Deficit Monitoring and Intervention Policy

Introduction

This document sets out the Local Authorities policy and procedures with respect to monitoring and intervention of maintained schools' finances.

The policy is to be reviewed annually by the Service Director – Education and Service Director – Finance and Procurement.

Background

Cambridgeshire's Scheme for Financing Maintained Schools sets out the financial relationship between the LA and schools.

Section 4 of the Scheme refers to the treatment of deficit balances arising in relation to budget shares. Under the Scheme, and as per DfE regulations, the LA cannot write off the deficit of any school.

Schools may however submit a request for a licensed deficit and funding advance to the Council's chief officers. As part of the process, approval will only be given where the governing body has agreed and submitted a detailed and credible plan to recover the deficit within agreed timescales. The Scheme states that the amount of a licensed deficit will not exceed 5% of the school's annual budget share. Schools must submit a recovery plan to the local authority when their revenue deficit rises above 5% at 31 March of any year.

Annex D of the Scheme sets out the current License Deficit Protocol which is applied to maintained schools.

Indicators of a school requiring financial monitoring and intervention

The annual budget setting, in-year monitoring and year-end processes undertaken by the Schools Finance Team provide details of the financial positions of individual schools. Ideally the LA's aim is to identify schools with financial problems before they overspend, so that appropriate action can be taken. The vast majority of schools with financial problems can be identified through this process, and through the Council's Schools Finance Team visits. Concerns are often raised by schools themselves, the School Improvement Service or Internal Audit.

We are seeing increasing number of schools facing financial difficulty and in formalising this intervention and monitoring approach, the LA seeks to ensure that support is offered as early as possible to schools and settings.

The LA has identified a number of key factors that impact on schools' ability to maintain financial viability.

Budget / Cash Position

- The in-year financial position / submitted budget is forecasting a cumulative deficit where all surplus balances have been fully applied.
- The school have applied or are budgeting to apply all or a significant proportion of their surplus balances which would result in future year budget sustainability pressures.
- Future year budget modelling forecasts a deficit position based on assumptions of changes to income and expenditure.

Pupil Numbers

- Pupil place planning forecasts indicate that there will be a significant change in the number on roll (nor) in the following financial year(s), which would result in financial pressures if the class structure is not amended or alternative structural solutions considered.
- A significant reduction shall be determined as:
  - Primary School nor <100 whose number on roll reduce by 5 pupils.
  - Primary School nor 101<200 whose number on roll reduce by 8 pupils or 5% whichever is greater.
  - Primary School nor >201 whose number on roll reduce by 15 pupils or 7% whichever is greater.
  - Nursery School whose levels of participation fall by 10%.
  - Special School whose place numbers fall by 5 or 5% whichever is greater.

Financial Management

- concerns have been raised by the LA's Schools Finance Team regarding financial administration.
- concerns have been raised by Ofsted through their inspection of school
- serious concerns raised by the School Improvement Service or other LA service acting in a monitoring role.
- the school have not submitted the Schools Financial Value Standard (SFVS) in accordance with the timescales set by the LA or the information included within the return is a cause for concern.

Interventions for Schools in Deficit

Identification of maintained Nursery, Primary or Special Schools that require support or intervention is a collaborative assessment undertaken by Education in conjunction with the Finance Team.

The School Deficit Monitoring Group (SDMG) will meet in May, July, October and January to consider maintained schools in deficit. Membership of the group comprises of:

- Service Director – Education
- Service Director – Finance and Procurement
- Assistant Director – Education
- Assistant Director – Inclusion
- Strategic Finance Manager – Children's, Education, Communities and Schools
- Senior Finance Business Partner - Schools

The SDMG will agree the appropriate level of intervention / escalation as set out in **Appendix 1.**

Terms of reference for Finance Support Groups (FSGs) and Finance Improvement Groups (FIGs) can be accessed at the following links:

Finance Support Group Terms of Reference
Finance Improvement Group Terms of Reference

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Appendix 1 - Schools in Deficit Intervention

School identifies a deficit budget / ends the financial year in deficit / forecasts deficit in-year

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School to submit deficit licence application and deficit recovery plan. (SFA support where schools purchase a traded package). All deficits will be reported to and considered by the School Deficit Monitoring Group (SDMG) to be chaired by the Service Director: Education. Quarterly reporting to CEF Executive Director and S151 Officer.

