



Policy Document
Children's Services' Education Services' Team

School Financial Efficiency Policy and Procedure: Version 9

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Changes from the November 2020 version of this policy

The updated policy continues to promote good financial practice. Minor changes have been made to correct the SFVS question number for related party transactions (RPT) and reflect the move towards the National funding formula. The definition of a RPT has been removed as this is available on the SFVS Checklist. Changes are highlighted in yellow.

1. Application

- 1.1 All maintained schools in Dorset are covered by this policy, however it is recognised that Voluntary Aided schools are subject to different rules regarding capital funding. These variances are taken account of in the procedures.
- 1.2 This policy expands on the *Dorset Scheme for Financing Schools* and was effective from September 2008. This version was released in November 2022 following consultation with the Schools' Forum.
- 1.3 This policy promotes effective financial management in schools and offers guidance for schools on deficit and surplus management.
- 1.4 In order to plan the effective use of resources, schools should take account of the following principles:
 - a) Have a school development plan that is underpinned by sound resource planning and identifies priorities and targets for: ensuring that pupils achieve high standards and make progress; increasing teachers' effectiveness and securing school improvement.
 - b) Have a financial planning system that can accurately forecast salaries over a minimum period of 3 years, as well as allowing other income and expenditure to be forecast.
 - c) Link the multi-year budget (minimum of 3 years including the current year) to the school development plan to ensure resources are available to meet priorities and targets.
 - d) Ensure the multi-year budget takes into account predicted and realistic changes in pupil numbers, and forecasts likely changes in income and expenditure.
 - e) Set an annual budget that is approved by the Full Governing Body/Management Committee and submitted to the Local Authority (to the School Finance and Support Team) by the 1st May each year.
 - f) Not set a deficit budget.
 - g) Ensure balances (both revenue and capital) are at a reasonable level and have a clear plan for using the balances held at year end.
 - h) Monitor the budget at least six times a year.
 - i) Establish sound internal financial controls. Ensure there are adequate arrangements in place to guard against fraud and manage conflicts of interest and any related party transactions.

- j) Annually review the School Financial Value Standard (SFVS) checklist and dashboard with Governors and refer to the SFVS checklist guidance for further detail on good practice.
- k) Ensure that the SFVS checklist and dashboard is completed and returned to the LA by 31st March each year. A list of Related Party Transactions (RPTs) should be appended which link to the answer to question 26 in the SFVS checklist.
- l) Complete the Integrated Curriculum Financial Planning (ICFP) workbook as part of the budget setting process, which should be discussed by governors and returned to the LA.
- m) Regularly review the [School resource management web page](#) provided by the DfE and ESFA for the latest information, tools, training and guidance available to help with financial planning and resource management.

2. Actions - Deficit Budgets

2.1 3-year budgets

- 2.1.1 The 3-year budget and completed budget setting workbook must be agreed by the full governing body/management committee and submitted to the School Finance and Support by 31st March as good practice and 1st May at the latest.
- 2.1.2 The budget must be set for a minimum of three years and should show a surplus in year one. Any budget submitted to the School Finance and Support showing a predicted year end deficit in the first year will be rejected and returned to the school unless it is accompanied by a licensed deficit application and deficit recovery plan which fully repays the deficit. The school is expected to do everything possible to avoid setting a deficit budget in the first year.
- 2.1.3 If a year-end deficit is shown in the second or third years, schools will be expected to develop a strategy for deficit avoidance. Updates must be provided when forecast of outturn reports are submitted during the year to show how the school will avoid deficit in future years.
- 2.1.4 All budgets will be subject to further discussion and amendment until accepted. Schools must not upload the budget to the local finance system until a formal acceptance has been received from the School Finance and Support Team.

2.2 Integrated Curriculum Financial Planning (ICFP)

- 2.2.1 Integrated curriculum and financial planning (ICFP) is a management process that helps schools plan the best curriculum for their pupils with the funding they have available. It can be used at any phase or type of school. ICFP involves measuring your current curriculum, staffing structure and finances, and using the data to create a 3 to 5-year plan.
- 2.2.2 A blank ICFP workbook will be issued as part of the budget setting documentation in the spring term. This should be fully completed and discussed with governors at the time of setting the budget. Governors should analyse the benchmarks and discuss the effective use

of resources in respect of teacher deployment, use of support staff, non-staffing costs and the balance of income and costs.

