

SURREY COUNTY COUNCIL

CABINET MEMBER FOR SCHOOLS & LEARNING

DATE: 17 JULY 2014

**LEAD OFFICER: NICK WILSON, STRATEGIC DIRECTOR OF CHILDREN,
SCHOOLS & FAMILIES**

SUBJECT: APPROVAL OF SCHOOL DEFICITS



SUMMARY OF ISSUE:

This report provides summary details of total schools' balances and seeks Cabinet Member approval for licensed deficits where schools are projecting deficits in excess of 5% of their budget share. One school is seeking this approval in 2014/15.

RECOMMENDATIONS:

It is recommended that:

1. the level of balances held by Surrey maintained schools is noted.
2. the one-year licensed deficit request from Gosden House is approved.

REASON FOR RECOMMENDATIONS:

Approval of a licensed deficit will ensure the school is operating within the County's Scheme for Financing Schools and will set the parameters within which a recovery plan can be developed.

DETAILS:

SCHOOLS' BALANCES

- 1 Total balances held by Surrey's 333 maintained schools as at 31 March 2014 were £42.7m. A further £3.5m is held by confederations and networks. For comparative purposes, the table below excludes from current and all prior year figures, the balances held by schools having converted to academy status by 31 March 2014. Responsibility for the finances of academies transfers to the Education Funding Agency on conversion. The council is not currently informed of academies' financial balances.
- 2 Since April 2013, Pupil Referral Units have received delegated budgets and may now hold balances.

	As at 31 March 2012	As at 31 March 2013	As at 31 March 2014
<i>Phase:</i>	£m	£m	£m
Primary (including nurseries)	24.4	26.4	27.9
Secondary	9.0	9.9	10.2
Special	3.4	3.8	4.3
Pupil referral units	n/a	n/a	0.3
Total individual schools' balances	36.8	40.1	42.7
Balances held by schools confederations / networks	4.5	5.3	3.5
Total Schools' Balances	41.3	45.4	46.2

LOCAL AUTHORITIES' FINANCIAL MONITORING OF SCHOOLS DFE REQUIREMENTS

- 3 The DfE requires each local authority's Chief Finance Officer (CFO) to produce an Outturn statement indicating the extent of any under or overspending of DSG by the authority and its schools. In addition, the LA must demonstrate deficits and large surpluses in schools are short-term and actively managed.
- 4 The DfE seeks explanations of actions to be taken by LAs if specific thresholds are breached. It also reserves the right to intervene in the LA's management of schools' finances in these instances.

Thresholds include:

- An overspend of 2% in DSG
- An underspend of 5% in DSG. (Surrey underspent by 2.33%)
- If a local authority has 5% of schools with a surplus of 15% or more for the last 5 years (In Surrey, this threshold would equate to 17 schools. Surrey has 5 schools in this position)
- If a local authority has 2.5% of its schools with a deficit of 2.5% or higher, for the last 4 years. (Surrey has no schools in this position.)

SURPLUS BALANCES

- 5 Of Surrey's 333 maintained schools, 328 had surplus balances at 31 March 2014. Year-end surplus balances are typically expressed as a percentage of each school's total revenue budget share for the year.
- 6 School surpluses can be analysed across phases as follows:

As at March 2014:	Primary Schools (including nursery schls)		Secondary Schools		Special Schools & PRUs	
	No. Schls	% in phase	No. Schls	% in phase	No. Schls	% in phase
SURPLUSES						
0 – 5%	60	22%	9	36%	10	31%
5 - 8%	52	19%	5	20%	5	16%
8 – 10%	42	15%	3	12%	2	6%
10-15%	69	25%	5	20%	7	22%
15% +	49	18%	3	12%	7	22%
Total	272	99%	25	100%	31	97%

- 7 Although a marginal surplus can represent prudent financial management, sizeable balances are generally discouraged as funding is allocated to schools on the basis of the specific needs of current pupils and is intended to be spent on those pupils. LAs must demonstrate that high balances are challenged.
- 8 The local authority asks schools with high balances (over 15% budget) to provide details of the purpose for which they are held. Responses received to date indicate that approximately 43% of high balances were held for capital projects and 31% were held to ensure stability in current or future budgets following the impact of schools' reorganisations and/or falling pupil numbers. The remainder were maintained for a variety of purposes including specific non-capital development projects (11%).

DEFICITS

- 9 The total value of schools' deficits is £124,960, a decrease from £322,268 in March 2013. The following table shows the number of schools with deficits of varying magnitude in the past three years – adjusted to exclude academy converters. A school's deficit is expressed as a percentage of its total delegated revenue budget received that year.

