

## Wiltshire Council

### Schools Forum

6 October 2016

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## Schools Revenue Surplus And Deficit Balances 2015/16

### Introduction

1. This report presents the position of revenue balances of Wiltshire maintained schools as at 31<sup>st</sup> March 2016 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 31<sup>st</sup> March 2016.
3. Members last considered a report on schools' balances and deficits in November 2015. In that report the value of surpluses was £10.753 million and 18 schools were in deficit with a total value of £2.27 million.

### Main Considerations

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

	2013/14	2014/15	2015/16	2015/16 Balances as % of 2015/16 Budget Share %	Increase/ Decrease from 2014/15 £	Increase/ Decrease from 2014/15 %
	£	£	£			
Primary	7,807,796	8,846,489	10,017,148	7.7	1,170,659	13.23
Secondary	-370,978	-1,072,086	-1,794,414	-1.4	-722,328	67.38
Special	1,192,496	709,194	401,528	0.31	-307,666	43.38
	<b>8,629,315</b>	<b>8,483,597</b>	<b>8,624,261</b>	<b>6.62</b>	<b>140,664</b>	<b>1.66*</b>

\*NB: this represents the total percentage increase in all schools balances between 2014/15 and 2015/16

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
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	<b>2013/14</b> <b>£</b>	<b>2014/15</b> <b>£</b>	<b>2015/16</b> <b>£</b>	<b>2013/14</b> <b>£</b>	<b>2014/15</b> <b>£</b>	<b>2015/16</b> <b>£</b>
Primary	7,999,401	9,276,952	10,414,634	-191,605	-430,463	-397,486
Secondary	751,155	767,313	973,445	-	-	-
				1,122,133	1,839,399	2,767,859
Special	1,192,496	709,194	401,528	0	0	0
<b>Total</b>	<b>9,943,052</b>	<b>10,753,459</b>	<b>11,789,607</b>	<b>-</b>	<b>-</b>	<b>-</b>
				<b>1,313,738</b>	<b>2,269,862</b>	<b>3,165,346</b>

6. Appendices attached to this report further analyse the overall position on schools' revenue balances as follows:
- i) *Appendix 1* analyses the 2015/16 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 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 16<sup>th</sup> 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.
  
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 £8.624 million, an increase of 1.66% when compared with the 2014/15 net revenue balance of £8.483 million. However, an analysis of the gross revenue surplus and deficit balances reveals significant underlying trends. The surplus balances have grown each year from 2012/13 with an increase of 9.64% recorded from 2014/15 to 2015/16. Deficit balances have also grown from 2012/13 with an increase of 39.5% recorded from 2014/15 to 2015/16.
12. The number of schools in deficit is 17 with a total value of £3.165 million. This reflects a decrease in number of 1 but an increase in value of £0.895 million when compared to 2014/15, 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
≥ 5% for secondary and 8% for primary	46	38	61	82	99
≥ 15%	7	7	14	26	36

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 1.2% of Wiltshire Schools as at March 2016 and would not trigger further enquiry from the DfE as described in paragraph 8(a).
15. Appendix 4 informs that 4 schools have been in deficit of 2.5% or more for each of the last four years. This equates to 2.4% of Wiltshire Schools as at March 2016 and would not 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 where revenue balances had exceeded the 5% or 8% thresholds. Of the 85 schools in this category, 46 responded and of these 16 included comments in support.
17. Appendix 5 indicates that 14 of the 17 schools in deficit had predicted a year end deficit with only 2 predicting a surplus and returning a deficit. One school did not submit mandatory budget and monitoring returns.
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.

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