

School revenue balances in England

Jon Andrews
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About the author

Jon Andrews is Director for School System and Performance and Deputy Head of Research at the Education Policy Institute. As well as publishing a number of reports on the expansion of the academies programme he has co-authored reports on free schools, grammar and faith schools, school funding, the disadvantage gap, and world class standards. Prior to joining EPI, Jon worked in the Department for Education from 2003 to 2016, most recently heading the Department's Revenue Funding Analysis Unit.

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Introduction

School funding continues to be a major issue in education and public services. Recent research published by the Institute for Fiscal Studies found that overall school spending (including on 6th forms and support services typically provided by local authorities) fell by 8 per cent, per pupil, in real terms between 2009-10 and 2017-18. Total spending on 16-18 education fell by around 12 per cent in real terms, per pupil, between 2011-12 and 2017-18.

In December 2018, the Department for Education published the latest data on the income, expenditure, and revenue balances of over 15,000 maintained nursery schools, primary schools, secondary schools, special schools and pupil referral units in England.¹

The position of school revenue balances provides a useful barometer of the health of school finances. Our report, 'School funding pressures in England', published in March 2018, highlighted that in 2016-17 the proportion of maintained schools in deficit was increasing, as was the proportion of schools spending more than their income.

In this analysis we:

- update the analysis of balances using data from 2017-18;
- examine the scope for redistributing surplus balances to those schools in deficit; and
- look at income and expenditure in academies and hence explore the system as a whole.

This is the first of several pieces of analysis on school funding that we will be carrying out this year.

¹ DfE (2018), 'LA and school expenditure: 2017 to 2018 financial year', December 2018.

The proportion of maintained schools in deficit has increased, secondary schools continue to be more likely to be in deficit than primary or special schools

Across all maintained schools the average revenue balance as a percentage of income was 6.3 per cent, equivalent to a balance of just under £104,000. A total of 1,532 schools (10.2 per cent) reported a deficit balance at an average of £152,250 (equivalent to 7.3 per cent of income), a total of 13,336 schools (88.6 per cent) reported a surplus or zero balance at an average of £134,522 (equivalent to 8.2 per cent of income).

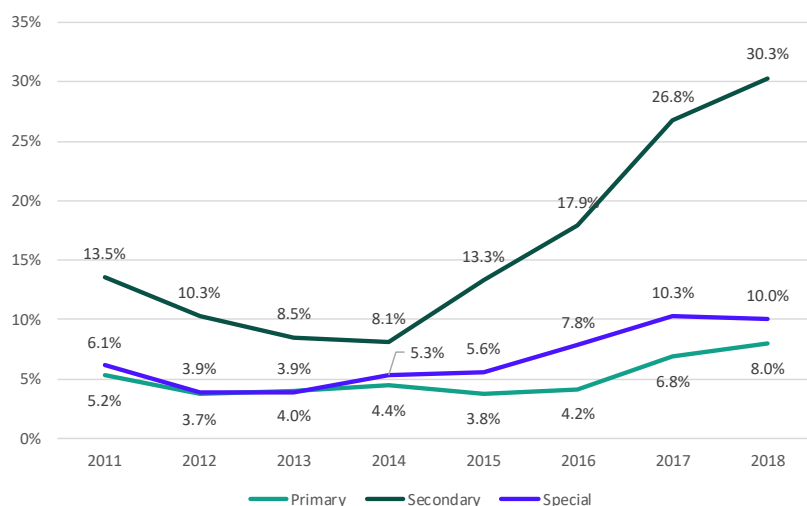
In 2017-18, **almost 1 in 3 (30.2 per cent) secondary schools were in deficit compared to 8.1 per cent of primary schools and 10.1 per cent of special schools.** Furthermore, when they are in deficit, secondary and special schools are more likely to be in deeper deficit than primary schools. Amongst primary schools in deficit, the average deficit was 3.9 per cent (£49,924). In secondary schools in deficit it was 9.1 per cent (£483,569) and in special schools it was 9.8 per cent (£225,298).

The difference between phases in 2017-18 is part of a longer-term trend. Figure 1 shows the proportion of maintained primary, secondary and special schools that were in deficit each year from 2010-11 to 2017-18. In this analysis we track the same schools over time (those with balance data for every year) rather than look at in year snapshots as it gives better comparisons over time that are not affected by simply having a different set of schools included each year. However, it means that the figures for 2017-18 do not match exactly those shown in the section above (they cover 14,662 schools of the 15,050 schools with balances in 2017-18).

