

Wiltshire Council

Schools Forum 5th October 2017

Schools revenue surplus and deficit balances 2016/17

Introduction

1. This report presents the position of revenue balances of Wiltshire maintained schools as at 31st March 2017 and identifies those that are in deficit.
2. The analysis includes those schools that converted to academy status after 31st March 2017 but excludes those that converted during the 2016/17 financial year.
3. Members last considered a report on schools' balances and deficits in October 2016. In that report the value of surpluses was £11,790 million and 17 schools were in deficit with a total value of £3.165 million.

Main considerations

4. The movement in net revenue balances over the past 3 financial years is shown in the following table:-

	2014/15	2015/16	2016/17	2016/17 Balances as % of 2016/17 Budget Share	Increase/ Decrease from 2015/16	Increase/ Decrease from 2015/16
	£	£	£	%	£	%
Primary	8,846,489	10,017,148	8,041,411	6.7	-1,975,737	19.72
Secondary	-1,072,086	-1,794,414	-1,911,754	1.6	117,340	6.54
Special	709,194	401,528	270,462	0.23	-131,066	32.64
	8,483,597	8,624,261	6,400,119	5.34	2,224,143	25.79*

*NB: this represents the total percentage decrease in all schools balances between 2015/16 and 2016/17

5. Consideration of net revenue balances obscures the underlying trend of gross revenue surplus and deficit balances. For transparency, the gross balances are identified below:

	Surplus balance			Deficit balance		
	2014/15 £	2015/16 £	2016/17 £	2014/15 £	2015/16 £	2016/17 £
Primary	9,276,952	10,414,634	8,693,506	-430,463	-397,486	-652,095
Secondary	767,313	973,445	1,020,995	-1,839,399	-2,767,859	-2,932,749
Special	709,194	401,528	270,462	0	0	0
Total	10,753,459	11,789,607	9,984,963	-2,269,862	-3,165,346	-3,584,844

6. Appendices attached to this report further analyse the overall position on schools' revenue balances as follows:
 - i) *Appendix 1* analyses the 2016/17 revenue balances to categorize those that are above limit, reasonable or a deficit.
 - ii) *Appendix 2* ascertains whether the Authority would trigger an investigation from the DfE, as described in paragraph 8(a), by identifying those schools that have had revenue balances in excess of 15% for the last 5 years.
 - iii) *Appendix 3* further analyses surplus revenue balances in excess of 5% or 8%, for secondary or primary/special schools respectively.
 - iv) *Appendix 4* ascertains whether the Authority would trigger an investigation from the DfE, as described in paragraph 8(b), by identifying those schools that have had a deficit balance in excess of 2.5% for the last four years.
 - v) *Appendix 5* compares planned revenue deficits against final outturn.
7. The DfE withdrew the requirement for local authorities to have a claw back mechanism in place with effect from April 2011. In response, Schools Forum agreed to remove the Wiltshire Council mechanism, the Controls on Surplus Balances Scheme, from 2013/14. This operated with permissible thresholds of 5% and 8% for secondary and primary/special schools respectively.
8. In April 2012, the DfE published a consultation on strengthening the assurance system for financial management in local authority maintained schools. The proposals were designed to help ensure that authorities, and their schools, were managing the vast sums of public money that they receive with propriety, securing value for money across all spending.

Having considered the responses, the DfE confirmed that from 2011/12 they would be asking local authorities to provide additional information, including:

- a) Where the authority has 5% of schools that have had a surplus of 15% or more for the last 5 years and their individual surplus must have been at least £10,000 each year. Authorities will only be asked for more information where at least three schools meet the criteria
 - b) Where the authority has 2.5% of its schools that have been in deficit of 2.5% or more for the last 4 years and their individual deficit must have been at least £10,000 each year. Authorities will only be asked for more information where at least three schools meet the criteria
9. Following the withdrawal of the Controls on Surplus Balances Scheme from 2013/14, Schools Forum considered how best to enable the Local Authority to fulfil its key role in supporting and challenging schools on excessive surplus balances. At their meeting on 16th January 2015, it was agreed that to maintain a balance between encouraging prudent financial management whilst also embracing the DfE's guidance that schools should operate autonomously, schools would be presented with an annual School Financial Management Information Statement at year end which would offer an analysis of the key areas of revenue balances and budget monitoring. For those schools whose revenue balances had exceeded the 5% or 8% thresholds in 2015/16, assurance would be sought that the Statement had been considered by the responsible officer and governing body.