- 2.2.3 The analysis will indicate the staffing levels that are affordable, based on estimated cost pressures, income and pupil roll numbers, and the number of teachers needed to deliver the curriculum.
- 2.2.4 If a school is in deficit or heading towards deficit, the ICFP workbook analysis should be used in the process of forming a strategy to avoid or recover from deficit.

2.3 Process to agree a deficit recovery plan

- 2.3.1 The School Finance and Support Team will work with those schools with potential/actual deficits to agree a strategy to achieve sustainable balanced financial position over an agreed period of time. Deficit recovery should generally be achieved in three years, but this will be agreed on an individual basis. A licensed deficit application and recovery plan should be submitted that is realistic and time constrained.
- 2.3.2 Both local and national benchmarking comparisons will be made during this process. Historic budget allocations should not just be rolled forward each year; opportunities for working in more efficient ways should be considered for each budget heading. The deficit recovery plan should also take into consideration the expected outcomes of pupils in the school, to ensure that these are not compromised unduly.
- 2.3.3 As part of the process to draft a deficit recovery plan, Governors should consider all aspects of the financial plan and constructively challenge assumptions to ensure best value is achieved, including using the School resource management webpage provided by the DfE and ESFA referred to in paragraph 1.4 (m) above. This provides the latest information, tools, training and guidance to help with financial planning and resource management. The ICFP workbook should also be used as part of this process. Minutes of the meeting should be submitted to the LA with the licensed deficit application.
- 2.3.4 The licensed deficit application and recovery plan must be discussed and adopted by the Full Governing Body/Management Committee. Relevant Governors minutes should be submitted to the LA in addition to the application and recovery plan.
- 2.3.5 The application will be checked and signed off by the Corporate Director for Education & Learning if the plan is deemed to be realistic and time constrained.

2.4 Notice of Financial Concern

- 2.4.1 Schools with a new deficit as of 31st March 2015 onwards, or an existing deficit that is not licensed, may, at the Local Authority's discretion, be issued with a Notice of Financial Concern. There will be no right of appeal against the issue of a Notice of Financial Concern. The notice will show required actions and timescales. Restrictions on expenditure may be included in the Notice.

2.5 Ongoing monitoring arrangements

- 2.5.1 The School Finance and Support Team will continue to work with schools that hold licensed deficits and existing deficit recovery plans to ensure that they are adhered to and reduce the deficit as planned.

- 2.5.2 Once the licensed recovery plan is agreed, any changes of circumstance can be discussed, but the expectation is that expenditure will be cut if the recovery is not being met. Early repayment of the deficit is expected if it can be achieved without compromise to standards.
- 2.5.3 The school must have robust internal budget monitoring arrangements in place to ensure that performance against the budget and recovery plan is sufficiently monitored and tracked on a regular basis (See Section 5).

2.6 Deficit Management

- 2.6.1 Where a school has a deficit, enhanced challenge and support will be set in place. The school leaders and governors will work with the School Finance and Support Team and other LA officers as required (from Early Years, Dorset Education Advisory Service, HR, Governor Services and Accountancy), to agree the methods by which the school will be able to balance its budget. A number of specific options will be considered according to the circumstances of the school:
- a) If a school is cash funded, the LA will consider removing cash funded status;
 - b) A new deficit recovery plan, exceptionally with longer time periods for repayment of the deficit;
 - c) Inclusion of the school on the Local Authority's Schools Causing Concern Register for financial reasons;
 - d) Strengthening the governing body, management committee or Interim Executive Board by appointing one or more Local Authority Governors. Their role would be to support the headteacher and the governing body, management committee or Interim Executive Board in managing the recovery process as the authority is well aware of the very difficult decisions that will need to be made;
 - e) Recommend appropriate training for school staff and Governors to address any identified weaknesses in the financial management of the school;
 - f) Recommend Access Education Budgets for producing accurate 5-year financial plans;
 - g) Issue a Notice of Financial Concern stating the reasons for issuing the notice and detailing specific actions to be completed in an agreed timescale. Restrictions on expenditure may be included in the Notice;
 - h) In severe cases where the Notice of Financial Concern does not prompt the required action it could be necessary to remove financial delegation. In this case, Local Authority representatives will be nominated to manage the school's budget. The Headteacher and Chair of Governors will be kept fully informed during this process. This would mean the authority taking full control of the budget, including all decisions relating to staffing.
- 2.6.2 Examples of situations when a Notice of Financial Concern would be issued:
- a) If a maintained school is at risk of becoming a sponsored academy.
 - b) A deficit in the current financial year is not licensed.
 - c) The school is in breach of the Scheme for Financing Schools, e.g. does not submit an acceptable budget.
 - d) A school that requires improvement has not demonstrated commitment to making better use of resources or achieving value for money.
 - e) There is some evidence of financial mismanagement.
 - f) Financial returns such as the VAT return, CFR report, forecast of outturn report or SFVS are submitted late.
 - g) The school will not set a three-year budget.

