CHALLENGE AND SUPPORT PROCESS
FOR SCHOOLS WITH A
DEFICIT BUDGET
Introduction

The Wrexham Scheme for Financing Schools allows, in circumstances where the governing body is unable to agree a budget plan with the resources available to the school, to seek the agreement of the Head of Lifelong Learning to overspend for the year if either:-

- the deficit has arisen due to unforeseen expenditure in the previous financial year;

- there is a specific circumstance that prevents a balanced budget from being set;

- the school has suffered a significant decline in pupil numbers and is not able to reduce its costs due to curriculum or school organisation restrictions;

- The school has a deficit and requires more time than one financial year to eliminate the deficit but is able to demonstrate that its current expenditure plan is within its current budget allocation.

- Revenue projects identified and costed by the school in their school development plans could be implemented at an earlier date than previously planned if a deficit were to be permitted.

To support the Authority’s monitoring role the Scheme requires:-

- Schools to return a Governor approved annual budget to the LA by 30th June each year

- Schools unable to set a balanced budget to notify the Local Authority and apply for a licensed deficit agreement.

The Local Authority has no power to write off the deficit balance of any school.

Schools should only apply for a licensed deficit in circumstances where they cannot set a balanced budget without seriously impacting on the educational provision at the school.

The Licensed deficit process is used by the Authority to provide schools with an appropriate level of challenge and support to help them set a balanced budget or, if this is not achievable, to prepare a recovery plan that sets out the action the school will take to achieve a balanced financial position over an agreed period of time.
The licensed deficit arrangement provides schools with:-

- **A three year period in which to take the action required to balance the budget**
  A school will normally be expected to deliver its recovery plan within a three year period. This may be extended in very exceptional circumstances where a school cannot deliver a recovery plan over three years without seriously affecting its educational provision. Any extension to the three year period must be agreed by the Head of Lifelong Learning and Head of Finance.

- **Challenge**
  Financial management challenge in collaboration with School Improvement Officers/Advisors and other LA Officers based on:-
  
  o Benchmarking Data
  o Financial analysis
  o Audit Information
  o Compliance with financial regulations
  o Contextual data, e.g. demographic changes

  Where schools persistently fail to take actions agreed under the licensed deficit arrangement, this will be challenged and ultimately may lead to further intervention by the Local Authority

- **Support**
  The following range of support is available to schools through the licensed deficit process:-
  
  o Financial information and advice on recovery planning
  o Organisational advice from Lifelong Learning Services
  o Support from a Finance Officer/HR Officer

  Recovery planning meetings will be arranged with all the relevant professionals every half term.
Deficit Schools – Challenge and Support Process

The process for challenging and supporting schools with deficit balances is defined in the diagram below:

**31st May – Governor approved Budget Plan Submitted**

- Budget Balanced – Reports Monitored
- Budget Not Balanced

**Step 1 Financial Assessment & Challenge**

- Licensed Deficit Application Form Submitted?
  - Yes
  - No → School asked to resubmit balanced budget

**Financial Recovery Plan Submitted?**

- Yes
- No

**Step 2 Support for Schools in Deficit**

- School provided with one-to-one support
- School attends Recovery Planning Meetings

- Recovery Plan Submitted
- Recovery Plan Submitted

**Recovery Plans checked and validated**

**Licensed Deficit Arrangement agreed by Head of Finance and Head of Lifelong Learning**

**Step 3 School Recovery Plan Monitored**

**Step 4 – Reporting and Review**

- Monitoring Required
- LA Intervention required
**Challenge and Support Process**

Each of the steps in the diagram is explained below:-

**Step 1: Financial Assessment and Challenge**

If a school submits a Governor Approved Spending Plan that shows a deficit position they will be expected to submit an application for a licensed deficit together with a simple recovery plan which indicates how they intend to bring the school’s financial position back into balance. This may be through a combination of income generation and/or a reduction in expenditure.

Schools that submit a Governor Approved Spending Plan showing a deficit position without applying for a licensed deficit will be asked to re-submit a balanced budget.

Information on how to apply for a licensed deficit and advice on setting a balanced budget and recovery planning is available from CYP Finance.

**Step 2: Support for Schools in Deficit**

Where schools are unable to complete a recovery plan, the LA will determine the appropriate type of challenge or 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 checks
- Benchmarking data
- Contextual data

Financial advice will be available to support schools in recovering from a deficit financial position.

- Telephone support providing advice and guidance
- Recovery Planning Meetings

Following the submission of the budget plan and recovery plan a number of validation checks will be completed by the LA to ensure that the plans are reasonable. This will be done by:-

- Comparing the current year’s income and expenditure budgets with previous years’ trends to identify any significant differences.
- Checking that the correct balances have been brought forward in the current year and all funding delegated by the LA has been taken into account
- 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 simply not achievable will be queried with the school and clarification sought.

