

Wiltshire Council

SCHOOLS FORUM

November 2015

SCHOOLS REVENUE SURPLUS AND DEFICIT BALANCES 2014/15

Introduction

1. This report presents the position of revenue balances of Wiltshire maintained schools as at 31st March 2015 and identifies those that are in deficit.
2. The analysis of net revenue balances excludes those schools that converted to academy status during the financial year but includes those that converted post 31st March 2015.
3. Members last considered a report on schools' balances and deficits in November 2014. In that report the value of surpluses was £9.943 million and 15 schools were in deficit with a total value of £1.314 million.

Main Considerations

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

	2012/13	2013/14	2014/15	2014/15 Balances as % of 2014/15 Budget Share	Increase/ Decrease from 2013/14	Increase/ Decrease from 2013/14
	£	£	£	£	£	%
Primary	7,499,409	7,807,796	8,846,489	6.40	1,038,693	13.30
Secondary	-367,569	-370,978	-1,072,086	-0.78	-701,108	189.00
Special	814,200	1,192,496	709,194	0.51	-483,302	-40.53
	7,946,040	8,629,315	8,483,597	6.14	-145,717	-1.69*

*NB: this represents the total percentage decrease in all schools balances between 2013/14 and 2014/15

5. Consideration of net revenue balances, as in paragraph 4, obscures the underlying trend of gross revenue and deficit balances. For transparency, the gross balances are identified below:

	Surplus balance			Deficit balance		
	2012/13 £	2013/14 £	2014/15 £	2012/13 £	2013/14 £	2014/15 £
Primary	7,646,947	7,999,401	9,276,952	-147,538	-191,605	-430,463
Secondary	697,053	751,155	767,313	-1,064,622	-1,122,133	-1,839,399
Special	814,200	1,192,496	709,194	0	0	0
Total	9,158,200	9,943,052	10,753,459	-1,212,160	-1,313,738	-2,269,862

6. 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.
7. 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
8. The consultation stated that:

“The Government believes that schools are best placed to manage their money and it is sound financial management for schools to keep a small balance from year to year. In this tight financial climate, it is reasonable for schools to keep some money aside for when it is needed most and they should be able to do this without criticism or claw back.

However, if a school has a very large surplus for several years, this suggests that they do not have a clear plan for how this will be deployed and so are not using their allocated funding to fully benefit today’s pupils. Local Authorities continue to have a key role in supporting and challenging schools on excessive surplus balances. This is why they are able to include a provision in their local schemes to claw back excessive, uncommitted, revenue surpluses. Although they are no longer required to operate a claw back mechanism, we do expect authorities to effectively challenge any schools that have very high, uncommitted surpluses.”

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 2014/15, assurance would be sought that the Statement had 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 – this does not have to be spent in year and some, or all, may be carried forward to future financial years.
11. Appendices attached to this report further analyse the overall position on schools' revenue balances as follows:
 - i) *Appendix 1* analyses the 2014/15 revenue balances to categorize those that are deemed above limit or reasonable, i.e. $\geq 15\%$ or $\leq 15\%$, or a deficit.
 - ii) *Appendix 2* ascertains whether the Authority would trigger an investigation from the DfE, as described in paragraph 7(a), by identifying those schools that have had revenue balances in excess of 15% during 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 7(b), by identifying those schools that have had a deficit balance in the last four years.
 - v) *Appendix 5* compares planned revenue deficits against final outturn.

Key Issues

12. The net revenue balances now stand at £8.484 million, a decrease of 1.69% when compared with the 2013/14 net revenue balance of £8.629 million. The gross revenue balances have, however, increased each year from 2012/13 with an increase of 8.15% recorded from 2013/14 to 2014/15. The underlying reason for the net decrease is the exponential increase in the secondary schools deficit balance from £1,122,133 in 2013/14 to £1,839,399 in 2014/15.
13. The number of schools in deficit is 18 with a total value of £2.27 million. This reflects an increase in number of three and value of £0.956 million when compared to 2013/14, as detailed in paragraph 3 above.
14. Appendix 2 informs that only one school has had revenue balances in excess of 15% for each of the last five years. This school had received a transitional adjustment to protect funding and, in consequence, Schools Forum agreed revised permissible surplus balance levels for this period.
15. An analysis of the Wiltshire Local Authority position on deficit and surplus balances, as reported in Appendices 2 and 4, indicates that the Wiltshire outturn data for 2014/15 would not trigger further enquiry from the DfE as described in paragraph 7.

16. 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.
17. 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

18. 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