2.6.3 Examples of situations when delegation would be removed:

- a) The school is persistently in breach of the Scheme for Financing Schools.
- b) The school will not set a balanced budget.
- c) The school will not engage in the licensed deficit process.
- d) The deficit is worsening and no action is being taken by the school.
- e) There is evidence of financial mismanagement by the school and a Notice of Financial Concern does not give the LA sufficient assurance.
- f) A school deemed to be a school causing concern has not demonstrated commitment to making better use of resources or achieving value for money.
- g) Actions included in a Notice of Financial Concern have not been met in the specified timescale.
- h) A school in deficit has been judged inadequate by Ofsted.
- i) A school that is eligible for intervention by the LA under Section 60 of the Education & Inspections Act 2006.

3. Actions - Surplus Budgets

- 3.1 Current allowable surplus levels are 5% for secondary and middle schools and 8% for primary and special schools and learning centres. These allowable levels should be viewed as maximum levels, not prudent levels and schools should plan to spend the budget they receive on the pupils in school in that year. Where schools are predicting a year-end excess surplus the budget may be rejected and the School Finance and Support will work with the school to agree a balanced budget.
- 3.2 The Dorset Scheme for Financing Schools allows the Local Authority to remove funds in excess of the allowable levels. Where schools are carrying a current excess surplus from the previous financial year this will be investigated on an individual level. Monitoring year end balances enables the LA to ensure that today's money is being spent on today's pupils.
- 3.3 The following challenge and support process will be used to ascertain if expenditure plans for surplus balances are deemed to be appropriate:
 - a) During the financial year, schools prepare three forecast of outturn reports (June, November and February) that are submitted to the School Finance and Support Team. If a school is predicting an excess surplus, there is space available to include information on the planned use of the excess surplus on each occasion.
 - b) During the budget setting process for the following year, schools can include information on planned projects using the excess surplus.
 - c) Once final year end balances are available, schools with an excess surplus will receive a letter asking if they wish to submit any additional information or evidence to the LA.
 - d) A group of LA Officers review all the information received from schools before the end of the summer term and decide if the expenditure plans for the use of excess surplus balances are appropriate. The following criteria are used when deciding to approve an excess surplus:
 - (i) A specific scheme of repair or refurbishment which cannot be financed from one year's budget share. For schools where land and building assets

are owned by the Local Authority, the Local Authority property team must be informed of any planned refurbishment scheme.

- (ii) A specific scheme of building work, furnishing or equipping which cannot be financed from one year's budget share. In this case the school must have spent or committed all Capital funding before using revenue to fund these schemes. For schools where land and building assets are owned by the Local Authority, the Local Authority property team must be informed of any planned building work.
 - (iii) Monies held on behalf of other schools or organisations (including nurseries) that will be distributed or spent in the following financial year.
 - (iv) Funds set aside for use in year 1 to manage change related to awkward class sizes, school reorganisation, falling pupil numbers or staff secondments. For example, a school/PRU may wish to retain 4 classes even though reception intake shows that only 3 classes are needed however, the following year the pupil number intake rises, and 4 classes are required.
 - (v) Purpose of unspent donations. (These should exclude balances held in trust funds or other private or non-public accounts).
 - (vi) ICT replacement or development programme.
 - (vii) Exceptional circumstances which will be scrutinised. These could include VA schools seeking LCVAP from the Diocese saving their contribution towards a capital project.
 - (viii) Unspent grants issued for an academic year (for example, Pupil Premium, Year 7 Catch Up Grant, funds held for UIFSM adjustments by the DfE), which will be spent in the summer term.
 - (ix) Evidenced known future expenditure on redundancies or ill-health retirements.
 - (x) To offset a deficit in year 1 of the 3-year school budget plan.
- 3.4 Schools with an excess surplus in each of the last three financial years will be visited by an Officer from the School Finance and Support team and/or a colleague from the Dorset Education Advisory Service to discuss progress of excess surplus projects and whether the holding back of funds is impacting on the education of the children and young people on roll.
- 3.5 In cases where the financial circumstances of a school are of significant concern, the school will be included on the authority's Schools Causing Concern Register for financial reasons.
- 3.6 Where a School Causing Concern is not adhering to an agreed plan to reduce the excess surplus, a financial Notice of Concern will be issued. The notice will give targets for the reduction of the excess surplus, on agreed projects, within an agreed timescale.
- 3.7 In severe cases where the Notice of Concern does not prompt the required action it will be necessary to remove delegation; in this case Local Authority representatives will be nominated to join the Chair of Governors and Headteacher in managing the school's budget. This would initially mean the authority taking full control of the budget but much of the day to day budgeting might be returned to the school very quickly.

