

SURREY COUNTY COUNCIL

CABINET MEMBER FOR ALL-AGE LEARNING DECISIONS

DATE: 17 JULY 2018

LEAD OFFICER: DAVE HILL, EXECUTIVE DIRECTOR FOR CHILDREN, FAMILIES & LEARNING

SUBJECT: APPROVAL OF MAINTAINED SCHOOLS' DEFICITS



SUMMARY OF ISSUE:

This report provides summary details of total balances at Surrey maintained schools and seeks Cabinet Member approval where schools are projecting deficits in excess of 5% of their budget share. Two schools require this approval in 2018/19.

RECOMMENDATIONS:

It is recommended that:

1. the level of balances held by Surrey maintained schools is noted
2. licensed deficits are approved for two schools as set out in paragraphs 12-17.

REASON FOR RECOMMENDATIONS:

Approval of a licensed deficit will set the parameters within which these two schools can be monitored prior to their conversion to academy status during the year.

DETAILS:

SCHOOLS' BALANCES

1. Total net balances held by Surrey's 251 maintained schools as at 31 March 2018 were £38.1m. A further £2.4m 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 had converted to academy status by 31 March 2018. Responsibility for the finances of academies transfers to the Education & Skills Funding Agency on conversion. The council is not currently informed of academies' financial balances.

	As at 31 March 2016	As at 31 March 2017	As at 31 March 2018	No. of maintained schools
<i>School Phase:</i>	£m	£m	£m	
Primary (including nurseries)	27.0	26.5	28.0	214
Secondary	6.9	7.3	6.9	13
Special	2.5	2.2	2.7	16
Pupil referral units	0.5	0.6	0.5	8
Total individual schools' balances	36.9	36.6	38.1	251
Balances held by schools confederations / networks	2.7	2.8	2.4	
Total Schools' Balances	39.6	39.4	40.5	

The table excludes from current and prior year totals, all schools that had converted to academy status by 31 March 2018.

LOCAL AUTHORITIES' FINANCIAL MONITORING OF SCHOOLS: DFE REQUIREMENTS

2. 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.
3. The DfE seeks explanations of actions to be taken by LAs if specific thresholds are breached. The thresholds are as follows:
 - An overspend on DSG should not exceed 2% and an underspend should not exceed 5%.
Surrey had a net DSG underspend of 0.5% of gross DSG in 2017/18
 - No LA should have 5% of schools with a surplus of 15% or more for the last 5 years.
In Surrey this 5% threshold would equate to 14 schools. Surrey has 12 schools in this position.
 - No LA should have 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

4. Of Surrey's 251 maintained schools, 245 (97.6%) had surplus balances at 31 March 2018. Year-end surplus balances are typically expressed as a percentage of each school's total revenue budget share for the year.

5. School surpluses can be analysed across phases as follows:

As at March 2018:	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%	34	15.9%	3	23.1%	3	18.8%	2	25.0%
5 - 8%	30	14.0%	2	15.4%	1	6.3%	0	-
8 – 10%	27	12.6%	1	7.7%	3	18.8%	1	12.5%
10-15%	53	24.8%	5	38.4%	2	12.6%	3	37.5%
15% +	67	31.3%	2	15.4%	5	31.3%	1	12.5%
Total	211	98.6%	13	100%	14	87.8%	7	87.5%

6. 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.
7. The local authority asks schools with high balances (over 15% of budget) to provide details of the purpose for which they are held. Responses received to date indicate that approximately 26% of these schools' balances were held for capital projects and 5% for non-capital projects. Approximately 26% of high balances were held to ensure stability in current or future budgets amid funding concerns. The lack of any provision for inflation in the funding settlement in recent years and the potential impact of the National Funding Formula have led to uncertainty in schools and governors are notably seeking to make provision for potential future risks. The remaining balances were maintained for a variety of purposes including community focused projects.