Over the last seven years there has been an increase in the proportion of maintained schools in deficit:

- despite a slight decline between 2011 and 2014, the percentage of maintained schools in deficit increased from 5.8 per cent in 2011 to 10.0 per cent in 2018;
- the percentage of maintained primary schools in deficit fell from 6.1 per cent to 4.0 per cent between 2011 and 2013, before doubling to 8.0 per cent by 2018;
- the percentage of maintained secondary schools in deficit fell from 13.5 per cent in 2011 to 8.1 per cent in 2014 before increasing sharply, more than trebling to 30.3 per cent in 2018;
- the percentage of maintained special schools in deficit fell from 6.1 per cent in 2011 to 3.9 per cent in 2012 before steadily climbing to 10.3 per cent in 2017. It has fallen slightly to 10.0 per cent in 2018.

Figure 1: The percentage of maintained schools in deficit by financial year 2010-11 to 2017-18²



A full exploration of why there are such differences between phases is beyond the scope of this paper and we will be doing further work later in the year examining longer term trends in income and expenditure. However, possible factors include:

- the rise in pupil numbers in primary schools which may have gone some way to protecting overall budgets (that bulge is now reaching secondary schools);
- the fact that secondary schools have more variable costs with different curriculum offers and subject choices whereas expenditure in primary schools is more consistent;
- the complex curriculum offer in secondary schools may leave them more exposed to changes in external factors such as increased exam costs and recruitment and supply issues;
- secondary schools being disproportionately affected by cuts in local authority expenditure as older pupils are more likely to be affected by issues such as mental-health; and
- higher pupil premium rates in primary compared to secondary schools offering some protection for schools with high numbers of disadvantaged pupils.

Schools move in and out of deficit

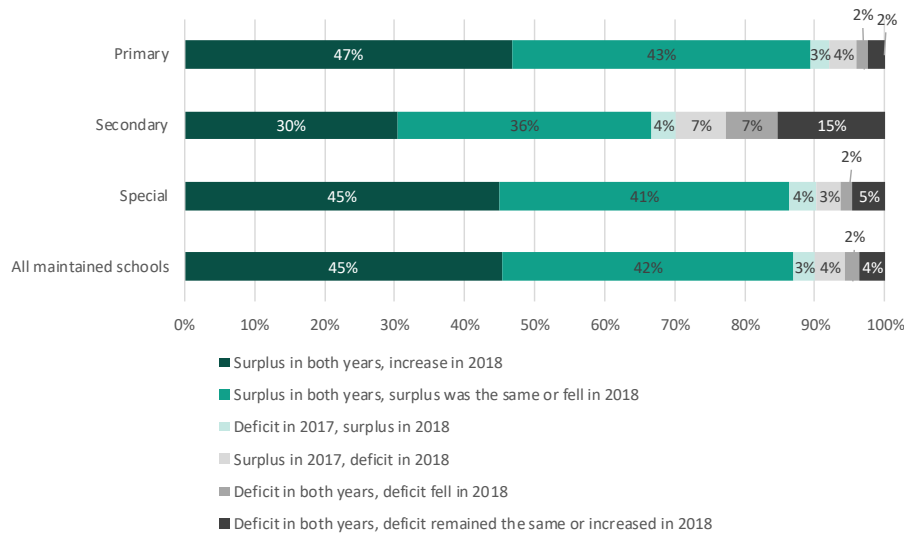
Whilst the percentage of schools in deficit has continued to increase, there is variation in the year to year balance position (as a percentage of income) at individual school level with schools moving in and out of deficit. Figures 2 and 3 illustrate the movements between different balance positions in 2016-17 and 2017-18:

- Across all maintained schools, 45 per cent of schools reported a surplus in 2016-17, the level of which then increased in 2017-18. A similar percentage (42 per cent) were in surplus in both 2016-17 and 2017-18 but saw no change or a fall in the size of that surplus.
- 3 per cent of schools were in deficit in 2016-17 but moved into surplus in 2017-18, while 4 per cent of schools moved the other way.

² Analysis is restricted to those schools with a reported balance in each year and so will differ from official statistics which show rates at points in time.

