

Deficits

Information Sheet

Schools are required to prepare a balanced budget each year as per the Financial Regulations for Schools. Schools are not permitted to plan for a deficit balance in normal circumstances, however this may be permitted with approval from the Cabinet Portfolio holder for Children and Families.

1. In Year Deficit

An in-year deficit will occur if a school is planning expenditure higher than the income it receives in a financial year (for example, this may occur if a school has significant one-off expenditure). In-year deficits are allowable, providing there is enough brought forward balance to cover the additional expenditure. An in-year deficit does not require approval by the LA however, if a school has an in year deficit due to overspends on regular revenue items, the level of spending would not be sustainable in the longer term and the school would be identified as a high risk school (where additional financial monitoring will be undertaken).

2. Deficit Carry Forward Balance

If a school is planning expenditure in a financial year that is higher than the sum of the income it receives for the year and the brought forward balance, this will leave a deficit carry forward balance at the end of the year. Schools with a forecast deficit balance are identified as being in financial difficulty and will be required to work with the Finance Team to try to balance the budget. If it is not possible to balance the budget within the financial year the school can apply for a licensed deficit.

3. Licensed Deficit

A licensed deficit is where the Local Authority agrees to finance the school deficit for the duration of the recovery plan. Schools are not permitted to seek borrowing or loans in any other form.

The maximum permitted deficit balance will be 5% of the full budget share allocation in the financial year in which the deficit is planned. Schools must produce a recovery plan, as part of the application for a deficit budget, giving details of why the deficit has arisen and how it will recover the deficit. This repayment must take no longer than three years.

Other information the school will have to provide, but is not limited to, includes:

- A description of the circumstances leading to the forecast deficit balance.
- Details of the steps the school intends to take to reduce expenditure or increase income.
- An assessment of the risks associated with these planned actions.

5. Licensed Deficit Approval

Initially, schools should approach the Finance Team to discuss any potential deficit to discuss in detail what is required from the school. The SFT will then make a recommendation to the Cabinet Portfolio holder for Children and Families whether to agree to license the deficit. The lead member will then take a formal decision (via MKC's delegated decision process) to agree to license the deficit. Papers for Delegated Decision meetings are published on the Milton Keynes Council website and are therefore public documents.

As part of the monitoring of progress against the recovery plan, the school will be requested to submit monthly reports to the Finance Team. Failure by a school to submit a satisfactory recovery plan or to recover the deficit in line with an agreed plan may result in a notice of concern being issued or withdrawal of the delegated budget. Further information can be found here on the LMS website or from the finance team schoolsfinance@milton-keynes.gov.uk.