

# Policy on Supporting Schools in Financial Difficulty

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# Policy on Supporting Schools in Financial Difficulty

## 1. Purpose

- 1.1. The Policy is being implemented to provide greater clarity on the financial responsibility of the Governing Board and Headteachers of our maintained Schools. It is being introduced to address gaps in practice which have emerged in recent years and in a climate where schools are facing the combined challenge of spiraling costs and falling rolls.
- 1.2. The aim is to support schools to operate within a balanced budget on a sustainable basis. The priority for the Policy is, therefore, to establish a clear and effective framework for how we support those schools which are either in deficit or falling into deficit to recover.
- 1.3. The delegated budget responsibility of the authority and the schools is set out in the School Standards and Framework Act 1998 and Education & Inspection Act 2006.
- 1.4. This policy will be applied in a proportionate, transparent, and reasonable manner, having regard to the individual circumstances of each school, including educational outcomes, demographic pressures, sustainability considerations, and statutory duties.

## 2. Deficit

- 2.1. Schools are permitted to set a deficit budget if they meet certain conditions. This is termed as a licensed deficit. The conditions of a licensed deficit are set out in the Scheme for Financing Schools.
- 2.2. The conditions of a licensed deficit include a requirement to have a robust plan to repay it within three years. This will be closely monitored and reviewed by the Council during the period of the deficit.
- 2.3. Applications for a licensed deficit must be submitted to the Local Authority by 31 May each year (or the last working day in May where 31 May falls on a weekend), and schools will be informed of the outcome after July Cabinet. Under statute, the local authority is not permitted to write off the deficit balance of any maintained school (Scheme for Financing Schools, s.4.7).
- 2.4. If the conditions are not met by the school, the Council has the power to issue a Notice of Concern (under the [Schemes for financing local authority maintained schools 2025 to 2026 - GOV.UK](#)) and, where concerns relate to governance or management breakdown, a Warning Notice (under the [Support and Intervention in Schools](#) statutory guidance (DfE, November 2025)). These are distinct instruments and their use is explained in Appendix B. Either may ultimately lead to the removal of a school's delegation.
- 2.5. This policy applies to both in-year deficit positions (where a school is forecasting an overspend

against its budget share within the current financial year) and cumulative carried-forward deficits (where negative balances have been brought forward from previous years). Both require prompt engagement with the Schools Finance Team and appropriate recovery planning.

### **3. Risk Oversight, Monitoring & Management Framework:**

3.1. The diagram below sets out the details of the arrangements for the Finance and Education Improvement Teams to support the Governing Board and Headteachers to jointly oversee, monitor and support with the preparation, management, and delivery of Deficit Recovery Plans. The framework arranges Schools by financial risk and the significance of any deficit, based on those with a:

1. **Green** – Surplus with no identified risk
2. **Amber** – Surplus reducing and trending towards deficit
3. **Blue** – Deficit reducing and trending towards surplus
4. **Red** – Significant and sustained deficit (persisting for more than one year)

3.2. The framework sets out eight risk scenarios providing the platform for how the authority will oversee, monitor, and support. Each scenario details proportionate steps, applied jointly with the school, to monitor the Budget and review where a school is in deficit or going into deficit. The details of how this will operate to reduce, remove, and prevent a deficit are set out in the next section.

### Reducing Surplus

#### 1 Went into Deficit in the previous financial year:

- (1) Review with Education Improvement and Finance teams
- (2) School to prepare a Recovery Plan, and the Education Improvement and Finance Teams to review it
- (3) Recovery Plan to be reviewed and signed off by Director of Education and Head of Finance for Children's
- (4) Review with Education Improvement and Finance Teams
- (5) Monthly reporting to the Schools Finance to monitor deficit & progress on recovery
- (6) Continue to provide standard quarterly financial returns to Schools Finance team

#### 2 Budget Plan for current financial year takes School into Deficit:

- (1) Notify the Schools Finance team
- (2) School to prepare a Recovery Plan, and the Education Improvement and Finance Teams to review it
- (3) Recovery Plan to be reviewed and signed off by Director of Education and Head of Finance for Children's
- (4) Submitted for approval by Cabinet
- (5) Review with Education Improvement and Finance Teams
- (6) Monthly reporting to the Schools Finance to monitor deficit & progress on recovery
- (7) Continue to provide standard quarterly financial returns to Schools Finance team

