

# **CHALLENGE AND SUPPORT PROCESS FOR SCHOOLS WITH A DEFICIT BUDGET**

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## **Introduction**

The Lewisham Scheme of Delegation prevents schools from planning for a deficit when preparing their budget plans, however it recognises that from time to time circumstances in which, despite best efforts a school ends the financial year in deficit. To support the Authority's monitoring role the Scheme requires:

- Schools to return a governor approved annual budget to the Local Authority (LA) by the 1st May each year.
- Schools unable to set a balanced budget to notify the LA and apply for a loan.

Schools should only apply for a loan in circumstances where they cannot set a balanced budget without seriously impacting on the educational provision at the school. The Local Authority has no power to write off the loan of any school.

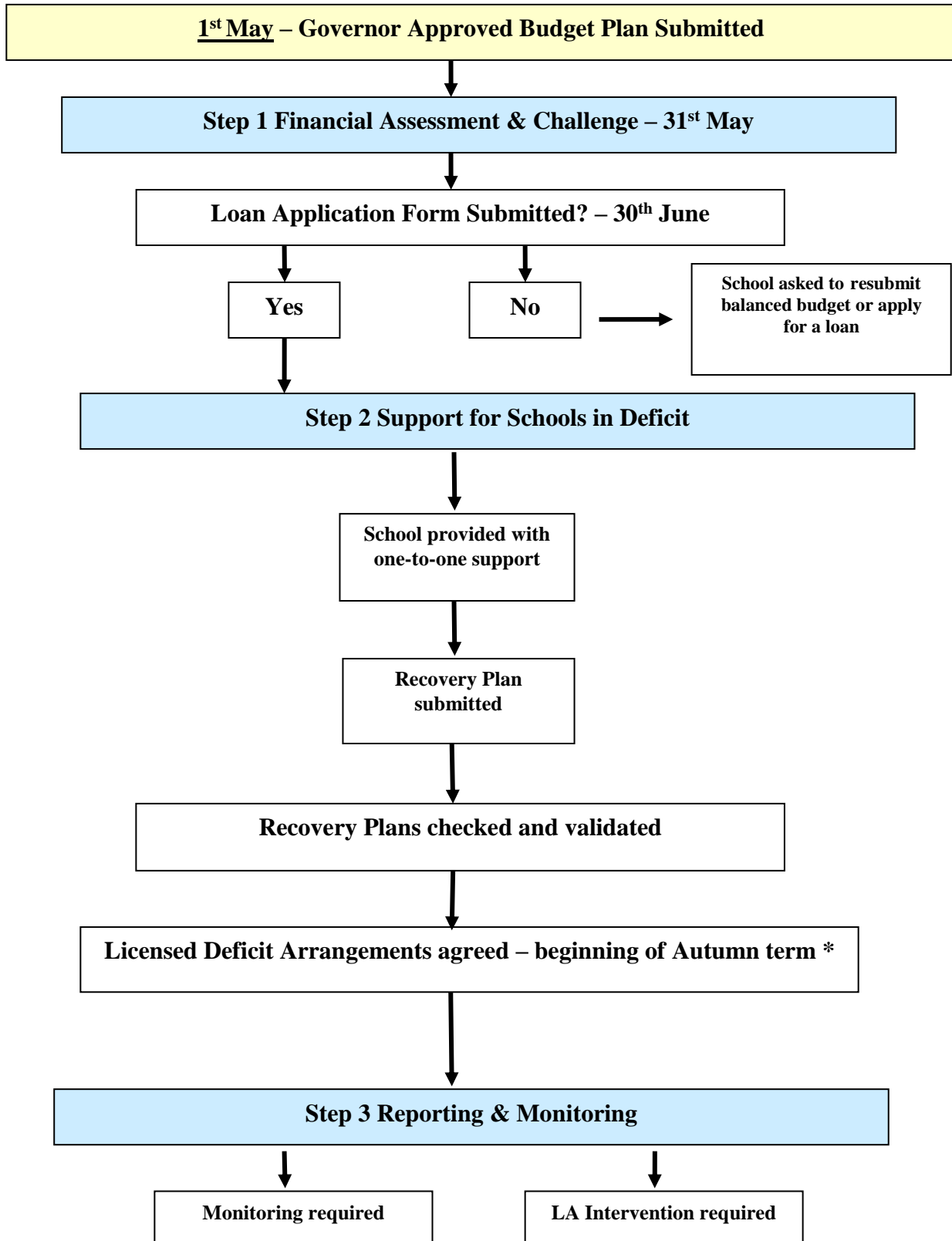
A loan plan in excess of £0.5m requires approval of the Mayor otherwise the Executive Director of Children and Young People can approve the loan.

The 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 sustainable balanced financial position over an agreed period of time. The loan arrangement within the Lewisham Scheme of delegation states:

- In cases where a school finishes the financial year in deficit the situation should be corrected by the end of the following financial year.
- A deficit proposed by the governing body may be agreed usually over a three year period but can be extended to 5 year or beyond in exceptional circumstances.
- In both cases the schools must complete the Application for a Loan.

