SURREY COUNTY COUNCIL

CABINET MEMBER FOR EDUCATION AND LEARNING

DATE: 25 JULY 2023

REPORT OF CABINET MEMBER: CLARE CURRAN, CABINET MEMBER FOR EDUCATION AND LEARNING

LEAD OFFICER: RACHAEL WARDELL, EXECUTIVE DIRECTOR FOR CHILDREN, FAMILIES AND LIFELONG LEARNING

SUBJECT: APPROVAL OF MAINTAINED SCHOOLS' DEFICITS

ORGANISATION STRATEGY PRIORITY AREA: GROWING A SUSTAINABLE ECONOMY SO EVERYONE CAN BENEFIT

SUMMARY OF ISSUE:

This report provides summary details of Surrey maintained schools' total balances and the council's Dedicated Schools Grant balances at 31 March 2023; and seeks Cabinet Member approval for one school that is projecting a deficit in excess of 5% of their budget share at 31 March 2024.

RECOMMENDATIONS:

It is recommended that:

1. the level of balances held by Surrey maintained schools is noted;
2. the level of Dedicated Schools Grant is noted;
3. licensed deficit is approved for one school (Godstone Village School) as set out in paragraph 14.

REASON FOR RECOMMENDATIONS:

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

DETAILS:

BACKGROUND

1. Total net balances held by Surrey's 188 maintained schools as at 31 March 2023 were £43.8m. For comparative purposes, table 1 below excludes from current and all prior year figures, the balances held by schools which had

converted to academy status by 31 March 2023. 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.

Table 1: Total school balances

School phase	As at 31 March 2021 £m	As at 31 March 2022 £m	As at 31 March 2023 £m	Number of maintained schools
Primary including nursery	26.5	27.2	26.4	161.0
Secondary	9.4	11.4	11.5	10.0
Special	4.6	4.7	5.2	12.0
Pupil referral units	0.8	0.7	0.7	5.0
Total individual schools' balances	41.3	44.0	43.8	188.0

The table excludes from current and prior year totals, all schools that had converted to academy status by 31 March 2023.

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 expects local authorities to prepare a recovery plan if they have overspent their DSG. At 31 March 2023 Surrey had a net (including after Safety Valve contributions) DSG overspend of 5.9% of gross DSG in 2022/23.

4. The in-year DSG Deficit at 31 March 2023 was £3.5m. This includes a net £7.8m overspend of High Needs Block (HNB) DSG (£31.3m overspend less £23.5m of Safety Valve contributions) as shown in table 2. The SEND transformation programme is working to contain HNB spend and reduce the in-year deficit to zero over the next five years.

Table 2: DSG Balances at 31 March 2023

	31/03/2022 deficit/ surplus(-) £m	**Movement £m**	**31/03/2023 deficit/ surplus (-) £m**
Schools	-6.9	-1.5	-8.4
Central schools	-0.2	-0.3	-0.5
Early Years	-13.1	-2.5	-15.6
High Needs	78.1	7.8	85.9
	57.9	3.5	61.4

SURPLUS BALANCES

5. Of Surrey's 188 maintained schools, 185 (98.4%) had surplus balances at 31 March 2023. Year-end surplus balances are typically expressed as a percentage of each school's total revenue funding for the year. School surpluses can be analysed across phases as shown in table 3.

6. Table 3: schools surpluses by phase

	All schools		Nursery and primary		Secondary		Special		PRUs	
As at 31 March 2023 Surpluses	No of schools	%	No of schools	% of phase	No of schs	% of phase	No of schs	% of phase	No of schs	% of phase
25%plus	11	5.9%	8	4.97%	0	0.00%	1	8.33%	2	40.0%
20-25%	13	6.9%	10	6.21%	1	10.00%	2	16.67%	0	0.0%
15-20%	30	16.0%	23	14.29%	5	50.00%	1	8.33%	1	20.0%
10-15%	48	25.5%	38	23.60%	3	30.00%	6	50.00%	1	20.0%
5-10%	44	23.4%	42	26.09%	0	0.00%	2	16.67%	0	0.0%
0-5%	39	20.7%	37	22.98%	1	10.00%	0	0.00%	1	0.0%
	185	98.4%	158	98.14%	10	100.0%	12	100.0%	5	100.0%
Deficits										
0-5%	2	1.1%	2	1.24%	0		0		0	
5-10%	0	0.0%			0		0		0	
10-15%	1	0.5%	1	0.62%	0		0		0	
15%+	0	0.0%	0	0.00%	0		0		0	
	3	1.6%	3	1.86%	0	0.0%	0	0.0%	0	0.0%
	188	100.0%	161	100.0%	10	100.0%	12	100.0%	5	100.0%

7. 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.

