**Process for Managing Deficits Budgets**

*Please be aware that this Deficits Protocol is currently being further considered / reviewed and may be amended.*

The Scheme for Financing Schools, available on [Bradford Schools Online](https://bso.bradford.gov.uk/Schools/CMSPage.aspx?mid=191), sets out the framework for the Local Authority’s management of deficit budgets in maintained schools and applications by schools for licensed deficits.

Schools wishing to apply for a licensed deficit, or to increase the value of or extend an existing deficit plan, must apply to the Local Authority.

The Local Authority regularly initiates conversations, both formally and informally, with schools about their budget positions. Typically, these conversations come from the Authority’s analysis of school budget returns and take place with the headteacher and school’s finance manager. Governors, headteachers and school finance managers are expected to contact the Local Authority (School Funding Team) at the earliest opportunity where they have concerns about the financial positions of their schools.

This paper summarises the process that is followed where a school:

* Forecasts a cumulative deficit at the end of the current financial year,
* Holds a cumulative deficit balance at the end of the financial year without agreement (without a agreed licensed deficit and repayment plan),
* Does not keep, or forecasts that it will not be able to keep, within the terms of an agreed deficit plan.

Please be aware that the Financial Classification of Schools sets out the Local Authority’s approach to the identification of, and conversations with, schools that forecast that they may fall into deficit in a future financial year (within their 3 year budget forecast). This Classification is available on [Bradford Schools Online](https://bso.bradford.gov.uk/Schools/CMSPage.aspx?mid=191).

**Identifying Deficits**

This paper focuses on deficits identified as follows:

* The school forecasts a year end cumulative overspending on its submitted “Start Budget” (the governor approved budget that is required to be submitted by 15 May each year),
* The school projects a cumulative year end overspending on any of its submitted Quarterly Financial Monitoring Returns,
* The school actually closes the financial year with a cumulative deficit balance where this has not been previously forecasted and no plan has been agreed,
* If for any other reason a school that is not currently in deficit notifies the Local Authority that it will overspend in total in the current year,
* The school notifies the Local Authority that it will not be able to keep within an existing approved deficit repayment plan.
* The Local Authority, from its analysis, has concerns that the school may be in deficit or is at risk of deficit at the end of the current financial year.

**The First Stage**

The first stage is a conversation between the Local Authority (School Funding Team) and the school’s Headteacher and finance / business manager, which provides the opportunity for the Local Authority to ‘informally’ discuss the school’s position and to request important additional information on the school’s budget for further assessment, typically including (but not limited to):

* The school’s most up to date budget monitoring report for the current financial year
* The school’s latest (updated) 3 year budget forecast
* A detailed staffing spending forecast
* Additional reports from the school’s HCSS scenario (where the school uses HCSS) \*
* Reports from the school’s finance system (CFR and Commitments etc)
* Reports that have been presented to the Governing Body
* Information on what action the school has taken / is proposing to take to address the budget position.

*\* Where a school grants permission, School Funding Team is able to login directly to the school’s budget scenarios on HCSS.*

Where it is assessed that there isn’t risk of deficit or non-compliance with an agreed deficit plan e.g. due to inaccuracies in the budget forecast, the school’s position will continue to be monitored. A record will be retained of the details of the conversation that has taken place.

Where it is assessed that there is a genuine risk, high likelihood or certainty of a new cumulative deficit or non-compliance with an agreed deficit plan, the Local Authority will meet with the school. The Authority expects that the Headteacher, finance manager (the school’s representative who is able to answer detailed questions about the school’s budget position and assumptions that have been made) and at least one representative of the school’s Governing Body (preferably the Chair of Governors or Chair of Finance Committee) will attend this meeting. Additional follow up meetings may be required.

The key purpose of this meeting will be to assess whether / what remedial action can be taken by the school to rectify the position and bring the school’s budget back into cumulative surplus, or back within the terms of an agreed plan, before the end of the current financial year, avoiding the need for a formal deficit application or the formal revision of an existing plan. The school will be expected to identify its own actions. However, where the school is unable to do this, the Local Authority will provide support and challenge. If sufficient remedial action can / will be taken by the school, a record of the budget revision (what has been agreed and the school’s financial position following such action) will be confirmed in writing to the Headteacher with a copy sent to the Chair of Governors. This confirmation will state that if the school is unable to keep to this revised budget the school must immediately notify the Local Authority. If the school cannot take sufficient action to avoid a cumulative deficit budget at the end of the financial year, the school will need to apply for a licensed deficit and repayment plan.

Where a school has closed the financial year with a cumulative deficit that has not been previously forecasted, and where no plan is in place, the purposes of the meeting will be understanding why the deficit budget was not previously forecasted and agreeing how the school can recover to bring the school’s budget back into cumulative surplus before the end of the new financial year. If sufficient action will be taken by the school, a record of what has been agreed and the school’s financial position following such action, will be confirmed in writing to the Headteacher with a copy sent to the Chair of Governors. If the school cannot take sufficient action, the school will need to apply for a licensed deficit and repayment plan.

**Applying for a Licensed Deficit**

A school that is not able to take action to balance its budget, so that its carry forward balance is cumulatively in surplus at the next financial year end, is required to apply for a licensed deficit and must submit to an agreed repayment plan.

The formal application will normally be made on the [deficit application form](https://bso.bradford.gov.uk/Secure/CMSPage.aspx?mid=237), which can be downloaded from Bradford Schools Online. However, schools are also permitted to use their reports from HCSS to provide the required information. Critically, schools are required to set out what actions they are taking and how the school’s budget will be returned to surplus within the terms permitted by the Scheme for Financing Schools (normal recovery in a maximum of 3 financial years). Schools are expected to take action to return to surplus as quickly as possible. Schools are also expected to work with their HR support provider at the earliest opportunity in considering any actions that may have implications for staffing at the school.

Schools are expected to identify their own deficit repayment plans. However, where the school is unable to do this, the Local Authority will provide support and challenge. The Local Authority will consider using its powers of intervention, including the issuance of Notices of Concern and the removal of financial delegation, in situations where the school:

* Fails to identify its own repayment strategy and is unwilling to take the action recommended by the Local Authority to reduce its expenditure,
* Fails to adhere to an agreed existing repayment plan and does not produce an acceptable revised plan,
* Fails to adequately engage in the process outlined above,
* Is scheduled convert to academy status under sponsored arrangements.

Application forms (including HCSS reports) submitted by schools will be checked by the Local Authority (School Funding Team) to ensure that costings, and other assumptions e.g. pupil number projections, formula funding allocations, are accurate and reasonable (based on the latest available information) and that the timescales for actions are achievable. School Funding Team may request support from other teams within the Authority e.g. Admissions, Early Years and Bradford Achievement Service. School Funding Team will consult with Bradford Achievement Service throughout application the process.

Deficit Repayment Plans, which comply with the requirements of the Scheme for Financing Schools, will then be:

* Submitted to the Schools Financial Performance Group \* for its approval,
* Formally agreed with the Local Authority’s Director of Finance or his representative,
* Notified to the Deputy Director, Education Employment and Skills

Agreed Repayment Plans will be confirmed with the school in writing. This confirmation will:

* Set out the school’s responsibility for repaying the deficit,
* Confirm the period of repayment and amount by which the school is allowed to overspend at the end of each financial year,
* Require the school to report immediately to the Local Authority if it is not adhering to its repayment plan.

*\* Please note that the role of the Schools Financial Performance Group (and the approval process for deficit budget repayment plans) is current under review*