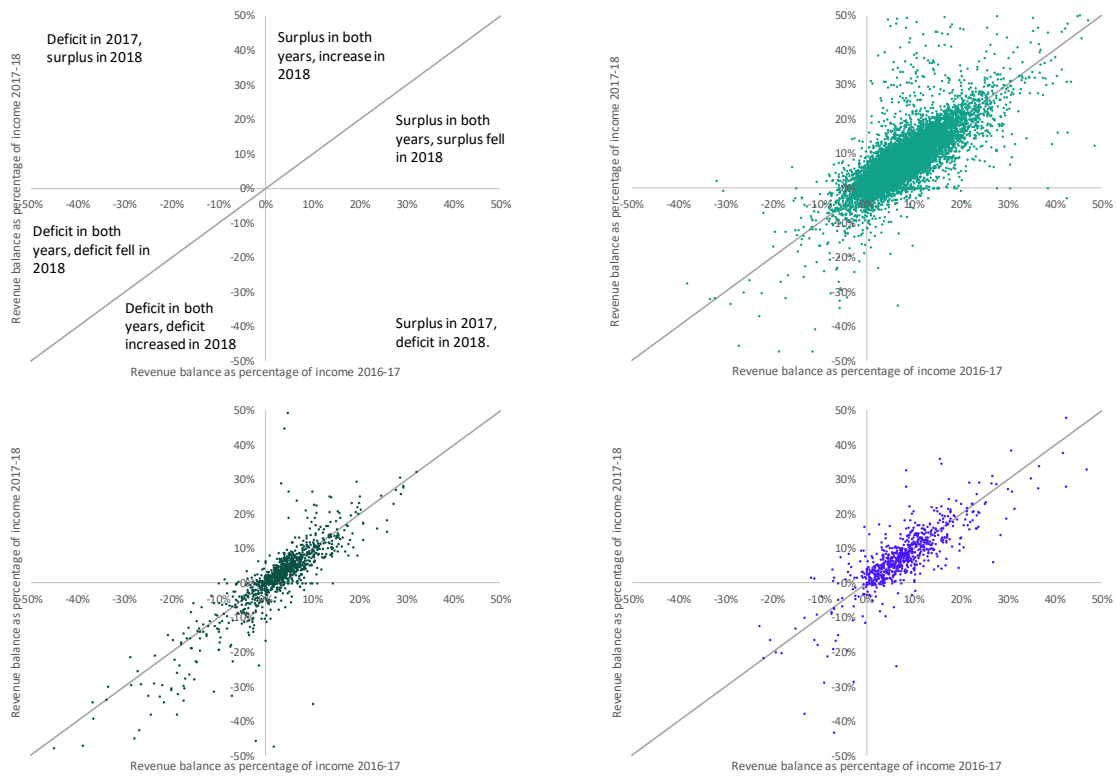
- 4 per cent of maintained schools were in deficit in 2016-17 went further into deficit in 2017-18. This translates as saying that a third of schools that were in deficit in 2016-17 then continued to spend more money than they had coming in the following year.³
- The position in secondary schools was worse. Overall, 15 per cent of secondary schools were in deficit in 2016-17 and then went further into deficit in the following year. This means that 6 in 10 of the secondary schools that were in deficit in 2016-17 went further into deficit in 2017-18.

Figure 2: Comparison of revenue balance position as percentage of income in 2016-17 and 2017-18 in maintained primary, secondary and special schools



³ As shown in Figure 3 the definition used in this analysis is “deficit in both years, deficit remained the same or increased in 2018”. However, there were no schools in which the balance position was exactly the same in both years.

Figure 3: Revenue balance as a percentage of income in 2016-17 and 2017-18 for maintained primary (top right), secondary (bottom left), and special (bottom right) schools

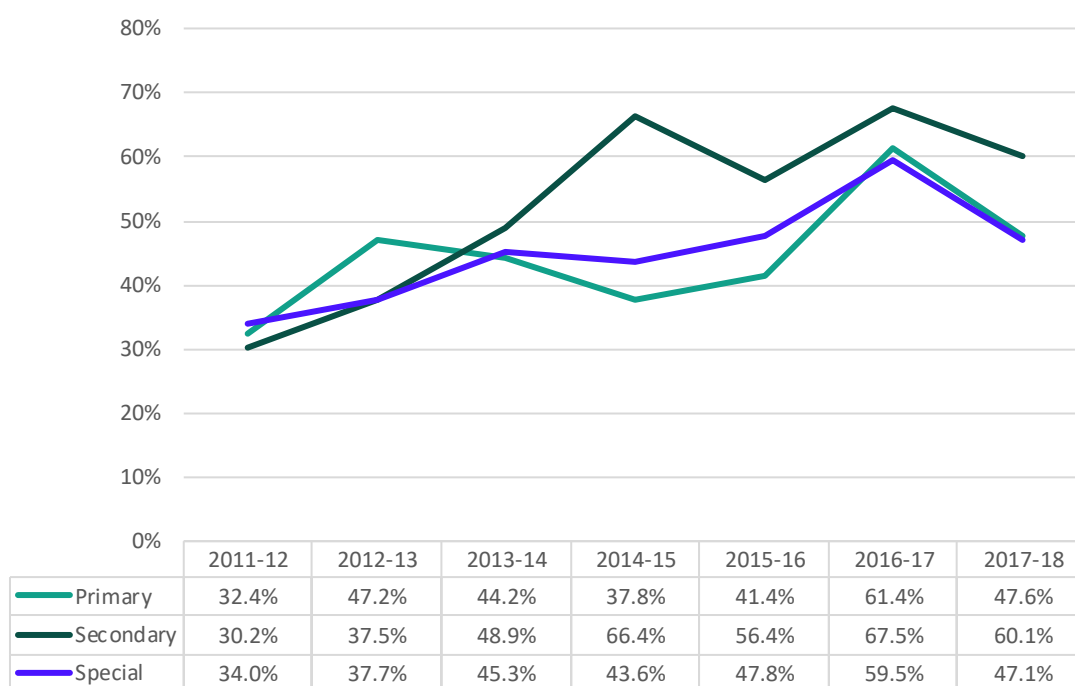


60 per cent of maintained secondary schools spent more than their income in 2017-18, but this is a fall from 2016-17