8. The local authority usually asks schools with balances in excess of 15% of funding to provide details of the purpose for which they are held. This work

is usually undertaken in the summer term and so the latest data currently available relates to surplus balances at 31 March 2022. At that date the total surplus balances held by schools with surpluses in excess of 15% of budget was £25.2m, A summary of information provided by schools on the purpose for which balances were held is provided below. However, it should be noted that these are merely indications of schools' intentions at the time. The exercise for balances at 31 March 2023 is currently in progress.

Proposed use of surplus balances by schools whose surplus balances at 31 March 2022 exceeded 15% of 2021/22 funding	£000s
External funding legally earmarked for specific projects	313
Capital projects	4,677
Building maintenance risks	365
Specific non capital development projects	823
Retrospective pay awards	445
Managing falling pupil numbers	281
Short term impact of increased pupil numbers	143
Supporting 2022/23 budget, other than specific projects	2,334
Supporting later years' budgets other than specific projects	4,180
Community focused	751
Other purposes not listed above	1,252
Total reported as committed	15,564
Reported as uncommitted	5,044
No return provided	4,688
Total in scope	25,296

DEFICITS

9. The total value of schools' deficits at March 2023 is £0.18m, an increase from £0.08m in March 2022. Table 4 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.

Table 4: number of schools with deficits

Deficit as % of budget share*	at 31 Mar 21 Number of schools	at 31 Mar 22 Number of schools	at 31 Mar 23 Number of schools
0-5%	2	2	2
5-10%	0	1	0
10% plus	0	0	1

**The table excludes from current and prior year totals, all schools that had converted to academy status by 31 March 2023*

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 2022/23 the council has not funded any such deficits. All school improvement partners are aware of financial constraints and manage schools within agreed funding levels.

11. Of Surrey's 188 maintained schools, 3 had deficit balances as at 31 March 2023. 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.

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. One school, Godstone Village School, had deficits in excess of 5% at 31 March 2023.

Godstone Village School 7.4%

	% of annual budget*	£
Deficit as at 31 March 2023	12.01%	127,581
Projected Deficit as at 31 March 2024	7.41%	76,982

13. The deficit at Godstone Primary School began following an employment process which resulted in additional legal costs being incurred by the school. These cost, alongside other associated costs, weakened the school financially and school improvement support and additional capacity was sought which resulted in a Good Ofsted judgement in December 2022. The local authority has agreed that it will repay the costs incurred back to Godstone Primary School in instalments once it is evident that the remaining deficit has substantially reduced. I.e. the local authority

agreement is a limited contribution to legal costs which is less than the overall deficit.

CONSULTATION:

14. 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:

15. 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.

16. 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 is normally 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:

17. 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.

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

Section 151 Officer commentary:

19. Significant progress has been made in recent years to improve the Council's financial resilience and the financial management capabilities across the organisation. Whilst this has built a stronger financial base from which to deliver our services, the increased cost of living, global financial uncertainty, high inflation and government policy changes mean

we continue to face challenges to our financial position. This requires an increased focus on financial management to protect service delivery, a continuation of the need to be forward looking in the medium term, as well as the delivery of the efficiencies to achieve a balanced budget position each year.

20. In addition to these immediate challenges, the medium-term financial outlook beyond 2023/24 remains uncertain. With no clarity on central government funding in the medium term, our working assumption is that financial resources will continue to be constrained, as they have been for the majority of the past decade. This places an onus on the Council to continue to consider issues of financial sustainability as a priority, in order to ensure the stable provision of services in the medium term.

21. As such, the Section 151 officer supports the ongoing monitoring of school balances and the proposed licensed deficits.

Legal implications – Monitoring Officer:

22. The legal framework is set out in the Schools & Early Years Finance (England) Regulations 2023, the Scheme for Financing Schools Statutory Guidance issued by the Department for Education in April 2023 and the Surrey Scheme for Financing Schools (September 2020). There are no significant legal implications arising from this report.

Equalities and diversity:

23. Where schools are in deficit, budget recovery plans may impact on particular groups. However, in determining a recovery plan, schools are expected to seek advice 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:

24. 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

Compliance against net-zero emissions target and future climate compatibility/resilience.	No significant implications arising from this report
Public Health	No significant implications arising from this report

WHAT HAPPENS NEXT:

24. Council officers will continue to provide support to all schools in deficit to ensure they are short-term and actively managed. DSG deficits and surpluses will continue to be managed to ensure that DfE targets are met

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Contact Officer:

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Consulted:

Clare Curran, Cabinet Member for Education and Learning
Rachel Wigley, Director of Finance – Insight and Performance
Liz Mills, Director of Education and Lifelong Learning

Annexes:

None

Sources/background papers:

- Schools & Early Years Finance (England) Regulations 2023
- Surrey Scheme for Financing Schools September 2020
- Scheme for Financing Schools (DfE 31 March 2023)
- Dedicated Schools Grant conditions of grant 2023 to 2024