DEFICITS

8. The total value of schools' deficits at March 2018 is £582,091, an increase from £523,278 in March 2017. 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 2016	As at 31 March 2017	As at 31 March 2018
Deficits	No. of schools	No. of schools	No. of schools
0 – 5%	4	2	4
5 – 10%	0	2	2
10% +	0	1	0
Total	4	5	6

9. Of Surrey's 251 maintained schools, six had deficit balances as at 31 March 2018. Smaller deficits are frequently temporary, but larger deficits require a robust recovery plan that repays the deficit whilst minimising the impact on the education of pupils at the school. Licensed deficits exceeding 5% at 31 March 2018 were approved for two schools: Chart Wood (9.3%) and Hale Primary (7.1%). Hale Primary is working with the LA to reduce the deficit and

their recovery plan projects a deficit under 5% by March 2019 and a surplus by March 2020. Chart Wood is discussed further below.

National comparisons

10. The latest national comparisons are currently only available for the year ending 31 March 2017. At that point, five Surrey maintained schools had deficits (1.7% of schools). This is comparatively low as the national average for all local authorities is 8.1%.
11. The DfE discourages long-term surplus balances in excess of 15% of funding. At 31 March 2017, 4.2% of Surrey maintained schools had held surplus balances of over 15% of budget for over 5 years. This compares with an average for all LAs of 2.8%.

SCHOOLS SEEKING APPROVAL FOR DEFICITS IN EXCESS OF 5%

12. Cabinet Member approval is required where schools seek a licensed deficit in excess of 5% of the school's budget share. Two schools – Chart Wood and Spelthorne Primary - are projecting high deficits by March 2019. Details are as follows:

Chart Wood

	% of annual budget*	£
Deficit as at 31 March 2018	9.3	292,856
Deficit as at 31 March 2019	13.0	379,789

** Note: A school's annual budget can vary from year to year, particularly if temporary supplements are provided for operating on split sites etc.*

13. Chart Wood school was formed by the merger of two special schools – Starhurst and St Nicholas, Merstham. The amalgamated school has suffered from poor financial management. Difficulties in providing information to agree split site funding exacerbated financial challenges. In March 2018 the school was judged by Ofsted to be inadequate and the governing body resigned. A directive academy order has been issued with the expectation that the school will convert to an academy during the year. An Interim Executive Board has been appointed by the LA. Historically low pupil numbers originally contributed to the large shortfall although numbers are now beginning to rise.
14. A number of variables will impact on the school's budget position including the date of location to one site, which has yet to be determined. The school is currently projecting a deficit increasing to £379,789 at March 2019, due to the ongoing need to increase pupil numbers and meet Ofsted improvement requirements. A lower deficit of £254,000 is projected by March 2020. The school is in discussions to join a Multi Academy Trust during 2018/19. The deficit will be chargeable to the council after support from the High Needs block of the Dedicated Schools Grant. Officers from the council and Babcock 4S are currently working with the school to minimise the deficit.
15. In the interim, it is proposed that a one-year licensed deficit be approved of £291,948 which represents up to 10% of the annual budget, pending more

accurate cost projections, decisions on moving to the Dorking site and conversion to a multi academy trust.

Spelthorne Primary School

	% of annual budget	£
Deficit as at 31 March 2018	1.9%	44,613
Proposed deficit as at 31 March 2019	5.0%	118,370
Proposed deficit as at 1 October 2018 <i>(Provisional date of conversion to academy status. Percentage is of budget received at that date).</i>	9.3%	110,552

16. Following an OFSTED inspection in May 2017 the school was judged to be inadequate and the Howard Partnership Trust (HPT) was invited to manage the school. The HPT and the local authority has invested funding in the school to improve standards. Recruitment difficulties have resulted in a significant number of vacancies among teaching and learning support assistants, necessitating the use of more expensive agency staff. The school also has relatively high numbers of pupils with special educational needs without Education, Health & Care Plans (EHCPs) – and therefore without the additional funding attributable to EHCPs. The school is therefore projecting a deficit of approximately £118,370 by 31 March 2019. The school is to convert to sponsored academy status within the year and the school’s inadequate rating will require the local authority to fund the deficit accrued at the point of transfer. At the estimated conversion date of 1 October 2018, the deficit is anticipated to be £110,552 (9.3% of budget). The school is under close financial monitoring in order to minimise the deficit and an Interim Executive Board is in place.

