

## SURREY COUNTY COUNCIL

## CABINET MEMBER FOR ALL-AGE LEARNING DECISIONS

DATE: 1 JULY 2019

LEAD OFFICER: DAVE HILL, EXECUTIVE DIRECTOR FOR CHILDREN, FAMILIES &amp; 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. One school requires this approval in 2019/20.

**RECOMMENDATIONS:**

It is recommended that:

1. The level of balances held by Surrey maintained schools is noted.
2. A licensed deficit is approved for Wey House School.

**REASON FOR RECOMMENDATIONS:**

Approval of a licensed deficit will set the parameters within which this school's finances can be monitored.

**DETAILS:****SCHOOLS' BALANCES**

1. Total net balances held by Surrey's 227 maintained schools as at 31 March 2019 were £38.9m. A further £2.3m 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 2019. 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 prior to their publication in December each year.

	As at 31 March 2017	As at 31 March 2018	As at 31 March 2019	No. of maintained schools
<i>School Phase:</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Primary (including nurseries)	23.1	24.8	27.5	192
Secondary	7.3	6.9	7.7	13
Special	2.3	2.9	3.0	14

Pupil referral units	0.6	0.5	0.7	8
<b>Total individual schools' balances</b>	<b>33.3</b>	<b>35.1</b>	<b>38.9</b>	<b>227</b>
Balances held by schools confederations / networks	2.8	2.4	2.3	
<b>Total Schools' Balances</b>	<b>36.1</b>	<b>37.5</b>	<b>41.2</b>	

*The table excludes from current and prior year totals, all schools that had converted to academy status by 31 March 2019.*

## 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. The thresholds are as follows:
  - An overspend on DSG should not exceed 1% and an underspend should not exceed 5%. Surrey had a net DSG overspend of 0.7%. of gross DSG in 2018/19.
  - 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

- Of Surrey's 227 maintained schools, 221 (97.4%) had surplus balances at 31 March 2019. Year-end surplus balances are typically expressed as a percentage of each school's total revenue budget share for the year.
- School surpluses can be analysed across phases as follows:

As at March 2019:	Primary schools (including nurseries)		Secondary schools		Special schools		PRUs	
	No. of schools	% of phase	No. of schools	% of phase	No. of schools	% of phase	No. of schools	% of phase
Surpluses								
0 – 5%	18	9.4	3	23.1	3	21.4	1	12.5
5 - 8%	26	13.5	3	23.1	1	7.2	1	12.5
8 – 10%	26	13.5	1	7.6	0	0.0	0	9.0
10-15%	39	20.3	3	23.1	8	57.1	3	37.5
15% +	79	41.2	3	23.1	1	7.2	2	25.0
Total	188	97.9	13	100	13	92.9	7	87.5

6. Although a marginal surplus can represent prudent financial management, excessive balances are 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. The latest comparative data available (March 2018) shows that 4.9% of Surrey maintained schools held surplus balances of over 15% of budget for over five years. This compares with an average for all LAs of 2.9%.
7. The local authority asks schools with balances in excess of 15% of funding to provide details of the purpose for which they are held. Responses received to date indicate that approximately 34% of balances were held for capital projects including major maintenance and ICT. Approximately 25% of high balances were held to ensure stability in current or future budgets amid pupil number variations and funding concerns. The remaining balances were maintained for a variety of purposes including non-capital development (staff training, outdoor equipment, building maintenance), depreciation on sports pitches, payment of retrospective pay awards and community focused projects.
8. The DfE has historically discouraged long-term surplus balances and set targets whereby each LA should ensure that no more than 5% of its schools maintained surpluses exceeding 15% for the last five years. However, this target has now been removed and a recent request by the Council to clawback excessive Surrey school balances in order to support high needs SEND was rejected by the DfE in February 2019, indicating an increasing expectation of greater autonomy for schools.

## DEFICITS

9. The total value of schools' deficits at March 2019 is £221,203, a decrease from £582,091 in March 2018. 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.
10. Schools converting to academies transfer their accumulated balances, whether surplus or deficit, unless converting to a sponsored academy – typically following Ofsted concerns. In this instance the local authority is required to fund any accumulated deficits. During 2018/19 the Council has – for the first time – funded deficits estimated at £390k from three schools converting to academies. Although the individual circumstances were unique, steps have been taken to ensure all school improvement partners are aware of financial constraints and manage schools within agreed funding levels.