As would be expected, this pattern of schools going into deficit reflects a longer-term trend in the proportion of schools that have expenditure that exceeds income. Figure 4 shows how this changed between 2011-12 and 2017-18.

In 2011-12 around 1 in 3 maintained primary, secondary and special schools had expenditure that exceeded income. By 2016-17 this had increased to 3 in 5 primary and special schools and 2 in 3 secondary schools. The proportion of maintained schools spending more than they have coming in has fallen considerably in the last year, particularly in primary and special schools. The reasons behind that are beyond the scope of this analysis but may reflect schools adjusting expenditure as they adapt to a tighter funding position.

Figure 4: Percentage of maintained schools with in-year expenditure exceeding income 2011-12 to 2017-18



There are a large number of schools with significant surpluses

While the proportion of maintained schools in deficit has increased, the majority of maintained schools carry forward a surplus from one year to the next. More broadly, within each of the phases discussed above there is a wide range of financial positions.

Figure 5a shows the distribution of school balances as a percentage of income. Figure 5b shows the same schools as a cumulative distribution. As well as marking the point in the distribution at which schools are in deficit, Figure 5b also shows the points at which balances are deemed as 'excessive'.

While it is sound financial management for schools to carry a surplus in order to manage unexpected expenditure, revenue funding is ultimately intended to be spent on the pupils in that school at that time and as such schools should not ordinarily build up large reserves. **The Department for Education defines an excessive balance as one which is above 5 per cent of income in secondary schools, or above 8 per cent of income in primary schools, special schools or pupil referral units.**

In 2017-18:

- Some schools reported very large deficits. In 1 per cent of primary, 11 per cent of secondary, and 3 per cent of special schools the deficit was over 10 per cent. In other words, in around one third of secondary and special schools that are in deficit, that deficit represents over 10 per cent of income.
- A significant proportion of schools have balances deemed as excessive according to the Department for Education definition. 40.7 per cent of primary schools, 46.4 per cent of special schools and 34.1 per cent of secondary schools have balances that are defined as excessive.
- There are also schools at both extremes. 4 per cent of maintained schools had a surplus revenue balance that was equivalent to at least 20 per cent of income. At the same time, 1

per cent of maintained schools had a deficit revenue balance that was equivalent to at least 20 per cent of income.

Figure 5a: Distribution of revenue balances as a percentage of income for maintained schools, 2017-18