#### 3 School goes into Deficit during the current financial year:

- (1) Notify the Schools Finance team
- (2) School to prepare a Recovery Plan, and the Education Improvement and Finance Teams to review it
- (3) Recovery Plan to be reviewed and signed off by Director of Education and Head of Finance for Children's
- (4) Submitted for approval by Cabinet
- (5) Review with Education Improvement and Finance Teams
- (6) Monthly reporting to the Schools Finance to monitor deficit & progress on recovery
- (7) Continue to provide standard quarterly financial returns to Schools Finance team

### Deficit – High Scale and ongoing (Over 1 year)

#### 4 High level of Cumulative Deficit with:

- (1) Recovery Plan in place
- (2) Ongoing review with Education Improvement & Finance teams.
- (3) Require licensed deficit to be approved by Cabinet
- (4) Review with Education Improvement and Finance Teams
- (5) Monthly reporting to the Schools Finance Team to monitor deficit & progress on recovery
- (6) Continue to provide standard quarterly financial returns to the Schools Finance team

#### 5 Increasing level of Deficit in-year

- (1) Notify the Schools Finance team
- (2) Schools with a deficit should submit an SRMA application for a standard review
- (3) School to prepare an updated Recovery Plan, and the Education Improvement and Finance Teams to review it
- (4) Recovery Plan to be reviewed and signed off by Director of Education and Head of Finance for Children's
- (5) Submitted for approval by Cabinet
- (6) Review with Education Improvement and Finance Teams
- (7) Monthly reporting to the Schools Finance to monitor deficit & progress on recovery
- (8) Continue to provide standard quarterly financial returns to Schools Finance team

#### 6 Plan an Increased Deficit in the Budget for current financial year:

- (1) Notify the Schools Finance team
- (2) School to prepare an updated Recovery Plan, and the Education Improvement and Finance Teams to review it
- (3) Recovery Plan to be reviewed and signed off by Director of Education and Head of Finance for Children's
- (4) Submitted for approval by Cabinet
- (5) Review with Education Improvement and Finance Teams
- (6) Monthly reporting to the Schools Finance to monitor deficit & progress on recovery
- (7) Continue to provide standard quarterly financial returns to Schools Finance team

### Surplus: (8% for Primary and Special Schools; 5% for Secondary Schools)

#### 7 School with Cumulative surplus:

- (1) Surplus b/f, with a Budget Plan showing surplus in current financial year and remaining in surplus in-year
- (2) Normal quarterly financial returns provided to the Schools Finance Team

#### 8 School with Cumulative surplus and In Year Deficit:

- (1) Surplus b/f, with a Budget Plan showing a deficit in current financial year and remaining in surplus at the end of year
- (2) If the in-year deficit is part of planned spend – nothing required
- (3) If the in-year deficit is due to an overspend on budget share due to normal business activity, review why the school is overspending to ensure issues are resolved before the school's surplus reduces and the school goes into deficit

### Reducing Deficit

#### 9 Low level of Deficit:

- (1) Recovery Plan in place and delivering year-on-year recovery, indicating a balanced budget within a 3-year plan cycle
- (2) School to prepare an updated Recovery Plan, and the Education Improvement and Finance Teams to review it
- (3) Review with Education Improvement & Finance teams.
- (4) Monthly reporting to the Schools Finance to monitor deficit & progress on recovery
- (5) Continue to provide standard quarterly financial returns to Schools Finance team

## **4. Strategy to Support Schools in Reducing / Eliminating or Avoiding a Deficit**

Support/requirements for schools setting a deficit budget:

4.1. As set out in the framework all schools planning to set a deficit must:

- 4.1.1. Notify the Schools Finance team of the deficit promptly and in writing.
- 4.1.2. Arrange a joint review with the Education Improvement and Finance team to examine the resources, costs and variance analysis, and benchmarking, and to identify the underlying drivers for any remaining deficit.
- 4.1.3. Where a deficit remains, the next stage will require the school to prepare a Recovery Plan, including clear milestones and timescale for returning to a balanced budget, for review by the Education Improvement and Finance Teams.
- 4.1.4. Schools submit their Recovery Plan to the Director of Education & SEND and Head of Finance for Children's Services for initial review and sign-off. The Recovery Plan then requires approval from the Corporate Director of Finance and the Corporate Director of Children's Services before being presented to Cabinet in the Summer.
- 4.1.5. Each school receives a formal letter after July Cabinet agreeing in principle their licensed deficit, setting out the conditions to adhere to whilst in deficit, and highlighting any concerns or further actions required.
- 4.1.6. The Recovery Plan must be formally revisited and resubmitted each year with the annual budget submission. Under no circumstances will the period of recovery be extended beyond three years; schools must therefore adjust their plans accordingly if their financial position worsens during this period (Scheme for Financing Schools, s.4.9).
- 4.1.7. For those schools in the High Scale & Ongoing Risk category (Red), the Finance Team and Education Improvement Team will arrange to undertake a review of the Recovery Plan. The purpose is to review, challenge, and advise on the deficit recovery plan and progress in closing the gap and restoring a balanced position as soon as possible.
- 4.1.8. To support delivery of the Recovery Plan, schools must provide monthly monitoring reports to the Schools Finance Team, highlighting progress against milestones and identifying any emerging issues or risks.

In addition, the school will continue to submit the standard quarterly finance returns to the Schools Finance team and will submit the 3-Year Budget Plan by the yearly stated deadline for budget submission.

4.2. Support for all schools:

- 4.2.1. Regular communication about school funding and school budgets will be provided to school leaders via briefings and from the Schools Forum.
- 4.2.2. Separate finance training courses for Governors, Headteachers, School Business Managers and school finance staff are run throughout the year.
- 4.2.3. All schools buying the accountancy service are provided with budget planning and monitoring tools. These are available to purchase for schools not buying back. As part of a viable recovery plan, any school with a deficit will be required to purchase this service as part of a comprehensive system of support.
- 4.2.4. Facilitate workshops for groups of schools on specific savings strategies, such as for alternative staffing structures.

## **5. Intervention for schools not meeting their deficit recovery plan.**

5.1. The trigger points for intervention are as follows:

- 5.1.1. A school's deficit has grown (either by the end of the financial year or the following year's budget), based on documented evidence.
- 5.1.2. The deficit repayment period increases beyond agreed timescales.
- 5.1.3. The monitoring meetings identify an unrealistic or high-risk deficit recovery plan without adequate contingency measures.
- 5.1.4. The monitoring process identifies that the school is not adhering to its recovery plan and the deficit is likely to increase.
- 5.1.5. The school fails to submit required monitoring returns or budget documentation by agreed deadlines.
- 5.1.6. An internal or external audit raises concerns about the adequacy of financial controls or gives a limited or minimal assurance opinion.
- 5.1.7. The school fails to comply with the Schools Financial Value Standard (SFVS) by the LA's stated deadline, or the SFVS submission identifies significant unresolved issues.
- 5.1.8. Significant changes to pupil numbers are forecast that will materially affect the school's funding and which have not been reflected in revised financial planning.
- 5.1.9. The school is subject to an Ofsted inspection judgement of Requires Improvement or Special Measures where there are concurrent financial concerns.

5.2. If a school does not follow the recommendations (or determine its own realistic alternative), the local authority will issue a formal warning letter. More details on the intervention process are provided in Appendix A. If a school does not engage with or follow the recommendations made through the monitoring and support process (or cannot demonstrate its own credible alternative), the local authority will issue a formal Notice of Concern. Where there is also evidence of broader governance or management breakdown, a Warning Notice may be issued concurrently or subsequently under the Support and Intervention in Schools statutory guidance (DfE, November 2025). The intervention process and the criteria for issuing a Notice of Concern are set out in detail in Appendix A. The distinction between a Notice of Concern and a Warning Notice is explained in Appendix B.

## **6. Management of the Strategy**

6.1. The Director of Education & SEND and the Head of Finance for Children's will review the financial position of maintained schools across the Borough termly to discuss latest projections, measures to lower deficits and wider financial positions of schools.

