

Audit Summary Report

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September 2008

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# **Audit and Inspection Progress Report**

**Salford City Council**

**Audit 2007/08**

- Audit Commission descriptor to be inserted by Publishing-

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## Summary of progress to date

- 1 We reported to the Audit and Accounts Committee in March 2008 on the progress that we had made so far in completing our agreed programme of work for the current year. This report now provides a further update on that work including the key tasks that remain which will be reported in the Annual Audit and Inspection Letter by the end of March 2009.
- 2 In addition to updating the Committee on the general progress of our audit and inspection work we have also included an update on the findings to date from our review of the Council's arrangements for managing its schools balances.

## Programmed work

- 3 The Table below summarises the main pieces of work that have been recently completed, together with the key tasks that remain to be completed.

Planned work	Status	Position at September 2008
Good Governance Review	<i>Completed</i>	Report finalised September 2008 - see separate agenda item.
Triennial Review of Internal Audit	<i>Completed</i>	Report finalised May 2008
Inspection of Strategic Housing Services	<i>Completed</i>	Report finalised June 2008
Opinion on the financial statements	<i>Largely completed</i>	On track to be completed by 30 September 2008.
Value for money conclusion	<i>Largely completed</i>	On track to be completed by 30 September 2008.
Annual Governance Report	<i>Completed</i>	See separate agenda item.
Whole of Government Accounts	<i>Planned</i>	Return to DCLG to be completed by 1 October 2008.
Final accounts memorandum	<i>Planned</i>	Final accounts memorandum to be agreed following issue of the opinion on the financial statements.
Data quality / performance information (PI) work	<i>Largely completed</i>	Data return to be completed and submitted to the Audit Commission for most PIs by 15 October 2008.

<b>Planned work</b>	<b>Status</b>	<b>Position at September 2008</b>
Use of resources assessments	<i>In progress</i>	<p>Auditors' assessments on financial reporting, financial management, financial standing, internal control and value for money - key dates:</p> <ul style="list-style-type: none"> <li>• Submission by the auditor to the Audit Commission by 24 October 2008 for quality assurance,</li> <li>• Draft scores shared with the Council, 14 November 2008,</li> <li>• Audit Commission notify the Council of its overall use of resources score, 8 December 2008.</li> </ul>
School balances	<i>In progress</i>	Progress update included in this report.
Performance work on Partnership Working	<i>In progress</i>	Progress report on this work was provided to the Audit Committee in April 2008.
Direction of Travel (DoT) Statement	<i>Planned</i>	<p>The Council to provide its self-assessment information to the auditor by 31 October 2008.</p> <p>Other inspectorates issue performance reports during October / November 2008.</p> <p>Draft DoT Statement issued to the Council mid-January 2009.</p>
Comprehensive performance assessment (CPA)	<i>Planned</i>	Updated scores published by the Audit Commission in February 2009.
Annual Audit and Inspection Letter	<i>Planned</i>	Draft letter to be shared with the Council late February 2009 and finalised for publication by 31 March 2009.

## School balances – progress update

- 4 A key component of schools' financial management is maintaining spending within allocated budgets. Over the past few years there have been a number of the Council's schools which have overspent against their budgets. School balances have significantly reduced, falling from a total net surplus of £3.287m in 2002/03 to £913k in 2006/07. At the end of 2006/07 there were 33 schools in deficit which amounted to £4.2m overall.
- 5 It was against this background that our agreed programme of work for 2007/08 included an overview of the Council's arrangements for managing its schools balances. Initially we have focused on reviewing the Authority's role in supporting schools to manage their budgets and balances and whether there are robust plans in place to eliminate deficit balances.
- 6 We have been meeting with the City Treasurer on a regular basis to discuss our findings. Although we have not yet completed our review we have agreed that there are some matters that the Council can act on now. This progress report provides an update of the current position for the Audit and Accounts Committee.