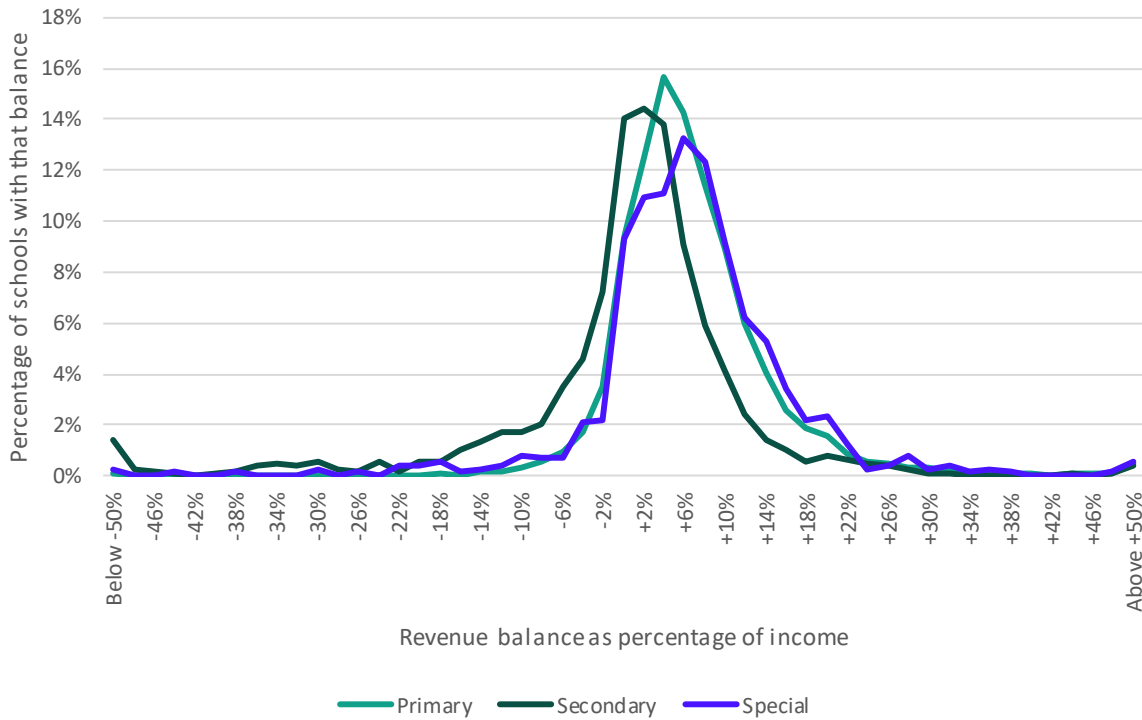
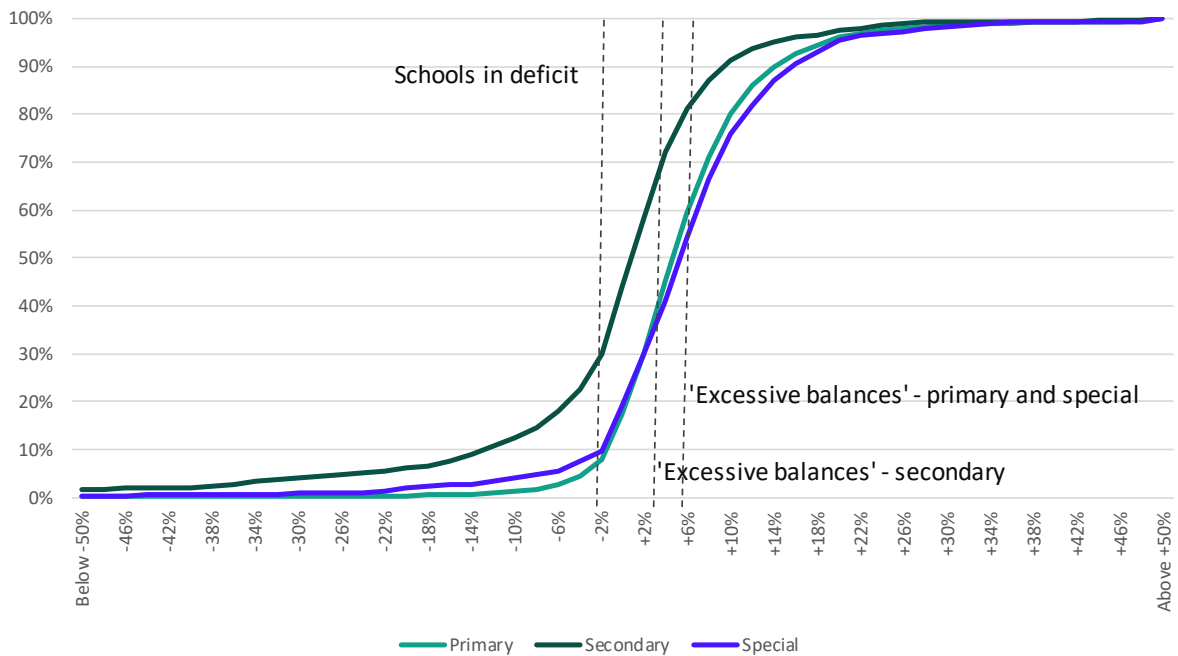


Figure 5b: Cumulative distribution of revenue balances as a percentage of income for maintained schools, 2017-18



Scope for the redistribution of funding from surplus balances to deficit balances

While the proportion of schools in deficit has increased it remains the case that the large majority of maintained schools have a surplus balance.

As set out above, a significant proportion of these would be deemed as 'excessive' by the Department for Education: 40.7 per cent of primary schools, 46.4 per cent of special schools and 34.1 per cent of secondary schools. The value of surplus balances far exceeds that of deficit balances. In 2017-18 the total value of deficit balances was £233m. The total value of surplus balances was £1,794m of which £580m was balances above the excessive balance threshold.

One way of easing the financial pressures on some schools would be to redistribute that money more evenly between schools, an approach that has been suggested by the DfE in the past.⁴ Local authorities are required to publish schemes for financing schools setting out the financial relationship between them and the schools that they maintain.⁵ Such schemes may include controls on surplus school balances by having a mechanism to 'claw back' excessive school balances. This is essentially a reduction in a school's budget share reflecting the fact that they can meet that expenditure through their reserves. This money can then be redistributed through the local funding formula across all schools.

Figure 6 shows, at local authority level:

- the total value of deficits (grey bars);
- the total value of surpluses below the excessive threshold (light green); and
- the total value of surpluses above the excessive threshold (dark green)

on a per pupil basis.