## **7. Appendices**

7.1 Appendix A – Process for Intervention

7.2 Appendix B – Distinction: Notice of Concern and Warning Notice



# Process for Intervention

## Background

The aim of the strategy is to reduce the number of schools in, or at risk of, deficit and to support sustainable financial management. Over time, the cost of intervention should reduce as schools strengthen efficiency and value-for-money practices to maintain a balanced budget.

In the event that a school does not put in place and implement a robust deficit recovery plan, or does not engage with recommendations made through the monitoring and support process, the strategy sets out trigger points for intervention. The appropriate intervention tool (Notice of Concern or Warning Notice) will be determined having regard to the circumstances and the statutory framework applicable to each case.

This note sets out the legal position and sets out in more detail the process for this element of the strategy.

## Delegation and Charging Schools

Part 2 of the School Standards and Framework Act 1998 requires local authorities to provide maintained schools with a delegated budget share and gives the governing body of each school delegated responsibility in managing their school's budget share.

The Act requires local authorities to produce a Scheme for Financing Schools which sets out all matters connected to financial delegation, and which complies with current school finance regulations.

The strategy identifies clear trigger points when intervention by the authority becomes necessary to support schools in deficit or at risk of deficit to establish a remedial action plan that will deliver a balanced budget. Where a school in financial difficulty refuses to engage, fails to deliver the recovery plan, or plans to overspend or remain in deficit, the authority may issue a Notice of Concern and, if applicable, escalate to a Warning Notice under sections 60–66 of the Education and Inspections Act 2006. Ultimately, the authority may withdraw delegated budget responsibility and directly manage the school's budget, in accordance with Section 66 of the Education and Inspections Act 2006 and the financial delegation framework set out in the School Standards and Framework Act 1998.

The direct costs of any additional intervention support may, and in most cases will be charged to the school where this is appropriate and proportionate, following discussion and agreement with the school. Where a school delays engagement or defers taking necessary remedial

action, resulting in further deterioration of its financial position, the authority may recover the associated costs.

The process for intervention and removal of delegated responsibility is set out below.

### **The Route to Removing Delegation**

A Local Authority may issue a warning notice to Governors if there is a breakdown in the way a maintained school is managed or governed, and this is likely to adversely affect standards of pupils' performance. This includes a failure to oversee the financial performance of the school and ensure money is well spent – one of the core strategic roles of a Governing Body. The notice must set out:

1. The matters on which the concerns are based.
2. The action which the Governing Body is required to take to address the concerns raised.
3. The period within which the Governing Body must comply or secure compliance with that action.
4. The action which the LA is considering under one or more of sections 63 to 69 of the Education and Inspections Act 2006 or otherwise if the Governing Body does not take the required action.
5. A copy of the warning notice is to be sent to the headteacher and if applicable the diocese or foundation, and a copy to the relevant Regional Director (formerly RSC) and to Ofsted. The local authority is expected to work with their Regional Director to discuss where they judge that a warning notice is necessary.

The powers of intervention where a school does not comply with a warning notice are set out in sections 63 to 66 of the Education and Inspections Act 2006, as follows:

- Section 63 – requires the Governing Body to enter a particular arrangement. e.g., to enter into a contract for specified services of an advisory nature with a specified person.
- Section 64 – power to appoint additional Governors.
- Section 65 – power to appoint Interim Executive Board
- Section 66 – enables a local authority to suspend the governing body's right to a delegated budget.

Schedule 15 to the School Standards and Framework Act 1998 provides another route for removal of financial delegation. The local authority may suspend a school's right to a delegated budget where a school's governing body has persistently or substantially breached a requirement or restriction relating to its delegated budget, has not managed its budget share satisfactorily or has not managed satisfactorily its expenditure or sums received in the exercise of its power to provide community facilities and services under section 27 of the Education Act 2002. The notice must specify the grounds for the suspension; and the local authority must give the notice to the governing body and provide the headteacher a copy of the notice at the same time. The local authority is required to review the suspension within a specified period (and may do so earlier if it wishes).