Where the plans are deemed to be suitable then they will be accepted by the LA and reviewed throughout the year.

The licensed deficit application will be considered and then accepted by the Head of Finance. Written confirmation will be sent to the school.

**Step 3: School Recovery Plan Monitored**

The purpose of a recovery plan is to identify the actions that can be taken to bring the school budget back to a balanced position within an agreed period of time. Schools with a licensed deficit agreement must produce a recovery plan that demonstrates they are able to achieve a balanced budget over the agreed licensed deficit period.

The plan can be a simple statement showing:

- What actions will be taken
- When these actions will happen
- How much will be saved by taking the action

An example of a simple recovery plan is shown on the next page.
## School Budget Deficit Recovery Plan

### Example School

<table>
<thead>
<tr>
<th>Year 1</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Deficit</td>
<td>(185,000)</td>
</tr>
</tbody>
</table>

### Deficit Recovery Plan
- End 2 Temporary teaching contracts 31/08 | 20,000 |
- Non replacement of teacher leaving 31/12 | 11,000 |
- Embargo on expenditure (Comp Hardware) | 10,000 |
- Private Fund Income | 60,000 |

Total: 101,000

Deficit Balance as at 31 March year 1 | (84,000) |

<table>
<thead>
<tr>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit Budget b/f</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Planned Increases in Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional Yr 10 Teacher</td>
</tr>
<tr>
<td>Necessary expenditure on resources</td>
</tr>
<tr>
<td>Reduction in Yr 2 Budget (decreasing AWPU)</td>
</tr>
</tbody>
</table>

Total: (261,000)

<table>
<thead>
<tr>
<th>Deficit Recovery Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce teaching establishment (3 FTE) 01/04</td>
</tr>
<tr>
<td>Reduce 2 members of SMT with post replaced 01/04</td>
</tr>
<tr>
<td>End temporary contracts 5.8 teachers 31/08</td>
</tr>
<tr>
<td>Reduce expenditure on building improvements</td>
</tr>
<tr>
<td>Full year saving 2 temp contracts from Yr 1</td>
</tr>
<tr>
<td>Reduce non teaching staff by 30 hours</td>
</tr>
</tbody>
</table>

Total: 349,000

Surplus Balance as at 31 March year 2 | 4,000 |
Step 4: Reporting and Review

The LA will consider the financial position of schools with a licensed deficit agreement each month based on a report that will highlight the challenge and support identified for each school and their progress in moving towards a balanced position. A summary report will be provided to the schools forum each term.

Monthly reports will be based on the returns made by schools. These returns will be reviewed to identify any significant variances from the agreed licensed deficit and where variances are identified they will be raised with the school who will be asked to provide an explanation and details of the management actions they are taking. The LA will report to elected members where it is felt that intervention is required.

Monitoring the School Recovery Plan

Schools with deficit budgets will be monitored on a monthly basis. Schools are required to return a forecast year end outturn position each month. This will be checked for accuracy and reasonableness and compared with the previous financial forecasts and the schools’ recovery plan. Schools with their own bank account are also required to monitor their cash flow position on a regular basis to ensure they do not overdraw their bank accounts.

Schools will be contacted by telephone and in writing if there are any queries about the financial information or projected financial position. Where a school’s financial position worsens they will be referred to CYP Finance for more intensive support. Schools refusing to engage in the process or who are persistently in breach of the Scheme of Finance will be required to attend a financial review meeting with the LA to discuss their financial position.

Local Authority Intervention

Local Authority intervention will apply 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 licensed deficit 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. It is envisaged that deficit schools will engage with the LA well before the need for intervention as these arrangements are the last resort, for the protection of public monies and to protect the overall resource for all schools in Wrexham. The levels of intervention are:-
1. Financial Review Meeting
2. Notice of Concern
3. Suspension of delegated financial powers

**Level 1 – Financial Review Meeting**

Schools that do not return a balanced budget or apply for a licensed deficit will be required to attend a Financial Recovery meeting with the LA. A similar requirement will apply to school with a worsening deficit and also for those schools who persistently breach the Scheme for Financing Schools.

The review meeting will include officers from CYP Finance, Inclusion Services, HR, School Improvement Officers (Link Officer), the Headteacher and the Chair of Governors.

The meeting will:

- Review the financial position of the school
- Seek an explanation from the school about the action being taken to safeguard the schools financial position
- Assess what support and challenge the school may require
- Agree an action plan
- Determine whether interest will be charged on the deficit to recognise the seriousness of the situation for the school and to contribute to the costs incurred by the LA and at the expense of other schools.

**Level 2 – Notice of Concern**

A school that continues to refuse to take the necessary action will be required to attend a meeting with the Head of Lifelong Learning, Head of Finance and Head of Service. They will be given a formal notice of the action the LA recommends they should take to bring the budget back in to balance including any charging of interest on the deficit. The school will be given a month to respond.

