



# FINANCIAL MANAGEMENT

## Schools in Financial Difficulty

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London Borough of Haringey  
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**Haringey**  
LONDON

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# Schools in Financial Difficulty

*Financial difficulty is a condition in which school cannot generate enough revenue or income and it is unable to meet or cannot pay its financial obligations.*

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*Notes:*

ESFA – Education & Skills funding Agency

DfE – Department for Education

LA – Local Authority

VFM – Value for money

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## INTRODUCTION

Schools Financial Regulations set out the internal controls and procedures to be followed by schools when school fall into deficit or predicting a deficit budget.

The manual follows the same structure and order as the financial regulations but is designed to give detailed assistance to schools in designing processes to record and demonstrate compliance with regulations.

In any case where conflict is perceived between this manual and the schools' financial regulations then the regulations will apply.

If a school has difficulty in interpreting the regulations or this corresponding financial manual, they should contact Haringey Schools Finance Team.

Sections 45-53 of the School Standards and Framework Act 1998, the annual School Finance (England) Regulations and elements of the Haringey Scheme for Financing Schools also contain regulations supporting this section of the Schools Finance manual

## SCHOOLS IN FINANCIAL DIFFICULTY

School are defined as being in “financial difficulty” when either or both the following circumstances occur:

1. If the school plans to be in cumulative deficit in the current financial year.
2. If the school predicting a cumulative deficit in the current or any subsequent financial year.

The Schools Financial Regulations require schools to maintain a balanced budget. However, regulations also recognise that circumstances may mean that this is not always possible.

The Scheme for Financing Schools permits schools in an extreme circumstance to apply for a licensed deficit for a maximum period of three years. These are subject to various limitations. A Licensed Deficit is an agreement between the school and the Authority.

Schools seeking permission to set a Licensed Deficit Budget can sign up for support available from the Haringey Council. However, if they purchase their financial support from a provider of their choice but must seek approval from the Local Authority to use that provider.

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## Identification of Schools in Financial Difficulty

1. Schools formally notifying the Haringey School Finance team that it is planning or forecasting a cumulative deficit position.
2. Haringey Council has its own arrangements to monitor schools' budgets based on the reporting requirements in Schools Financial Regulations.

Haringey Council require all schools to manage and monitor their budget effectively and the key to successfully 'Recovering Your Balance' is early identification of potential financial difficulties in your schools. This should then be followed by a medium- and long-term strategy to reduce the deficit over the next financial year.

## Working with Schools in Financial Difficulty

The ultimate responsibility for formulating a recovery plan proposal lies with the Head Teacher and the Governing Body of the school. Haringey Council can support schools in financial difficulty. The Council will allocate Schools Consultant/Adviser to help with the recovery plan and identify strategies to reduce their deficit. It is vital that the school engages with the LA Finance Team at an early stage in the process.

The school and its advisers should cover the following range of issues.

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<b>Step 1:</b> Obtain a clear understanding of why the budget problem has arisen. e.g. is it a result of a single event, or the result of some underlying ongoing situation.	<b>Step 2:</b> Are the forecasts of income and expenditure underlying the identified deficit robust?
<b>Step 3:</b> Review government funding and accuracy of your school's data to ensure schools have been allocated accurate funding	<b>Step 4:</b> The cost of the structure and implementation of integrated curriculum financial planning to identify surplus capacity
<b>Step 5:</b> Obtain Schools benchmarking data against other similar schools to identify where expenditure patterns differ significantly from others of similar size and profile of needs.	<b>Step 6:</b> Review of school's local income generation against targets set. Schools can also increase their income by bidding for various grant that may be available to the school for various activities.
<b>Step 7:</b> Review of pupil with EHCP plan and funding allocated to support children with EHCP plan.	<b>Step 8:</b> Review pupil forecast and accuracy of census data submission

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The Governing Body should formally consider and endorse the recovery plan prior to submission to the Local Authority for approval. The over-riding consideration is to formulate a plan which:

1. Helps the school to return to a sustainable position of a cumulative positive balance
2. Does not compromise teaching and learning standards at school

## **APPLICATION PROCEDURE**

Schools can apply for a Licensed Deficit in writing to Schools Finance with the following documents:

1. A completed application for Licensed Deficit (Appendix A)
2. A 12 months Cash flow forecast (Appendix B)
3. A 3 Year Plan in full Consistent Financial Reporting (CFR) format, showing:
  - a. The previous financial year actual
  - b. The current financial year budget
  - c. Future years budget
4. A comprehensive deficit recovery plan
5. Benchmarking analysis or Income, expenditure, balances and workforce comparison

If the projected deficit is less than £25k and the school anticipates that they will have a balanced budget within 6 months and a deficit recovery plan is not required but monthly financial returns are required.

If the amount increases above £25k or the time in deficit increases to greater than 6 months, then a comprehensive deficit recovery plan must be submitted along with all above requirement.

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## Reporting Requirement for schools

The School will be required to provide a monthly return to the same standard as the quarterly returns demonstrating action and progress to recover the deficit position until the deficit is resolved.

1. Income and Expenditure report (CFR) format
2. Balance Sheet
3. Bank Reconciliation
4. List of Debtors and Creditors
5. 12 months cash flow forecast

## Further reporting guidance for schools

The School will be required to submit following reports on a monthly basis demonstrating action and progress to recover the deficit position until the deficit is resolved.

Reports	Deficit <£25,000	Deficit > £25,000
Income and Expenditure report	YES	YES
Balance Sheet	YES	YES
12 Months Cash Flow Forecast	YES	YES
Bank Reconciliation	YES	YES
List of Debtors and Creditors	NO	YES
Control Account Reconciliation	NO	YES

## Processing the application for a License Deficit

Haringey Council implemented procedures to manage and process each application submitted for a Licensed Deficit.

These procedures have been designed to ensure that:

- Applications are reviewed, and amendments agreed with schools, to ensure that only robust achievable recovery plans are approved and put into practice.
- The decision to approve an application is taken without undue delay.
- The process is managed and transparent.

The review process may involve a visit to the school by the LA Finance Team before the school is notified of the results or any further information required for the application.

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## Council Approval Hierarchy

A completed application form along with the supporting documents should be submitted to Haringey Council School finance team for an assessment.

Scheme of Delegation	Amount
1. Head of Finance and Business Partnering	Up to £250,000
1. Head of Finance and Business Partnering 2. Assistant Director, Schools and Learning	Up to £500,000
1. Assistant Director, Schools and Learning, 2. Director of Children's Services, & 3. Director of Finance	£500,000 & over

Electronic versions of application should be emailed to shared inbox at [s-SchoolsReturns@haringey.gov.uk](mailto:s-SchoolsReturns@haringey.gov.uk)

## MONITORING AND REVIEWING RECOVERY PLANS

The school is responsible for monitoring and reviewing its deficit position and deficit recovery plan.

It is a requirement for a school to have monitoring of the recovery plan as a standing agenda item for the Finance Committee and to submit a copy of all finance committee minutes to the LA Finance Team.

Schools are expected to honour any commitments regarding monitoring procedures given in their application for a Licensed Deficit.

In addition to above Local Authority will monitor the monthly returns along with the recovery plans. If this monitoring suggests that a significant deviation is becoming apparent between the recovery plan and what is happening, then the LA Finance Team will raise this directly with the Chair of Governors or Head Teacher.