17. Cabinet Member approval is sought for a licensed deficit of £118,370 for up to one-year, pending the conversion of the school to academy status.

CONSULTATION:

18. On receipt of their annual funding notifications, each school prepares a budget to be assessed by Babcock 4S. Schools facing challenges are then supported in developing a robust, balanced budget plan or requesting a licensed deficit with a recovery plan. In developing a recovery plan, officers from finance, HR and school effectiveness are consulted. In addition, the Extended Schools & Learning Leadership Team discuss balances, deficits, trends and particular issues impacting on schools’ finances.

RISK MANAGEMENT AND IMPLICATIONS:

19. Surplus balances are monitored as risks include the maintenance by schools of inappropriately high surpluses which leave current pupils’ needs unmet. As part of the monitoring of a schools’ performance, the current level of balances is considered and recommendations are made regarding their potential use.

20. Schools with deficits are required to develop a recovery plan. Schools with large deficits can struggle to repay deficits without impacting on standards so the potential impact on pupil attainment is considered when establishing the

repayment period. Where a weak school is obliged to academise – under sponsored academy status - the local authority can be expected to fund any deficit on conversion. This becomes a pressure on council funds required for other services. Schools with deficits are therefore subject to enhanced monitoring arrangements until fully repaid.

Financial and Value for Money Implications

21. All maintained schools are expected to repay any deficits and must submit recovery plans to the local authority. These vary from one to three years depending on the size of the deficit and the potential impact of repayments on the school's performance.
22. Relatively few Surrey schools have deficits as schools at risk are closely monitored and advice is provided where needed.

Section 151 Officer Commentary

23. The Section 151 officer confirms the process of monitoring schools' deficits is robust and outcomes are well within DfE requirements. Officers from the local authority and Babcock Four S are actively involved in providing advisory support to schools with deficits.
24. DfE policies currently assume that schools with deficits on conversion to academy status will carry those deficits to the new academy except where schools are obliged to convert under 'sponsored academy' status due to weak performance. Two schools with deficits in excess of 5% budget – Chart Wood and Spelthorne – are subject to directive academy orders during 2018/19 and will convert as sponsored academies. Accordingly these schools are subject to close financial monitoring to minimise the size of any deficit remaining with the LA.
25. The local authority works with schools with particularly high surpluses to assess an appropriate level of balances which maintains a prudent approach to future risks but ensures the needs of current pupils are addressed.

Legal Implications – Monitoring Officer

26. The legal framework is set out in the Schools & Early Years Finance (England) Regulations 2018, the Surrey Scheme for Financing Schools (April 2018) and the Scheme for Financing Schools Statutory Guidance issued by the Department for Education in March 2018. There are no significant legal implications arising from this report.

Equalities and Diversity

27. Where schools are in deficit, 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. Schools with excessive balances are challenged in order to ensure that funding is directed to meeting the needs of pupils in the school.

Other Implications:

28. The potential implications for the following council priorities and policy areas have been considered. Where the impact is potentially significant a summary of the issues is set out in detail below.

Area assessed:	Direct Implications:
Corporate Parenting/Looked After Children	No significant implications arising from this report
Safeguarding responsibilities for vulnerable children and adults	No significant implications arising from this report
Environmental sustainability	No significant implications arising from this report
Public Health	No significant implications arising from this report

WHAT HAPPENS NEXT:

29. Council officers and Babcock 4S will continue to provide support to the schools listed and robust recovery plans will be agreed.

30. 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:

Mary Lewis, Cabinet Member for All-Age Learning
Sheila Little, Director of Finance for Orbis and Surrey County Council
Liz Mills, Assistant Director

Annexes:

None

Sources/background papers:

- Schools & Early Years Finance (England) Regulations 2018
- Surrey Scheme for Financing Schools April 2018
- Scheme for Financing Schools: Revised Statutory Guidance (DfE March 2018)

This page is intentionally left blank