

Protocol for Schools Planning and Managing a Deficit Budget

Updated November 2014

Background

The local authority has a role to protect the financial position of each individual school, Shropshire schools as a community and the local authority. This role is recognised and supported by Shropshire Schools Forum as any irrecoverable financial liabilities incurred by an individual school **could** be charged to the Dedicated Schools Grant (DSG) and therefore reduce the monies available to all schools.

Governing bodies are responsible for managing their individual school budget appropriately. Regular financial monitoring by the governing body and sound financial systems and internal controls are critical to this financial management responsibility. Governing bodies should aim to ensure the school's expenditure is within its available budget each year. However, there may be certain circumstances that are best managed by a temporary deficit budget plan, for example where the school experiences a one-year dip in overall pupil numbers affecting the budget share allocated to the school for the following financial year.

A deficit budget can be a useful management tool but governors should be very clear about the reason for planning for a deficit budget and must be able to demonstrate the ability to fully repay the deficit over the following 2 financial years (unless very exceptional circumstances).

Schools will only be allowed a deficit budget in exceptional circumstances.

Schools placed in special measures by Ofsted will not be allowed a deficit budget. (See Annex C).

End of year unplanned deficit balances are not evidence of sound financial management.

This protocol lays out the requirements for schools planning a deficit budget and the role of the local authority in this process.

Licensed Deficits

Any school planning to set a deficit budget must first have approval from the local authority. Approval will only be granted in line with the requirements of section 4.9 of the Scheme for the Financing of Schools **and only in exceptional circumstances.**

Schools must contact the local authority's School Funding Policy Officer early in the process if they are planning to set a deficit budget and no later than 30th April. This should allow time for the School Funding Policy Officer to work with the governing body to agree a Deficit Recovery Plan and approve a licensed deficit before governors' formal budget plan approval deadline of 30th June.

The Deficit Recovery Plan must be in the format as detailed in Annex A of this protocol. Schools must provide the School Funding Policy Officer with estimates of future numbers on roll (as at October each year) which will enable the School

Funding Team to provide estimates of future years' budget shares to be included in the Deficit Recovery Plan.

Once the school's Deficit Recovery Plan is agreed by the local authority, a licensed deficit approval will be granted. This licensed deficit approval will be in the form of a letter from the local authority to the headteacher, chair of governors and chair of finance committee detailing the level of deficit approved. The level of deficit approved will be reported to Schools Forum.

The Deficit Recovery Plan, once agreed with the local authority, must be formally signed up to by the governing body and recorded in the minutes of meetings of both the finance committee (where the school has one) and the full governing body. A copy of the minutes from these meetings must be sent to the School Funding Policy Officer.

Where a school has a licensed deficit approval for a deficit greater than 5% of their annual budget share the school will be required to attend termly meetings with the School Funding Policy Officer, and other local authority officers as appropriate, to demonstrate budget monitoring in line with the agreed Deficit Recovery Plan. The school will also be required to have its performance against the Deficit Recovery Plan as an agenda item at all meetings of both finance committee and the full governing body until the deficit has been recovered.

The school's performance against the deficit recovery plan will be reported to Schools Forum.

Annex B to this protocol provides a flowchart of the process required for planning and managing a deficit budget.

Any school operating a deficit budget must notify the local authority's School Funding Policy Officer of any staff recruitments before an advert is placed.

Notice of Concern

Under section 2.15 of the Scheme for the Financing of Schools, the local authority has the power to issue a financial Notice of Concern to a school.

Circumstances in which a Notice of Concern may be issued include:

- Where a governing body has not complied with the requirements of the deficit budget protocol
- Where a school ends the financial year with an unplanned deficit
- Where the school does not manage their budget in line with the agreed deficit recovery plan and/or the requirements of the licensed deficit approval
- **Where a school is placed in special measures by Ofsted (see Annex C).**

The Notice of Concern will set out the reason for it being made and will place on the governing body restrictions, limitations or prohibitions in relation to the management of funds delegated to it.

If the governing body fails to address the issues in the Notice of Concern the local authority may exercise its powers to: require the governing body to appoint additional governors; suspend the delegated budget of the school; appoint an Interim Executive Board.

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