

Committee: **Scrutiny Committee for Children's Services**

Date: **9 September 2008**

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 2008 and action taken in addressing excessive surpluses.**

Recommendation: To note the position as set out in the report.

1. Financial Appraisal

1.1 £219,000 has been clawed back as excessive surpluses from schools 2007/08 balances and recycled within the overall Schools Budget after consultation with the Schools Forum. £101,000 was clawed back in respect of the previous year.

2. Supporting Information

Overall position

2.1 The position on school balances as at 31 March 2008 is summarised in Appendix A with a comparison against the previous year. Net balances are £10.79m, equivalent to 4.8% of schools' budgets shares. This is an increase of £1.91m over 2006/07 and reverses the reduction experienced the previous year. There is one more school in deficit compared to 31 March 2007 but the overall deficit has reduced by £0.45m. Most of the movement between years is due to an increase in the average surplus from £71,291 to £81,260 (+14%).

Schools in deficit

2.2 All schools with a deficit of more than 1% of their budget share are required to seek CSA approval to a licensed deficit. 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 CSD Finance Team and Personnel.

2.3 The licensed deficit system is important in allowing schools to address substantial changes in circumstances (e.g. falling pupil numbers) by making the necessary adjustments over a period longer than one year to protect the delivery of the curriculum.

Schools in surplus

2.4 The Authority's Scheme for Financing Schools allows 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.

2.5 2007/08 is the second year of operating the clawback mechanism. On an unadjusted basis, 61 schools exceeded the thresholds at 31 March 2008 by a total of some £4.8m. Schools were able to offset the vast majority of this against the allowed exceptions but not all claims were accepted. The total of allowed exceptions includes use of funding within the clawback thresholds and the main exceptions claimed were as follows:

	£'000
Commitments (goods and services ordered)	529
Specific grants (Standards Fund grants can be spent over 17 months)	1,396
Building projects (supported by governing body minutes)	1,536
Funds provided by external bodies	1,705

2.6 Schools that 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 £219,000 has been clawed back from seven schools (six primaries and one special school). After consultation with the Schools Forum the funding has been redistributed across all schools in 2008/9 through the distribution of headroom money.

2.7 The Schools Forum considered a report on school balances at its meeting on 9 July 2008 and was asked to comment on the Authority's approach to dealing with excessive surpluses. The Forum was firmly of the view that the resources were provided on an annual basis for the children in schools that year and should be spent on those pupils. It recognised that there are occasions when resources might need to be saved over a period but these projects must be completed within a reasonable period. The current clawback mechanism had not achieved the original intention of reducing long term excessive surpluses and therefore the Forum requested the Authority to develop models for strengthening the clawback mechanism. This work will be undertaken during the autumn.

Effectiveness of process and support to schools in deficit

2.8 The Children's Services Department's Positive Response Policy sets out detailed standard operating procedures in relation to schools requiring 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 potential substantial 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.

2.9 The overall reduction in deficits during 2007/08 is encouraging but East Sussex has a larger proportion of schools in deficit than the national county average or our statistical neighbours. The Forum was not in favour of providing more financial resources to these schools but suggested they would benefit from more financial advice and support to assist with their financial planning. The Forum agreed to the allocation of £25,000 out of the Schools Budget headroom to fund an additional post in the Finance Team to provide this extra support as a one off pilot during 2008/09.

Future considerations

2.10 A review of the primary and secondary schools funding formula is in progress with the intention of implementing any changes from 1 April 2009. A working party has been considering all aspects of the formula and it is likely that any changes 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.

Comparisons with other education authorities

2.11 A comparison with the latest available published information is attached as Appendix B.

3. Recommendation

3.1 The committee is recommended to note the position on schools balances.

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Background Documents: None

Summary of school balances as at 31 March 2007 and 2008

	As at 31 March 2007			As at 31 March 2008			Change	
	No. of schools	£m	% of budget share	No. of schools	£m	% of budget share	No. of schools	£m
Surpluses	155	11.05	7.03	154	12.51	7.16	(1)	1.46
Deficits	39	(2.17)	(3.71)	40	(1.72)	(3.47)	1	0.45
Net balances	194	8.88	4.11	194	10.79	4.81	-	1.91

Appendix B

Comparisons with other education authorities

National comparative data is produced by the Audit Commission but is only available for the previous financial year, up to 31 March 2007. The following table sets out high level comparisons with our statistical neighbours, English counties and the national average.

As at 31 March 2007	East Sussex	Statistical neighbours	English Counties	National average
Overall balances as % of budget	4.11%	5.37%	6.39%	6.34%
Average net balance	£45,757	£62,160	£58,172	£81,580
% of schools in surplus	79.90%	93.03%	91.66%	90.81%
Average surplus	£71,291	£71,983	£69,717	£98,364
% of schools in deficit	20.10%	6.97%	8.34%	9.19%
Average deficit	£55,674	£68,987	£59,932	£88,874

Average surpluses in East Sussex were below those of our statistical neighbours, the county and national average. Although East Sussex has considerably more deficits than all but one of our statistical neighbours, the average deficit was 19% smaller and the total deficit was lower than three of the 10 authorities. Good progress has been made in 2007-2008 to further reduce the total deficit.