It then plots the value of excessive surplus balances net of any deficits in the authority (purple diamonds). In other words, a positive value on this measure shows a local authority in which the total value of excessive balances exceeds the total value of deficits and a negative value shows a local authority in which the total value of deficits is greater than the total value of excessive surpluses.

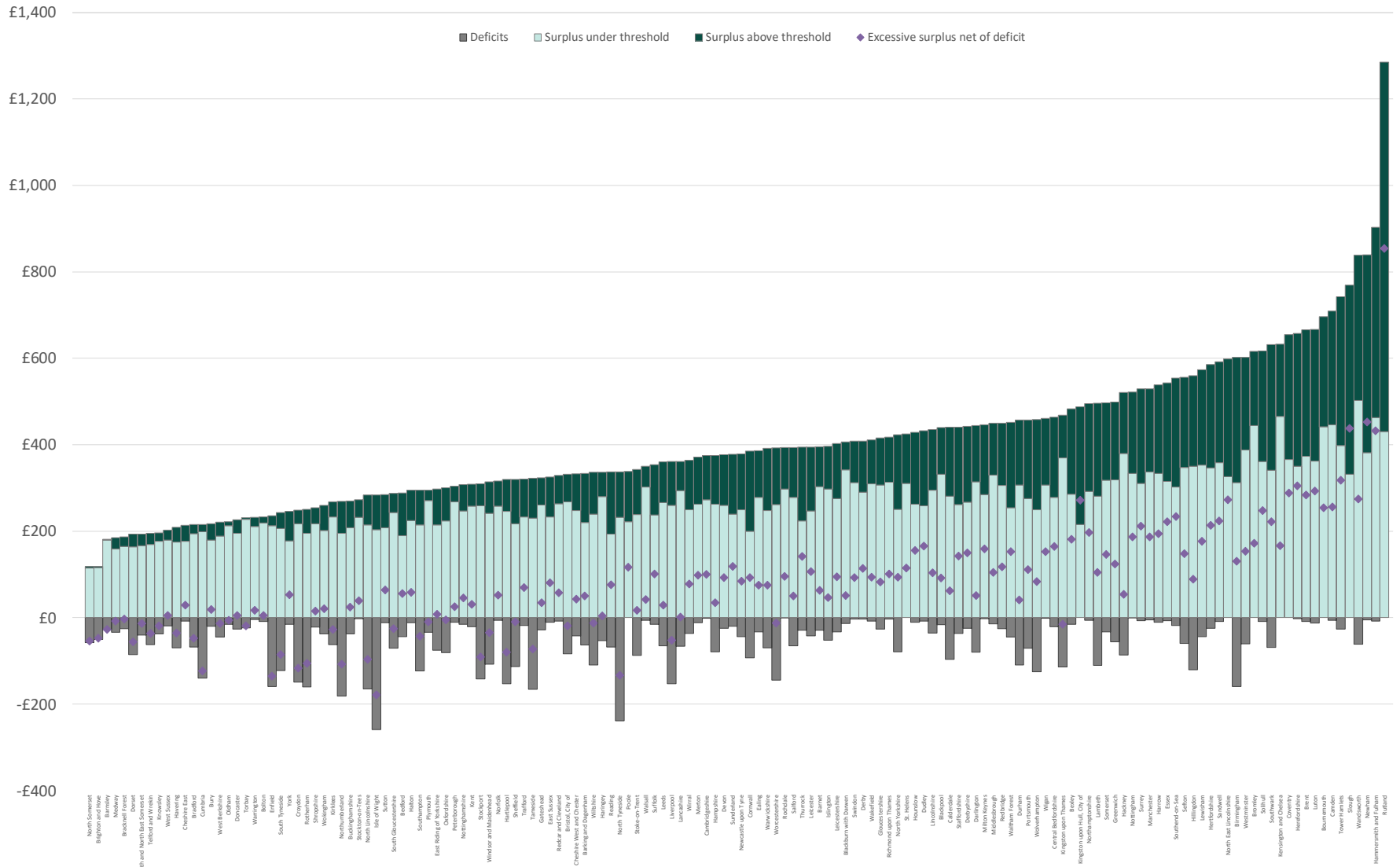
Across all 152 local authorities:

- every local authority had at least one school with an excessive revenue balance, and 142 local authorities had at least one school with a deficit;
- in 102 authorities the total value of excessive revenue balance exceeded the total value of deficits, across all of these local authorities the total value of deficits was £135m;
- in a further 40 local authorities the total value of excessive revenue balances could meet part of the total value of deficits. In these authorities the total value of excessive balances available to meet deficits was £49m;
- there is a total of £50m in deficits that could not be met through redistribution at a local level.