## **Strategy for Schools in Deficit - Intervention Process**

Where a school does not engage with recovery of its deficit (following the initial review and support meeting) and meets one of the trigger points set out in the strategy, the process in the flow chart below will be followed, which complies with the latest regulations.

The timescale at each stage will be considered case by case to ensure the school has reasonable time to implement actions, while avoiding unnecessary delay in recovering the deficit. As a guide, stage timelines should ordinarily be no more than two months.

The intervention powers used at the final stage will be determined with respect to the school's circumstances and in line with the Education and Inspections Act 2006, and may follow discussion with the Department for Education (DfE). These powers may include the removal of delegation where warranted.



### **Notice of Concern and Warning Notice: Key Distinctions and When They Apply**

1. The London Borough of Hillingdon may use two legally distinct tools when escalating its response to schools in financial difficulty. It is important that both schools and the Council understand the difference between these tools, their legal basis, and how they interact.
2. **Notice of Concern (financial)**
  - A Notice of Concern is a financial governance tool issued by the local authority under the Scheme for Financing Schools (pursuant to Section 48 of the School Standards and Framework Act 1998). It is issued where, in the opinion of the Chief Finance Officer and the Director Education & SEND, a school has failed to comply with any provisions of the Scheme, or where action is needed to safeguard the financial position of the local authority or the school. The Notice sets out the reasons and evidence for its issue and may place restrictions, limitations, or prohibitions on the governing body in relation to the management of its delegated funds. These may include: requirements for additional financial monitoring and reporting; restrictions on certain categories of expenditure; mandatory training for finance staff and governors; insisting that an appropriately trained/qualified person chairs the Finance Committee of the governing body; requirements to purchase specific support services; and restrictions on procurement and leasing activity.
  - A Notice of Concern will clearly state the requirements and the timeframe within which they must be met for the notice to be withdrawn. It will also state the actions the local authority may take where the governing body does not comply. Copies will be sent to the Headteacher and, where applicable, to the Regional Director and Ofsted.
  - Circumstances that may give rise to a Notice of Concern include: a revenue deficit with no credible recovery plan; overspending above an approved Licensed Deficit agreement; failure to meet timescales set out in a Licensed Deficit agreement; an internal audit opinion of limited or minimal assurance; failure to submit the Schools Financial Value Standard (SFVS) by the LA's deadline or significant unresolved SFVS issues; breach of procurement rules; or the school being subject to an Ofsted judgement of Requires Improvement or Special Measures where there are concurrent financial concerns.
3. **Warning Notice (school improvement and governance)**
  - A Warning Notice is a formal school improvement intervention issued under Sections 60–66 of the Education and Inspections Act 2006. It is issued by the local authority (or by the Regional Group in certain circumstances) where there are serious concerns about governance, management, educational standards, or safeguarding. Unlike a Notice of Concern, a Warning Notice triggers formal statutory intervention powers if the school does not comply within the specified

period. The statutory grounds for issuing a Warning Notice to a maintained school are: unacceptably low standards of performance; a breakdown in management or governance; risks to the safety of pupils or staff; and failure to comply with teachers' pay and conditions. Source: DfE, Support and Intervention in Schools (statutory guidance, November 2025).

- If the governing body does not comply with a Warning Notice within the specified period, the local authority may use its intervention powers under the Education and Inspections Act 2006. These include: requiring the governing body to enter a particular arrangement (Section 63); appointing additional governors (Section 64); appointing an Interim Executive Board (Section 65); and suspending the governing body's right to a delegated budget (Section 66).

#### **4. How the two tools relate**

- A Notice of Concern is about protecting public funds. A Warning Notice is about protecting the quality of children's education and the safety of pupils and staff. They are legally and functionally distinct and are not interchangeable. However, they are complementary. A school in persistent financial difficulty combined with weak governance may be subject to both a Notice of Concern (to address the financial position) and a Warning Notice (to address the governance failure). In such cases, both the Finance and Education Improvement teams will co-ordinate their approaches.
- The decision to issue either notice rests with the appropriate senior officers (see the intervention process in Appendix A). Where the Regional Group has already issued a Warning Notice to a maintained school, the local authority may not issue a further such notice without Regional Group agreement (DfE, Support and Intervention in Schools, November 2025).