	As at 31 March 2017	As at 31 March 2018	As at 31 March 2019
<i>Deficits</i>	<i>No. of schools</i>	<i>No. of schools</i>	<i>No. of schools</i>
0 – 5%	2	3	3
5 – 10%	1	1	2
10% +	0	0	0
Total	3	4	5

*The table excludes from current and prior year totals, all schools that had converted to academy status by 31 March 2019.*

11. Of Surrey's 227 maintained schools, five had deficit balances as at 31 March 2019. 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.
12. The latest national comparisons are currently only available for the year ending 31 March 2018. At that point, 2.4% of Surrey maintained schools had deficits compared to the national average for all local authorities of 10%.

### **SCHOOLS SEEKING APPROVAL FOR DEFICITS IN EXCESS OF 5%**

13. Cabinet Member approval is required where schools seek a licensed deficit in excess of 5% of the school's budget share. Two schools – Green Oak and Wey House School - had deficits in excess of 5% at 31 March 2019. Following the conversion of Green Oak to academy status, only Wey House School is expected to have a deficit in excess of 5% by March 2020. Details are as follows:

#### **Green Oak**

	% of annual budget*	£
Deficit as at 31 March 2019	7.8	43,745
Converted to academy status 1 April 2019		

Green Oak school had a deficit of £43,745 (7.7% of budget) when it converted to an academy on 1 April 2019. The responsibility for the financial management of the school has now transferred to the Good Shepherd Trust and the Education & Skills Funding Agency (ESFA).

#### **Wey House School**

	% of annual budget*	£
Deficit as at 31 March 2019	6.5	118,251
Projected Deficit as at 31 March 2020	10.0	170,700

*\* Note: A school's annual budget can vary from year to year, particularly if temporary supplements are provided.*

14. Following an 'Inadequate' Ofsted judgement in November 2018, the management of the school has been replaced and action is being taken to address issues raised in the inspection. The intention is for the school to join a multi academy trust, but in the interim the school's expenditure has risen – primarily on staffing and adaptations to meet pupils' needs. The school ended the 2018/19 financial year with a deficit of £118,251 and projects an ongoing need for additional support throughout 2019/20. Some support will be provided via the local authority.
15. A one-year licensed deficit of £170,700 is requested at this point prior to the completion of the review. This represents 10% of the school's delegated budget.

<b>CONSULTATION:</b>
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16. On receipt of their annual funding notifications, each school prepares a budget. 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 the authority's school effectiveness team, finance and HR are consulted.

#### **RISK MANAGEMENT AND IMPLICATIONS:**

17. 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.
18. Schools with deficits are required to develop recovery plans. 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 deficits are fully repaid.

#### **Financial and Value for Money Implications:**

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

#### **Section 151 Officer Commentary:**

21. Approval for a licensed deficit is sought for Wey House School in order to set parameters around spending and thereby to manage the financial liability falling on the Council when the school converts to academy status. Officers from the Finance and School Effectiveness teams are working with the school's management to ensure the deficit is retained within approved levels.
22. The Section 151 officer confirms the ongoing process of monitoring schools' deficits is robust and outcomes are well within DfE requirements. 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:**

23. The legal framework is set out in the Schools & Early Years Finance (England) (no 2) Regulations 2018, the Scheme for Financing Schools Statutory Guidance issued by the Department for Education in February 2019 and the Surrey Scheme for Financing Schools (June 2019). There are no significant legal implications arising from this report.

**Equalities and Diversity:**

24. 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:**

25. 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:**

26. Council officers will continue to provide support to all schools in deficit to ensure they are short-term and actively managed.

27. DSG deficits and surpluses will continue to be managed to ensure that DfE targets are met.

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**Consulted:**

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Rachel Wigley, Director of Financial Insights  
Liz Mills, Director of Education, Lifelong Learning & Culture

**Sources/background papers:**

Schools & Early Years Finance (England) (no 2) Regulations 2018  
Surrey Scheme for Financing Schools June 2019  
Scheme for Financing Schools: Revised Statutory Guidance (DfE Feb 2019)