



Schools Funding Forum 27th November 2025

ITEM 7

Subject Heading:

Schools Financial Monitoring

Report Author:

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Eligibility to vote:

Information only

SUMMARY

This report provides an update on the 2025-26 in year financial position of Havering Maintained Schools and the number of schools in or at risk of going into deficit.

RECOMMENDATIONS

That the Schools Funding Forum notes the report.

REPORT DETAIL

Havering Schools Financial Position

At the end of the 2024-25 financial year there were 16 Havering maintained schools with overall deficit budgets, all of which had been in deficit for a number of years. For the first time the overall level of school deficits exceeded the level of surplus meaning that there was an overall debit balance on the LMS reserve. Schools in deficit had received around £5m of cash advances from the authority.

When schools set their budgets for 2025-26 and the following years, it showed that there was a high risk of more schools falling into deficit in this or future years. This reflects the high level of financial pressure that Havering schools are under. However, the financial regulations concerning schools financing are clear that deficits should be avoided where possible and should not be allowed to persist. The legislative framework sets out that deficits should only be permitted as a temporary measure and schools that need to go into deficit should take

steps to recover their position within a reasonable timeframe – with three years being the suggested period.

Schools were therefore grouped into five risk categories as follows.

- A 9 Schools - Schools forecasting to remain in surplus for at least 3 years

These schools are currently in a sustainable position, and no immediate action is required. They should however continue to monitor their situation as circumstances can change.

- B 7 Schools - Schools in surplus in this financial year but forecasting a potential deficit in the medium term.

The Governing Body should monitor their position carefully and consider what action they can take now or in future to ensure they do not fall into deficit.

- C 6 Schools - Schools forecasting they are at risk of falling into deficit in year

The Governing Body should urgently consider whether they can take action in year to avoid falling into deficit. If that is not possible, they can apply for a licensed deficit but will need to produce a recovery plan showing how they will return to surplus in a few years.

- D 6 Schools - Schools in deficit now who are forecasting to reduce their deficit over three years – of which 3 will be in surplus by the end of the time.

The Local Authority will be able to issue a licensed deficit as there is a recovery plan in place. This will need to be monitored to ensure it is successful in returning the school to surplus.

- E 10 Schools - Schools in deficit who are forecasting their deficits will increase over a three-year period.

A recovery plan needs to be developed and implemented to ensure that the school can start to return to surplus in the future. Given the size of some deficits and the nature of the issues this may need to take more than the recommended 3 to 5 years.

The Current Situation

Since this initial exercise schools and governing bodies have worked very hard to identify what action they can take to improve their financial position. In particular most of the six schools in category C may not now move into deficit this year. This is being confirmed by the finance team with those five schools. If this is the case, then there is no further action required in year although the position will need to be monitored.

A further two schools that are in deficit have developed a satisfactory recovery plan and are now projecting a return to surplus in future year.

However, there are still ten schools that have not yet been able to identify sufficient actions to return to surplus although many of these schools have taken action to reduce the rate of

overspending. These are schools with a very high level of challenges and Finance will continue to work with them to understand the main drivers of their pressures and what would help we can provide.

Licensed Deficits

A licensed deficit is an agreement between the Local Authority and a school governing body that the school may go into deficit for a defined period of time. This is a formal decision shared between the Director of Children's Services and the Director of Finance.

A licensed deficit agreement is specific to an individual school and will include the following information:

- The total amount of deficit a school is permitted to reach
- What funds the authority will advance the school
- What action the school should take to recover its situation
- The timescale over which the school will return to surplus
- When any cash advances will be repaid.

We are in the process of drawing up agreements with the schools who have been able to produce recovery plans.

For those schools that have not been able to produce recovery plans we will need to formalise the situation with some kind of interim agreement.

Local Authority Finance Support.

The Local Authority wants to work with schools which are facing financial pressures and to offer them effective support. The team are therefore reviewing our finance offer and will be focusing more on its statutory strategic and regulatory roles. This will also lead to more clarity in the traded offer.

At the same time, we will be working on making changes to our statutory support. This will include – a review of the Scheme for Financing Schools, improved guidance and advice on budget setting, focusing more on in year monitoring in the quarterly financial submissions and more support for schools in deficit.