* Not commit the school to any further expenditure without SFS approval
* Implement the savings within the timescale agreed
* Notify the School Support Team of any deviation from the Approved Three Year Budget Plan e.g. long term sickness or disputes
* Provide monthly monitoring in line with an agreed timetable
* Provide any other information as required by SFS
* Be liable for Bank interest charges on the deficit
* Seek SFS permission for the bank balance to exceed the value of the Licensed Deficit

|  |  |
| --- | --- |
| Value of Licensed Deficit sought – Year 1 | £ |
|  |  |
| Value of Licensed Deficit sought – Year 2 | £ |
|  |  |
| Value of Licensed Deficit sought – Year 3 | £ |
|  |  |
| Head Teacher’s Name and Signature: |  |
|  |  |
| Chair of Governors Name and Signature: |  |
|  |  |
| Date approved by Full Governing Body: |  |
|  |  |
| Signed on behalf of KCC: |  |
|  |  |
| Print Name: |  |
|  |  |
| Position / Title: |  |
|  |  |
| Date: |  |

Please insert digital signatures and **email the digitally signed form, as a word document** to schoolsupport@theeducationpeople.org

Approved copy to be retained by Schools Financial Services and the School.

**Management Action Plan Appendix 2**

|  |  |
| --- | --- |
| DfE No:  | School name:  |

|  |  |  |
| --- | --- | --- |
| **CFR Ledger Code** | **Management Action Details** | **Detail estimated savings and/or additional income in each of the three years.** |
| **Date of Action** | **Year 1****£** | **Year 2****£** | **Year 3****£** |
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| --- | --- | --- | --- |
| Date of Meeting:  |  |  |  |
| Headteacher Name: |  |  |  |
| Headteacher Signature: |  | **Date:** |  |
| Chair of Governors Name:  |  |  |  |
| Chair of Governors Signature: |  | **Date:** |  |

Please insert digital signatures and **email the digitally signed form, as a word document** to schoolsupport@theeducationpeople.org