### Findings to date

- 7 During the course of our review the Council reported its financial position for the year ending 31 March 2008. Deficits were reported at 32 schools and the overall school deficits have increased from £4.2m to £5m. Deficit school balances now outweigh surpluses - the net deficit at 31 March 2008 was £231k. The Council faces a major challenge in eradicating some of these deficits particularly at those schools where the deficits represent a high proportion of their annual budget.
- 8 School budgets are largely based on pupil numbers and can become increasingly difficult to manage if the numbers on roll fall. The Council is well aware that this is the main cause of the school deficit problem in Salford. Over the past 5 years primary school pupil numbers have fallen by 2,231 from 21,151 to 18,920 and secondary school pupil numbers have fallen by 1,334 from 12,153 to 10,819, a reduction of about 11% in both sectors.
- 9 The accountancy team in Children's Services has recently strengthened its arrangements for reviewing schools that are in deficit. Such schools are required to produce a plan that will recover the deficit within five years. We understand, however that there remain some schools where there is no agreed plan in place yet to address the deficit.
- 10 The overall picture on school deficits is dominated by two of the Council's secondary schools, Harrop Fold and Hope High. These account for £3.1m (62%) of the current deficit and amount to £1.9m and £1.2m respectively. Falling rolls have had a particularly severe impact on these schools. Over the past five years pupil numbers have reduced at Harrop Fold from 1,287 to 816 and at Hope High from 1,028 to 612, which represent a decrease of 36% and 40% respectively.

- 11 Two further schools also have significant deficits, (Buile Hill High, £428k and St. John's Primary, £257k) which account for a further 13% of the total deficit. Four schools therefore account for nearly 75% of the total deficit and it is these schools that have had the most impact on the overall deterioration in school balances in recent years. If the deficits at these four schools are excluded the Council's overall school balances for the past five years would have been fairly static ranging between a net surplus of £3.1m to £3.8m and currently a net surplus of £3.6m.
- 12 As rolls fall and budgets reduce, schools need to take difficult decisions on how to achieve reductions in costs. Inevitably staffing costs need to be carefully considered because these typically account for around 80% of a schools' budget. The number of teaching staff at Harrop Fold and Hope High has reduced in the past five years by about 14% and 19% respectively. Neither school has been able to maintain reductions in teaching staff that have kept pace with the continued reduction in falling pupil numbers. Further voluntary early retirements and severances have been agreed during 2008; 18 at Harrop Fold and 5 at Hope High.
- 13 Hope High has now closed and will reopen as an academy in September 2008. We understand that the remaining deficit is likely to be cleared by a first call on the schools' budget for 2009/10 and that this has been agreed by the Schools Forum, but still needs to be endorsed by the Council.
- 14 Harrop Fold is due to reopen on a new site from September 2008 and a plan is being put in place to eradicate the school's deficit over the next five years. The Council needs to ensure that the plan is robust and is delivered in practice.
- 15 Based on our review to date we find it difficult to assess whether the actions that the Council is taking will be successful in eradicating the most serious school deficits. We have not seen any financial projections, (based on existing plans), which indicate whether the cumulative school deficits are likely to get worse or better in the short term. It is important that overall summaries of this nature are prepared and maintained to gauge whether expected improvements are being achieved. They can also provide a useful base for challenging whether plans are robust or not.
- 16 There are a number of schools that are not complying with the Council's approved delegation scheme to ensure budgets are in surplus over any five year period. No school has had its delegation scheme withdrawn to date. It is important that the Council does not encourage a culture that deficits are being tolerated.
- 17 We have seen only limited evidence of reporting to members and feel, given the significance of this issue, that more information should be provided to allow scrutiny of the progress that is being made in bringing school deficits under control.

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- 18 School deficits have been a problem in Salford for several years and the prospects are they will continue to be for some time to come. It is important that there is effective leadership and appropriate support to relevant schools to take the necessary action to eliminate deficits. Roles and responsibilities of officers and members need to be clearly set out including the trigger points at which interventions might be necessary.

### Way forward

- 19 We have discussed our interim findings with the City Treasurer and we have agreed that there are number of actions that can be taken now.
- 20 A monitoring report will be produced which will identify schools in three categories:
- Schools in deficit at 31 March 2008;
  - Schools that are projected to fall into deficit, and
  - Schools that are in surplus by more than 5% for secondary schools and 8% for primary and special schools.

The monitoring report will show, for each school, the past five years balances, the balance at the end of the 2007/08 financial year and projected balances for the next five years. There will be a commentary for each school which states whether satisfactory plans are in place to manage the deficit / surplus and any further action that is being taken or is needed.

- 21 The above monitoring report will be presented to the Budget Scrutiny Committee in November 2008. This should provide the Committee with a sound base for understanding the scale of the problem and challenging the arrangements for eliminating school deficits and managing significant surplus balances.
- 22 With regard to the Harrop Fold deficit a detailed action plan needs to emerge from the current dialogue between the Council's officers and the school which will eliminate the deficit within a reasonable period.
- 23 Revised review procedures will be introduced for ensuring that schools that go, or are projected to go, into deficit with their school budgets have satisfactory plans for moving out of deficit within an acceptable period of time.
- 24 We plan to continue to monitor the outcome of the above over the next few months and we will then consider if there are any further areas on which we need to carry out further work.