

Committee: **Audit and Best Value Scrutiny Committee**

Date: **29 November 2006**

Title of Report: **Schools' surpluses and deficits**

By: **Director of Children's Services**

Purpose of Report: **To inform the Committee of the position on school balances as at 31 March 2006 and progress in addressing excessive surpluses.**

Recommendation: to consider the position set out in the report and agree any further action that should be taken on school balances.

1. Financial Appraisal

1.1 Any excessive surplus balances clawed back from schools must be recycled within the overall Schools Budget after consultation with the Schools Forum.

2. Supporting Information

2.1 At its meeting on 13 September 2005 the Committee received, as part of the report on Internal Audit's progress in the first quarter of 2005/06, the results of a review of controls on school surpluses and deficits. The Committee requested an update on school balances to a future meeting.

2.2 The table below sets out the position on school balances for the last two years.

	As at 31 March 2005			As at 31 March 2006			Change	
	No.	£m	% of budget	No.	£m	% of budget	No.	£m
Surpluses	171	11.30	6.8	164	11.35	6.7	(7)	0.05
Deficits	23	(0.53)	(1.7)	30	(0.94)	2.2	7	(0.41)
Net balances	194	10.77	5.4	194	10.41	5.0	-	(0.36)

In cash terms overall net balances have reduced by some £360,000 and are now equivalent to 5% of the schools' budgets. The number of schools in surplus has reduced by 7 (4.1%) but the average surplus has increased from £66,105 to £69,196 (4.7%). This has been offset by increases in the number of schools in deficit and size of the average deficit from £23,223 to £31,360 (35%). 20 schools have had surplus balances of more than 10% in each of the last three years and an anonymised list is attached as Appendix A.

2.3 The recommendations in the management action plan have been implemented and information on key areas is set out below.

(a) **Financial health-check for use by school governors**

A one page simplified health-check was developed and launched at the governors area forums in autumn 2005 to assist governors in evaluating their school's performance against good practice including use of balances. This was accompanied by a guide to the wide range of documentation published by the DfES, OFSTED, the Audit Commission and the National College for School Leadership.

The government has since decided that compliance with their Financial Management Standard for Schools (FMSiS) should be compulsory for all secondary schools by the end of 2006/07. The Standard includes points on managing deficits and holding prudent levels of balances. The DfES is consulting on extending compulsory compliance to primary and special schools on a phased basis by the end of 2009/10. Schools will evaluate their own performance against the standard which will be verified by external assessment undertaken by the Internal Audit Team.

(b) ***Presentations to governors to raise awareness of financial issues***

Presentations were made to the County Forum for Governors and all the area forums during 2005. In response to concerns raised at those meetings about the quality of reports available from the schools' financial system (SIMS FMS) a working party of governors, school bursars and finance staff revised and expanded the Financial Report Guide for School Governors. The guide explains the basics of the FMS module, the information held and examples of reports available. It also includes tips on good practice for written reports to accompany the financial analysis.

(c) ***Governor training***

The financial training package for 2005/06 was revised in consultation with Governor Services to focus on financial governance issues. Further revisions are planned for 2006/07 based on the DfES FMSiS.

(d) ***Review of schools with persistent large surplus balances***

Information on school balances is now routinely provided to school contact advisers. The issue of holding large (10%+) balances for several years is included, where appropriate, in their discussions with headteachers on leadership and management. The role of the School Improvement Service is changing with the introduction of School Improvement Partners and integration of support and challenge on financial management issues under the new system is being considered.

(e) ***Clawback of excessive surplus balances***

It is recognised that the system for monitoring large surplus balances and seeking information from schools on proposed uses has not been successful in tackling the issue. A more robust approach is needed and therefore, after consulting schools and the Schools Forum, a provision has been included in our Scheme for Financing Schools which allows the Children's Services Authority to clawback surplus balances in excess of agreed thresholds. The thresholds are currently 5% of a school's budget share for secondary schools and 8% for primary and special schools. The thresholds only apply after specified items are deducted from the surplus including commitments for goods and service order but not received by 31 March, unspent specific grants (e.g. Standards Fund) and planned major projects which must be supported by documentary evidence. This is in line with the DfES guidance and has been approved by the Secretary of State for Education and Skills.

The clawback mechanism will apply for the first time to balances at the end of 2006/07.

The Lead Member for Learning and School Effectiveness when approving the consultation on the clawback mechanism made clear that the thresholds would be reviewed after one year with the expectation of introducing lower limits if a significant reduction in unplanned surplus balances was not achieved. On an unadjusted basis 63 schools exceeded the thresholds at 31 March 2006 by a total of some £3.6m. However, these figures need to be treated with caution because the allowable deductions plus the clawback power is expected to lead to a substantial reduction.

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Appendix A

Schools with surplus balances in excess of 10% in each of the last three years

School	2003/04 % of underspend compared to budget	2004/05 % of underspend compared to budget	2005/06 % of underspend compared to budget
Primary			
1	13.66	26.43	33.31
2	21.22	22.74	31.17
3	17.49	26.79	29.20
4	14.68	22.63	24.05
5	22.14	27.01	22.12
6	17.74	27.13	21.38
7	26.80	27.78	20.89
8	11.33	19.36	20.14
9	16.29	16.18	18.19
10	13.20	10.50	17.62
11	11.42	16.52	17.61
12	22.15	18.63	15.78
13	15.14	14.46	13.79
14	14.49	13.75	13.74
15	13.36	15.19	12.48
16	13.82	13.72	11.51
17	10.98	11.86	11.13
18	11.51	12.16	10.82
19	10.77	12.28	10.02
Special			
20	11.61	18.89	16.79