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Deficits <5% / £500k – Subject to review, if deemed to be a robust plan which will recover the deficit within 3 years the licence will be approved by Senior Finance and Education Officers.

Deficits >5% / £500k – Subject to review, if deemed to be a robust plan which will recover the deficit within 3 years the licence will require approval by Council Members at the appropriate Committee.

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Advisory Letter *– Following approval of their deficit recovery plan schools will be issued with an advisory letter setting out the conditions of the license and any required actions.*

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Further Intervention will be considered where either:

- *the school has not engaged in the deficit recovery process*
- *the school has failed to submit a deficit recovery plan*
- *the deficit recovery plan fails to provide sufficient assurance*
- *the deficit is not recovered within 3 years*
- *the deficit worsens and no action is being taken by the school*
- *the school has failed to submit deficit monitoring returns*

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Notice of Concern *- A Notice of Concern will be issued to a school where it is considered that County Council intervention is required. The letter will express concerns regarding the financial health of the school and actions that school may be required to undertake.*

Where a school has received a Notice of Concern and a level of intervention has already been given but there is insufficient assurance from the actions taken that the deficit balance will recover, the school will be referred to members of SDMG.

SDMG will decide the appropriate action to be taken, which may include setting up a Finance Support Group (FSG) or Finance Improvement Group (FIG).

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Finance Support Group (FSG) *– to include Headteacher, School Business Manager, Schools Financial Adviser and School Improvement Adviser*

Finance Improvement Group (FIG) *- to include Assistant Director: Education, Chair of Governors, Headteacher, School Business Manager, Senior Finance Business Partner and School Improvement Adviser*

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Warning Letter *- Should the school be issued with a formal notice of concern this will set out in writing the detailed concerns and actions the school will need to take within the stated period. The notice will also state the actions that the County Council will take where the governing body does not comply with the notice.*

A Finance Improvement Group (FIG) will be convened to provide support and challenge to those with oversight and responsibility for the setting and monitoring of the budget.

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Suspension of Financial Delegation *- If there is a failure to address the financial situation, or if the budgetary position continues to worsen, the County Council may consider suspension of financial delegation pursuant to the School Standards and Framework Act 1998.*

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Level	Scenario	Proposed Intervention
5+	Deficit Budget in Excess of 5% with no robust recovery plan. Lack of engagement and/or lack of options due to legislation or system wide issues (nursery / special / small schools)	Notice of Financial Concern to be issued. Deficit License cannot be approved. Thematic reviews required to address system wide issues: nursery / special / small schools. External review of staffing to be considered. Longer term strategy to be agreed.
5	Deficit Budget >5% with no robust recovery plan. Lack of engagement and/or lack of options due to legislation (e.g. Infant Class Sizes / Pupil:Teacher ratios)	Notice of Financial Concern to be issued. Deficit License cannot be approved. Finance Improvement Group (FIG) to be implemented. Potentially agree longer period for recovery. Structural solutions maybe required.
4	Deficit Budget <5%, but with no robust recovery plan or recovery plan which does not balance within 3 years.	Notice of Financial Concern to be issued, but Deficit License cannot be approved. If the recovery plan shows in-year improvement / balanced position potentially agree longer period for recovery. Finance Support Group (FSG) to be implemented.
3+	Deficit Budget >5% with robust recovery plan forecasting recovery within 3 years.	Advisory Letter to be issued and Deficit License approved (S151 Officer). Progress against plan to be monitored in-year. Enhanced Monitoring.
3	Deficit Budget <5% with robust recovery plan forecasting recovery within 3 years.	Advisory Letter to be issued and Deficit License approved. Progress against plan to be monitored in-year. Enhanced Monitoring.
2	Significant use of balances in previous year or planned in current year.	Advisory Letter to be issued highlighting risk of reliance on one-off reserves.
1	No immediate concerns in respect of the financial position. Strong financial management and reserves.	Standard monitoring.