⁴ TES (2017), 'DfE: schools sitting on £4bn of financial headroom', October 2017

⁵ DfE (2018), 'Schemes for financing schools: statutory guidance for local authorities', March 2018

Figure 6: Size of surplus and deficit balances (per pupil) in maintained schools by local authority in 2017-18



The challenges to using surplus balances to ease deficits

The analysis set out above suggests that nearly four-fifths of school deficits could be eliminated *if* reserves could be redistributed from excessive balances into deficit balances. However, there are a number of issues that the government would need to consider if it was to advocate this as an approach to easing the financial pressures on some schools.

Firstly, local authorities are operating in a system of increased school autonomy and are required to limit placing constraints on how schools manage their budget. Moving to a position of more direct management of school expenditure by local authorities would represent a significant shift in the Department's position.

The second key issue is just how much of the money is genuinely in scope for clawback. While the balances may be 'excessive' much of the amount is 'committed', that is to say that a specific purpose for that money has already been identified – for example, as part of investment into large capital projects. DfE statistics show that around half of all revenue balances are 'committed'. If we apply the excessive threshold only to those uncommitted surplus balances, we estimate that this would yield around £250m. At a national level, however, this is still higher than the total of deficit balances.

The third point is the extent to which schools with surplus balances may be opposed to such measures as the mechanism risks rewarding poorly managed, inefficient schools, at the expense of those that have been efficient over a number of years. It may also introduce perverse incentives in those schools to spend money quickly ahead of money being clawed back.

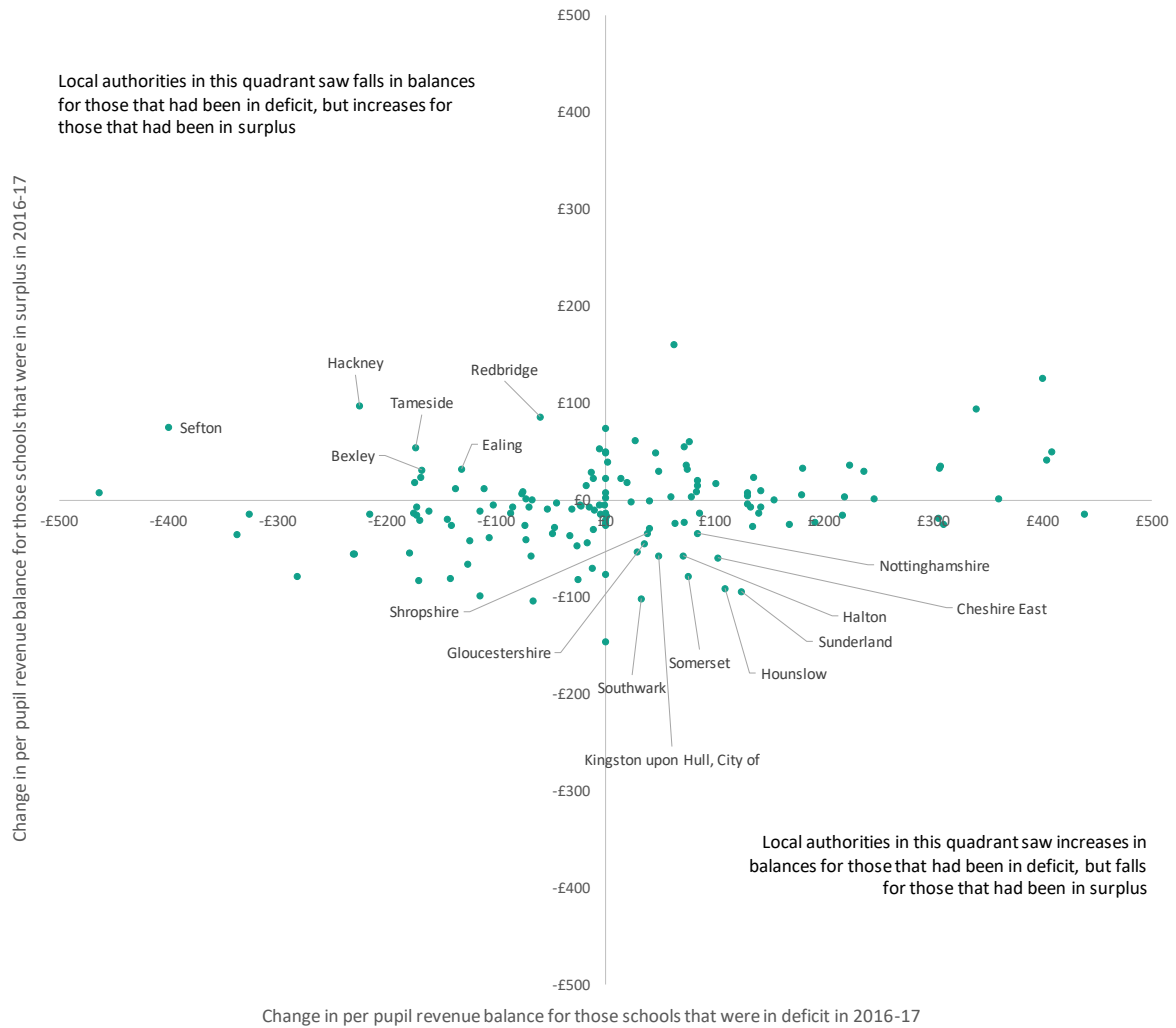
Finally, local authorities are not able to claw back surplus balances from academies in their area only maintained schools. Therefore, neighbouring schools, one maintained and one an academy, in a similar financial situation, would be treated quite differently. In the interests of fairness there would need to be a comparable scheme for academy trusts.