## **Deficit Schools – Challenge and Support Process**

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



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\*Unless it needs to be approved by the Mayor when it will be the end of November.

## **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 'Budget Plan' that shows a deficit position they have to submit an application for a loan together with a simple recovery plan which indicates how they intend to bring the schools financial position back into balance. This may be through a combination of income generation and/or a reduction in expenditure.

Schools that submit a Budget Plan showing a deficit position without applying for a loan will be asked to re-submit a balanced budget or apply for a loan.

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

Where schools are unable to complete a recovery plan, the Local Authority 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, information and training will be available to support schools in recovering from a deficit financial position by experienced officers through a Service Level Agreement.

Following the submission of a Budget Plan and recovery plan a number of validation checks will be completed by the Local Authority 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 into the current year and that all funding delegated by the LA has been taken in to 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 the loan application will be passed to the Executive Director of Children and Young People for approval. If the plan is in excess of £0.5m the loan application will need to be approved by the Mayor. The report will be prepared by Local Authority officers working closely with the school.

Written confirmation will be sent to the school by the beginning of the autumn term once the loan has been approved (or by the beginning of the Spring Term if mayoral approval is required).

Schools with a applying for a loan must produce a recovery plan that demonstrates they are able to achieve a balanced budget over the agreed loan period.

The plan can be a simple statement showing:

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

An example of a simple recovery plan is shown below.

### **School Budget Deficit Recovery Plan**

Estimated savings to be achieved over two years £ 345,000

#### Year 1

Budget Deficit (£ 185,000)

#### Deficit Recovery Plan

- |  |                 |                   |
|--|-----------------|-------------------|
| • End 2 temporary teaching contracts 31/08   | £ 20,000        |                   |
| • Non replacement of teacher leaving 31/12   | £ 11,000        |                   |
| • Embargo on expenditure (computer hardware) | £ 10,000        |                   |
| • Private Sector Sponsorship                 | <u>£ 60,000</u> | £ 101,000         |
|  |                 | <u>(£ 84,000)</u> |

#### Year 2

Deficit Budget B/F (£ 84,000)

#### Planned Increases in Expenditure

- |  |  |                   |
|--|--|-------------------|
| • Sickness cover costs                       |  | (£ 44,000)        |
| • Necessary expenditure on resources         |  | (£180,000)        |
| • Reduction in Yr 2 Budget (decreasing AWPU) |  | (£ 37,000)        |
|  |  | <u>(£345,000)</u> |

#### Deficit Recovery Plan

- |   |                 |               |
|---|-----------------|---------------|
| • Reduce teaching establishment (3 FTE) 01/04         | £ 80,000        |               |
| • Reduce 2 members of SMT with post Replacement 01/04 | £ 40,000        |               |
| • End temporary contracts 5.8 teachers 31/0           | £140,000        |               |
| • Reduce expenditure on building improvements         | £ 40,000        |               |
| • Full Yr saving 2 temporary contracts from Yr1       | £ 34,000        |               |
| • Reduce non teaching staff by 30 Hrs                 | <u>£ 15,000</u> | £349,000      |
|   |                 | <u>£5,000</u> |

## **Step 4: Reporting and Review**

### Monitoring the School Recovery Plan

Schools with loan agreements will be monitored on a monthly basis (only months during term time). Schools are required to return a forecast year end outturn position each month by the end of the following month; this will be checked for accuracy and reasonableness and compared with the previous financial forecasts and the school's recovery plan.

Schools will be contacted 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 the Group Finance Manager for CYP and the Head of Standards and Inclusion. Schools refusing to engage in the process or who are persistently in breach of the Scheme of Delegation 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 loan application 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 Lewisham. The levels of intervention are:

1. Financial Challenge Meeting held by the Executive Director of Children and Young People with the Headteacher and Chair of Governors
2. Financial Warning Notice
3. Withdrawal of delegation or IEB set up

### Level 1 - Financial Challenge Meeting

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

The review meeting will include Senior Officers from the Children And Young People's Directorate, the Headteacher and Chair of Governors or representative Governor.

The meeting will:

- Review the financial position of the school
- Seek an explanation from the school about the action being taken to safeguard the school's financial position
- Assess what support and challenge the school may require
- Agree an action plan

## Level 2 – Financial Warning Notice

A school that continues to refuse to take the necessary action will be required to attend a Notice of Concern meeting with Senior LA Officers. They will be given a formal notice of the action the LA recommends they should take to bring the budget back in to balance. The school will be given a month to respond.

## Level 3 – Withdrawal of Delegation or IEB set up

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 Director of Children’s Services. 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. The more likely action would be to set up an Interim Executive Board to replace the Governors in order for them to run the school.

## **ESCALATION PROCESS**

The escalation process for a school that fails to submit a budget plan or budget monitoring return is as follows-

Action	Time
Email from the School Finance Team to Headteacher	1 week after deadline
Letter will be sent from the Head of Education, Standards and Inclusion	2 weeks after deadline
Letter will be sent from the Executive Director of CYP to the Headteacher and Chair of Governors and Head Teacher	3 weeks after deadline
If necessary the Chair of Governors and Headteacher will be called in to meet the Executive Director of CYP	4 weeks after deadline