**Level 3 – Suspension of Delegation**

Where a school still refuses to take the action identified by the LA the ultimate sanction will be to suspend delegation following a meeting with the Head of Finance and Head of Lifelong Learning. Under suspension, the authority 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 authority for the day to day financial administration in the school.
Applying for a Licensed Deficit Agreement

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

Applying for a licensed deficit gives schools access to support from CYP Finance.

It also enables them to:-
- Identify and acknowledge the problem and take positive action
- Take strategic action to improve the long term financial situation of the school
- Balance their budget over an extended period of time – usually 3 years

To apply for a licensed deficit a school must complete a licensed deficit application form and provide a recovery plan detailing how they will balance their budget over a three year period.

Completed application forms and recovery plans should be sent to CYP Finance, Lambpit Street, Wrexham LL11 1AR.
## Application for a Licensed Deficit

### Financial Year 2015-16

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>School Balance/-Deficit as at 1 April</th>
<th>Action Plan for the year</th>
<th>Person Responsible</th>
<th>Financial Effect</th>
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</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>Planned increase in Expenditure:</td>
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<tr>
<td></td>
<td>Deficit Recovery Plan:</td>
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<tr>
<td></td>
<td>Total Net Savings in year</td>
<td></td>
<td>0</td>
<td></td>
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<td></td>
<td>Surplus/-Deficit as at 31 March</td>
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</table>

### Financial Year 2016-17

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>School Balance/-Deficit as at 1 April</th>
<th>Action Plan for the year</th>
<th>Person Responsible</th>
<th>Financial Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-17</td>
<td>Planned increase in Expenditure:</td>
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<td></td>
</tr>
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<td></td>
<td>Deficit Recovery Plan:</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Total Net Savings in year</td>
<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Surplus/-Deficit as at 31 March</td>
<td></td>
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</table>

### Financial Year 2017-18

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>School Balance/-Deficit as at 1 April</th>
<th>Action Plan for the year</th>
<th>Person Responsible</th>
<th>Financial Effect</th>
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</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>Planned increase in Expenditure:</td>
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<tr>
<td></td>
<td>Deficit Recovery Plan:</td>
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<td></td>
<td>Total Net Savings in year</td>
<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Surplus/-Deficit as at 31 March</td>
<td></td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

The governing body agrees to make the savings / review expenditure specified in the plan and to adhere to the agreed timescale.

<table>
<thead>
<tr>
<th>Name</th>
<th>Signature</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headteacher</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chair of Governors</td>
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Extract from Wrexham’s S48 LA Financial Scheme for Schools

SECTION 4: THE TREATMENT OF SURPLUS AND DEFICIT BALANCES ARISING IN RELATION TO BUDGET SHARES

4.9 Licensed deficits

4.9.1 In the circumstances where the governing body is unable to agree a budget plan within the resources available to the school, the governing body may seek the agreement of the Head of Lifelong Learning to overspend for the year if either: -

i) the deficit has arisen due to unforeseen expenditure in the previous financial year;

ii) there is a specific circumstance that prevents a balanced budget from being set;

iii) the school has suffered a significant decline in pupil numbers and is not able to reduce its costs due to curriculum or school organisation restrictions;

iv) the school has a deficit and requires more time than one financial year to eliminate the deficit but is able to demonstrate that its current expenditure plan is within its current budget allocation;

or

v) revenue projects identified and costed by schools in their School Development Plans could be implemented at an earlier date than previously planned if a deficit were to be permitted.

4.9.2 The deficit arrangement may be agreed by the Head of Finance and the Head of Lifelong Learning, if without that agreement, the governors would either:

i) need to make short term amendments to spending plans that would be detrimental to school performance and development;

ii) be put in a situation of making short term spending reductions to the school development plan, that would be re-instated the following year in any event; or

iii) be required to make staffing reductions that would be reversed the following year.

4.9.3 In order for the Head Of Finance and the Head Of Lifelong Learning to consider the request, the Governing Body will need to be able to:

i) provide an explanation as to why the deficit is required; and
ii) demonstrate via a financial action plan that the budget will be brought into balance over a period of up to three financial years;

4.9.4 The total sum of the individual school's deficit must not exceed £10,000 + 2% of the school budget share for the year in question or 7.5% of the schools budget share, whichever is the higher. There is no minimum as any licensed deficit will need to be agreed with the authority.

4.9.5 The total sum of all agreed deficits will not exceed 30% of the collectively held school budget share balances.

4.9.6 Interest on licensed deficits will be charged at Bank of England Base Rate plus 1%;

4.9.7 Licensed Deficit balances may not be written off.

4.9.8 It should be noted that to plan for a deficit budget without regard to the above, remains in contravention of the scheme.