	As at 31 March 2012	As at 31 March 2013	As at 31 March 2014
Deficits	No. of schools	No. of schools	No. of schools
0 – 5%	4	4	5
5 – 10%	1	1*	0
10% +	1	0	0
Total	6	5	5

* Holy Trinity sought a loan (approved by Cabinet Member 11 September 2012). The county's loan scheme to schools now provides loans as 'planned deficits'.

- 10 Of Surrey's 333 maintained schools, five had minor deficit balances as at 31 March 2014 (from a peak of 53 in 2003/04). Smaller deficits are relatively common and frequently short-lived.

National comparisons

- 11 The latest national comparisons are currently only available for the year ending 31 March 2013.
- 12 The DfE considers surplus balances exceeding 15% of funding to be a cause for concern. At 31 March 2013, a total of 10.6% of (then) Surrey maintained schools were in that position compared to 9.0% of schools nationally, which placed Surrey 64th nationally among 152 LAs.
- 13 At 31 March 2013, five Surrey maintained schools had deficits (1.4%) compared to 3.9% nationally.

SCHOOLS SEEKING APPROVAL FOR DEFICITS IN EXCESS OF 5%

- 14 Cabinet Member approval is required for a licensed deficit in excess of 5% of a school's budget. No Surrey maintained schools had deficits in excess of 5% of their budget share as at 31 March 2014.
- 15 One school, Gosden House, is currently seeking Cabinet Member approval for a projected deficit in excess of 5% as at 31 March 2015.

Gosden House

	£
Deficit as at 31 March 2014	39,063
Deficit Proposed deficit as at 31 March 2015	111,427

- 16 Historically, Gosden House school has been funded at a relatively high rate for residential provision. The reduction and ultimately closure of residential provision at the school in August 2013 has made the staffing structure unsustainable. Although some staffing changes have been made, a wider council-led review of SEN is creating uncertainties regarding the type of special needs which may need to be catered for at the school in future. This period of uncertainty is expected to be concluded by the end of term. In the interim, the Executive Head is assessing the scope for savings and a one-year licensed deficit is sought.

RISK MANAGEMENT AND IMPLICATIONS:

- 17 Risks include the maintenance of inappropriately high surpluses which leave current pupils' needs unmet or deficits which a school would struggle to repay and for which, in exceptional circumstances, local authority funding may be required.
- 18 As part of the monitoring of a schools' performance, the current level of balances is considered and recommendations are made regarding their potential use. Schools with deficits are expected to develop a recovery plan to repay the deficit with a defined period and are subject to enhanced monitoring until full repayment is made.

Financial and Value for Money Implications

- 19 The school is expected to repay the deficit and is to plan accordingly.
- 20 Very few Surrey schools have deficits as schools at risk are closely monitored and advice provided where needed. Only one Surrey school is currently proposing a deficit in excess of 5% in 2014/15.
- 21 Where schools convert to academy status, deficits are expected to be carried forward to the new academy. To date all converting schools with deficits in Surrey have taken their deficits with them, although this procedure relies on the continuation of current DfE policies.

Section 151 Officer Commentary

- 22 The Section 151 officer confirms the process of monitoring surpluses and deficits is robust and outcomes are well within DfE requirements.

Legal Implications – Monitoring Officer

- 23 There are no significant legal implications arising from this report.

Equalities and Diversity

- 24 Budget recovery plans may impact on particular groups. However, in determining a recovery plan, advice is sought from curriculum, HR and finance consultants and appropriate safeguards are built into the plan. This can necessitate seeking DfE approval for a recovery plan to exceed three years, to protect the interests of vulnerable pupils.

WHAT HAPPENS NEXT:

- 26 Following the outcome of the review of SEN provision, a staffing structure will be determined for Gosden House and a full recovery plan will be developed. In the interim the Executive Head will submit proposals for savings to the governing body and local authority.
- 27 Schools deficits and surpluses will continue to be managed to ensure that DfE guidelines are not breached.

Contact Officer:

Lynn McGrady, Finance Manager, Funding & Planning
(Tel 0208 541 9212)

Consulted:

Linda Kemeny, Cabinet Member, Schools & Learning
Sheila Little, Director of Finance,
Peter-John Wilkinson, Assistant Director

Sources/background papers:

- Schools Finance (England) Regulations 2013
 - Surrey Scheme for Financing Schools March 2013
 - Scheme for Financing Schools: Revised Statutory Guidance (DfE Dec 2010)
-

This page is intentionally left blank