

SURREY COUNTY COUNCIL**CABINET MEMBER FOR SCHOOLS, SKILLS AND EDUCATIONAL ACHIEVEMENT****DATE: 28 JULY 2015****LEAD OFFICER: JULIE FISHER, DEPUTY CHIEF EXECUTIVE****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. Four schools are seeking this approval in 2015/16.

RECOMMENDATIONS:

It is recommended that:

1. the level of balances held by Surrey maintained schools is noted.
2. one-year licensed deficits are approved for Gosden House, Fordway PRU, Send C of E First School and St Bede's Junior School.

REASON FOR RECOMMENDATIONS:

Approval of a licensed deficit will ensure schools are 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 net balances held by Surrey's 315 maintained schools as at 31 March 2015 were £43.6m. A further £3.2m is held by confederations and networks of schools. For comparative purposes, the table below excludes from current and all prior year figures, the balances held by schools which have converted to academy status by 31 March 2015. 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 now hold balances.

	As at 31 March 2013	As at 31 March 2014	As at 31 March 2015
<i>Phase:</i>	£m	£m	£m
Primary (including nurseries)	24.6	26.2	30.0
Secondary	9.6	10.1	8.6
Special	3.2	3.7	4.4
Pupil referral units	n/a	0.3	0.6
Total individual schools' balances	37.4	40.3	43.6
Balances held by schools confederations / networks	5.3	3.5	3.2
Total Schools' Balances	42.7	43.8	46.8

LOCAL AUTHORITIES' FINANCIAL MONITORING OF SCHOOLS DFE REQUIREMENTS

- The Department for Education (DfE) requires each local authority's Chief Finance Officer (CFO) to produce an Outturn statement indicating the extent of any under or overspending of Dedicated Schools Grant (DSG) by the authority. In addition, the local authority (LA) must demonstrate deficits and large surpluses in schools are short-term and actively managed.
- 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.

The DfE's thresholds and Surrey's performance against them are set out as follows:

- An overspend of 2% or more in DSG.
Surrey did not overspend its DSG.
- An underspend of 5% or more in DSG.
Surrey underspent by 1.24%.
- 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 15 schools. Surrey has 11 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

- Of Surrey's 315 maintained schools, 311 had surplus balances at 31 March 2015. 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 2015:	Primary Schools (including nursery schls)		Secondary Schools		Special Schools		PRUs	
Surpluses	No. Schls	% in phase	No. Schls	% in phase	No. Schls	% in phase	No. Schls	% in phase
0 – 5%	46	18%	10	42%	3	15%	2	20%
5 - 8%	46	18%	5	21%	2	10%	2	20%
8 – 10%	32	12%	3	12%	3	15%	1	10%
10-15%	68	26%	5	21%	5	25%	0	0
15% +	67	25%	1	4%	6	30%	4	40%
Total	259	99%	24	100%	19	95%	9	90%

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 28% of high balances were held for capital projects and 22% 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 (7%).

DEFICITS

9. The total value of schools' deficits is £209,190, an increase from £124,960 in March 2014. 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 2013	As at 31 March 2014	As at 31 March 2015
Deficits	No. of schools	No. of schools	No. of schools
0 – 5%	4	5	2
5 – 10%	1	0	1
10% +	0	0	1
Total	5	5	4

10. Of Surrey's 315 maintained schools, four had deficit balances as at 31 March 2015 (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 2014.
12. The DfE considers surplus balances exceeding 15% of funding to be a cause for concern. At 31 March 2014, a total of 10.22% of (then) Surrey maintained schools were in that position compared to 10.26% of schools nationally, which placed Surrey 65th nationally among 152 LAs.
13. At 31 March 2014, five Surrey maintained schools had deficits (1.5%) compared to 5.1% of schools 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.
15. Four schools are currently seeking Cabinet Member approval for a projected deficit in excess of 5% during 2015/16.