Schools Forum agreed at their meeting on 6th October 2016 to raise the profile of the School Financial Management Statement by incorporating it in the Wiltshire Scheme for

Financing Schools and also including it as part of the compliance process. Assurance is now sought from all schools that the Statement has been considered by the responsible officer and governing body.

10. When considering individual revenue balances, the underlying factors and causes generating or reducing balances need to be taken into consideration. Factors which may skew any analysis include:
 - i) Academies – year on year analyses of total revenue balance data should be discounted to reflect the effect of academy conversions in order to compare on a like for like basis.
 - ii) Formula Capital – schools receive significantly reduced Devolved Formula Capital allocations when compared to historic levels of funding and may retain revenue balances in support of planned capital projects.
 - iii) Pupil Premium and PE grant– these do not have to be spent in year and some, or all, may be carried forward to future financial years.

Key issues

11. The net revenue balances now stand at £6.4 million, a decrease of 25.79% when compared with the 2015/16 net revenue balance of £8.624 million. An analysis of the gross revenue surplus balances reveals that, having grown each year from 2012/13, there is now a downward trend with a decrease of 15.31% being recorded from 2015/16 to 2016/17. Deficit balances have continued to grow from 2012/13 with an increase of 13.25% recorded from 2015/16 to 2016/17.
12. The number of schools in deficit is 17, unchanged from 2015/16. However, the total value of the deficits is £3.585 million which reflects an increase in value of £0.42 million, as detailed in paragraph 3 above.
13. Since the withdrawal of the Controls on Surplus Balances Scheme from 2013/14 the number of schools with surplus balances year on year has been recorded as follows:

NB: 2011/12 and 2012/13 have been included for reference.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
≥ 5% for secondary and 8% for primary	46	38	61	82	99	75
≥ 15%	7	7	14	26	36	27

14. Appendix 2 informs that 2 schools have had revenue balances in excess of 15% for each of the last five years. This equates to 1.3% of Wiltshire Schools as at March 2017 and would not trigger further enquiry from the DfE as described in paragraph 8(a).
15. Appendix 4 informs that 5 schools have been in deficit of 2.5% or more for each of the last four years. This equates to 3.3% of Wiltshire Schools as at March 2017 and could, potentially, trigger further enquiry from the DfE as described in paragraph 8(b).
16. The School Financial Management Information Statement was presented to schools for the 2015/16 financial year and assurance was sought that the Statement had been considered by the responsible officer and governing body. 130 of 157 schools responded and, of these, 18 included comments in support.

17. Appendix 5 indicates that 13 of the 17 schools in deficit had predicted a year end deficit.
18. As schools convert to academy status there is an impact on the value of balances held by schools and recorded in the Local Authority's accounts. Converter and sponsored academies are able to take any accumulated capital and revenue balances with them with the exception of those schools closed through statutory processes or the Secretary of State issuing an academy order in respect of the school being eligible for intervention.
19. Deficit balances, unlike surplus balances, are not covered in the same way by legislation. For a converter academy, the local authority is reimbursed the value of the deficit with the money being recovered via abatement of the academy's General Annual Grant. In the case of a sponsored academy, the deficit remains with the local authority to be funded from its core budget.

Recommendations

20. Schools Forum members are invited to comment on this report.

Carolyn Godfrey
Corporate Director

Report Author: Jane Ralph
School Strategic Financial Management Adviser
Contact: Tel.: 01225 718569