4. Support to Schools - Headteacher and Governor Training

- 4.1 Where a school is in deficit or excess surplus recovery, the School Finance and Support Team will arrange a support visit to the school and/or one or more governors' finance meetings to ensure that the governors are equipped with all the necessary information and skills to fulfil their role in rectifying the situation.
- 4.2 Headteacher and governor training will be made available as appropriate.

5. Monitoring of School Budgets and Levels of Support

- 5.1 Schools should provide budget monitoring reports to governors, from the local finance system, at least six times a year. All schools are required to provide estimated forecast of outturn statements to the School Finance and Support Team on a termly basis.
- 5.2 Schools that are a major concern i.e. those that have an increasing deficit or are unable to adhere to a recovery plan, will be supported by the Deficit Management process detailed in Section 2.5 and 2.6 of this policy.
- 5.3 Schools conforming to recovery plans and with reducing levels of deficit or excess surplus continue to be monitored by the School Finance and Support Team and supported by LA Advisers if necessary. The projected forecast of outturn position should be reported to the Governing Body/ Management Committee / Interim Executive Board at least half termly. (NB there does not necessarily need to be a meeting of the Governing Body/Management Committee/Interim Executive Board each half term, but a monitoring report should be communicated to them for their review).

6. Support to Schools – De-delegated fund to support redundancy costs for schools in financial difficulty

- 6.1 If school phases choose to de-delegate a fund towards redundancy costs, this will be available to support schools in that phase in financial difficulty undertaking a redundancy/restructure process in order to set up a financially sustainable staff structure.
- 6.2 The necessity of the redundancy to avoid deficit must be verified by a member of the School Finance and Support Team before it can be agreed that the school can access the fund.
- 6.3 The de-delegated fund will not be available for:
 - (a) Headteacher redundancies if schools choose to federate, amalgamate or become a Multi-Academy Trust.
 - (b) Staffing reductions which the LA does not believe are necessary to either set a balanced budget or meet the conditions of a licensed deficit.
 - (c) Situations when a school has decided to offer more generous terms than the authority's policy, then it would be reasonable to charge the excess to the school.
- 6.4 If a school becomes an academy during the financial year, access to the fund can still be agreed if the school has paid into the de-delegated fund.

7. Schools' Funding

- 7.1 Funding for schools must respond to changing circumstances but also offer stability and predictability.

- 7.2 Work to gather, collate and interpret technical data to inform the transition to the National Funding Formula and will be discussed with the Dorset Schools' Forum at regular intervals. All schools will be consulted if necessary.

8. Financial Transparency

- 8.1 Following the 2019 government consultation on financial transparency and accountability arrangements, all maintained schools must:

- 8.1.1 Append a list of Related Party Transactions (RPTs) to the SFVS Checklist when this is returned to the LA. The RPT list should link to question 26 in the SFVS Checklist.

The following information should be included in the RPT list appended to the SFVS:

- the person at the school whose interest makes this a related party transaction;
- the value of the contract;
- how the procurement (or appointment) was handled in order to avoid any impropriety either in practice or in appearance.

- 8.1.2 From 1 January 2021 publish annually on their website the number of individuals (if any) earning over £100k in £10k bandings, excluding employer on costs. The FTE salary for part-time members of staff does not need to be stated.

- 8.1.3 From 1 January 2021 publish a link from the school website to [the schools financial benchmarking website on gov.uk](#), so stakeholders can make comparisons across schools and get additional information explaining and contextualising income and expenditure data.

9. Review of impact of policy

- 9.1 Information about progress is taken annually to the Dorset Schools' Forum but also Headteacher and Chair of Governor briefings.

- 9.2 The impact of this policy is reviewed annually at the Dorset Schools' Forum.