Gosden House

	£
Deficit as at 31 March 2015 (10.2%)	161,278
Deficit Proposed deficit as at 31 March 2016	160,337

Historically, Gosden House school was funded at a relatively high rate for residential provision. The reduction and ultimately closure of residential provision at the school in August 2013 made the staffing structure unsustainable. The school has restructured its support staff to realise some savings but the recovery is still in development due to discussions regarding the type of special needs to be catered for in future years.

It is recommended that a one-year licensed deficit be approved to enable decisions on future provision to be finalised and the school to develop a robust recovery plan.

Fordway PRU

	£
Deficit as at 31 March 2015 (7%)	31,312
Deficit Proposed deficit as at 31 March 2016	0

Fordway PRU has suffered reductions in occupancy with consequential impacts on funding. Discussions are in progress with the LA and a balanced position is expected by March 2016.

It is recommended that a one-year licensed deficit be approved.

Send C of E First School and St Bede's Junior School (Federated)

	Send CofE First	St Bede's Junior
	£	£
Deficit / (surplus) as at 31 March 2015	30,792	(26,491)
Deficit Proposed deficit as at 31 March 2016	121,879	49,989

Send C of E First School and St Bede's Junior School are now federated under the leadership of one headteacher. The schools are facing a number of issues relating to falling pupil numbers, reduced funding and performance issues.

The governors are receiving support from Babcock 4S and are proposing a number of actions – initially to restore the quality of teaching and learning – which will temporarily increase the deficit. Savings under consideration include potential vertical streaming, increasing income from extended services and streamlining operations between the two schools. A full recovery plan is anticipated by the end of the Summer term 2015.

It is recommended that a one-year licensed deficit be approved, to enable the recovery plan to be finalised.

RISK MANAGEMENT AND IMPLICATIONS:

16. 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.
17. 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

18. Schools are expected to repay any deficits and must submit recovery plans to the LA. These vary from one to three years depending on the size of the deficit and the potential impact of repayments on the school.

19. Very few Surrey schools have deficits as schools at risk are closely monitored and advice is provided where needed.
20. 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

21. 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

22. There are no significant legal implications arising from this report and the proposed recommendation is in line with the SCC Scheme for Financing Schools
23. In coming to a decision on this issue the Cabinet Member needs to take account of all relevant matters. The weight to be given to each of the relevant matters is for the Cabinet Member to decide. Relevant matters in this context will include the statutory requirements, the policy considerations, the impacts of the options on service provision, the medium term financial plan, the Council's fiduciary duty, any relevant risks, the results of the consultation and the public sector equality duty
24. The Council owes a fiduciary duty to its Council tax payers, analogous to that owed by trustees responsible for looking after property belonging to other people. Accordingly in deciding to spend money a local authority must take account of the interests of Council taxpayers who have contributed to the Council's income and balance those interests against those who benefit from the expenditure. It will also need to act in a prudent way having regard to the short and long term consequences of the decision.
25. The best value duty is contained in s3 of the Local Government Act 1999 as a result of which the Council is under a duty to make arrangements to secure continuous improvement in the way in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The relevant guidance states that Councils should consider overall value, including economic, environmental and social value when reviewing service provision.

Equalities and Diversity

26. 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. In the past this has necessitated seeking DfE approval for a recovery plan to exceed three years, to protect the interests of vulnerable pupils.

WHAT HAPPENS NEXT:

28. Babcock 4S will continue to provide support to the schools listed and robust recovery plans will be agreed.
 29. Schools deficits and surpluses will continue to be managed to ensure that DfE guidelines are not breached.
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Contact Officer:

Lynn McGrady, Finance Manager, Funding & Planning
(Tel 020 8541 9212)

Consulted:

Sheila Little, Director of Finance,
Peter-John Wilkinson, Assistant Director

Sources/background papers:

- Schools & Early Years Finance (England) Regulations 2014
 - Surrey Scheme for Financing Schools September 2014
 - Scheme for Financing Schools: Revised Statutory Guidance (DfE Feb 2014)
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