

Report to: **Scrutiny Committee for Audit and Best Value**

Date: **24 September 2007**

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

Title of Report: **Schools' Surpluses and Deficits**

Purpose of Report: **To inform the Committee of the position on school balances as at 31 March 2007 and action taken in addressing excessive surpluses.**

RECOMMENDATIONS: (1) to note the position as set out in the report; and

(2) to agree that future annual and periodic reports, as appropriate, are submitted to the Children's Services Scrutiny Committee to allow them to monitor progress on school balances.

1. Financial Appraisal

1.1 Excessive surplus balances of £101,000 have been clawed back from schools and recycled within the overall Schools Budget after consultation with the Schools Forum.

2. Supporting Information

2.1 At its meeting on 29 November 2006 the Committee received a report on school balances and action being taken to address excessive surpluses. The Committee requested a progress report to this meeting.

Overall position

2.2 The table below sets out the position on school balances as at 31 March 2007 and a comparison with the previous year.

	As at 31 March 2006			As at 31 March 2007			Change	
	No.	£m	% of budget share	No.	£m	% of budget share	No.	£m
Surpluses	164	11.35	7.20	155	11.05	7.03	(9)	(0.30)
Deficits	30	(0.94)	(2.24)	39	(2.17)	(3.71)	9	(1.23)
Net balances	194	10.41	5.21	194	8.88	4.11	-	(1.53)

In cash terms, net balances overall have reduced by £1.53m and are now equivalent to 4.1% of schools' budgets shares. Most of this movement is due to an increase in the number of schools (9) in deficit and an increase in the average deficit from £31,360 to £55,674. Although, the number of schools in surplus has reduced accordingly, the average surplus has increased from £69,196 to £71,291.

Schools in deficit

2.3 While the increase in deficits is disappointing, levels in both 2004/05 and 2005/06 were alleviated by £4.8m of Transitional Support Grant which was provided by the (then) DfES¹ for specifically targeting schools in financial difficulties.

2.4 All schools with a deficit of more than 1% of their budget share are required to seek approval to a licensed deficit from the Children's Services Authority (CSA). This involves developing a plan to recover the deficit over a reasonable period. Schools agree the recovery plans with, and continue to receive the support of, the School Improvement Service, the Children's Services Finance Team and the Corporate Personnel & Training Team.

¹ DfES is now the Department for Children, Schools & Families (DCSF)

2.5 Pupil numbers in East Sussex are forecast to decline by an average of 1% per annum for at least the next five years. Consequently, it is likely that many schools will be required to reconfigure classes and restructure staffing complements over this period. The licensed deficit system is important in facilitating these changes while protecting delivery of the curriculum.

Schools in surplus

2.6 In 2006, the CSA added a provision to its Scheme for Financing Schools to allow the clawback of surplus balances in excess of set 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 services ordered but not received by 31 March, unspent specific grants (e.g. Standards Fund) and planned major projects which must be supported by documentary evidence. Subsequently the DCSF made this clawback mechanism a requirement for all education authorities.

2.7 The clawback mechanism has been applied for the first time to balances at the end of 2006/07. On an unadjusted basis, 62 schools exceeded the thresholds at 31 March 2007 by a total of some £3.8m. Schools were able to offset the vast majority of this against the allowed exceptions but not all claims were accepted. The main exceptions claimed were as follows:

	£'000
Commitments (goods and services ordered)	406
Specific grants (Standards Fund grants can be spent over 17 months)	1,431
Building projects (supported by governing body minutes)	1,750
Funds provided by external bodies	929

The total of allowed exceptions also includes use of funding within the clawback thresholds. Monitoring progress on the building projects will form part of the next clawback exercise.

2.8 Schools that still exceeded the thresholds after deducting exceptions were notified of their potential clawbacks and given the opportunity to provide further clarification and evidence. The final outcome was that a total of £101,000 has been clawed back from 8 schools (6 primary and 2 special schools). After consultation with the Schools Forum the funding has been redistributed across all schools in 2007/8 through the distribution of headroom money.

Effectiveness of process and support to schools in deficit

2.9 As a new process some initial teething difficulties were to be expected. Schools were given a number of opportunities to provide evidence of their exceptions and provide clarification. Even after this there were a small number of appeals to waive or reduce clawbacks on the basis of exceptional circumstances. The system needs to contain some flexibility but greater clarity will be provided around the appeals process for future years.

2.10 The Children's Services Department's Positive Response Policy sets out detailed standard operating procedures in relation to schools who may require additional support. This is to ensure information is shared across the department and early supportive cross-team action is taken. When a school is identified with a potentially significant budget deficit discussions are held with the headteacher to confirm the situation. If the deficit is confirmed the Finance Teams works with the head teacher and governors on actions needed to balance the budget. This work is supported by advice from Personnel and the School Improvement Service on personnel and curriculum implications of proposed actions.

Future considerations

2.11 A review of the primary and secondary schools funding formula is being undertaken with the intention of implementing any changes from 1 April 2008. A working party has been considering the special educational needs, additional educational needs and deprivation formula factors over the last year and proposals are expected to be issued for consultation in September 2007. The remaining factors will be reviewed during the next two terms. It is likely that any changes to the formula will lead to a significant redistribution of resources between schools. While transitional protection arrangements will be part of the proposal the changes may have an impact on surpluses and deficits held by individual schools.

2.12 The DCSF announced on 25 June 2007 its intention to require all local authorities to redistribute to schools in their area 5% of all surplus balances. The technical details on how this will work will be issued in the autumn and this may require a change in the East Sussex policy.

Comparisons with other education authorities

2.13 National comparative data is produced by the Audit Commission but is only available for the previous financial year, up to 31 March 2006. The following table sets out high level comparisons with our statistical neighbours, English counties and the national average.

As at 31 March 2006	East Sussex	Statistical neighbours	English Counties	National average
Overall balances as % of budget	5.21%	5.98%	6.93%	6.64%
Average net balance	£53,646	£51,133	£56,934	£75,362
% of schools in surplus	84.54%	89.81%	90.81%	90.30%
Average surplus	£69,196	£61,985	£67,327	£91,405
% of schools in deficit	15.46%	10.19%	9.19%	9.70%
Average deficit	£31,360	£47,704	£51,112	£77,376

3. Recommendation

3.1 The committee is recommended to note the position on schools balances as set out in the report and recommended to agree that future annual and periodic reports, as appropriate, are submitted to the Children's Services Scrutiny Committee to allow them to monitor progress.

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Local Members: All
BACKGROUND DOCUMENTS
None