One way of examining whether there is already any 're-balancing' of revenue at local level is to compare the change in balances of schools in surplus with those that were in deficit to identify whether there is a net move from the former to the latter, this is shown in Figure 7 below.

There is no clear relationship to suggest that redistribution is happening in a systematic way. There are, however, a number of authorities where the balances of schools in deficit have increased while, for those in surplus, the balances have decreased over the past year (the bottom right quadrant in Figure 7). We cannot determine from the data alone whether this is by chance or by design.

A further issue is the extent to which money would be redistributed and visible in this way. For example, a local authority may prioritise moving surplus funding into the high needs block to meet immediate priorities.

Figure 7: Change in revenue balance position between 2016-17 and 2017-18

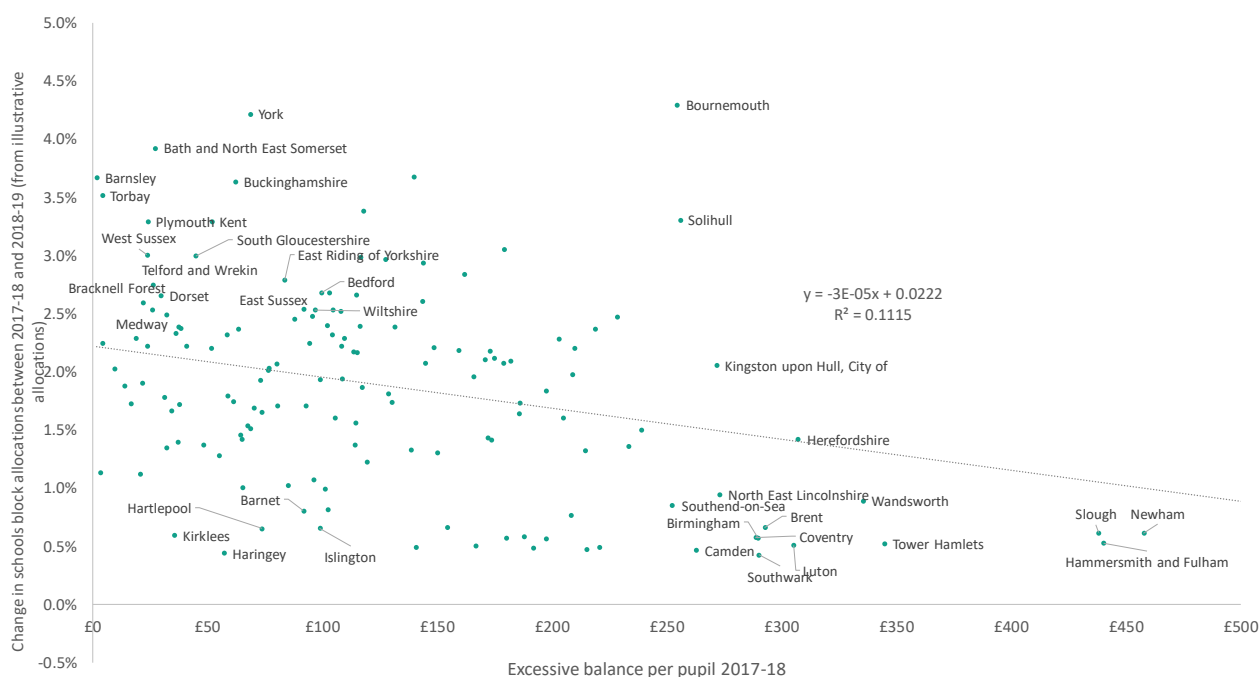


Whilst there are a number of challenges in redistributing money within local authorities, there is potentially scope to address deficit balances through redistribution of funding between different local authorities. The new National Funding Formula (NFF) seeks to address historic inconsistencies in how schools and local areas are funded. In Figure 8 we plot the average per pupil value of excessive balances within each local authority against the illustrative increase in funding between 2017-18 and 2018-19 according to the NFF.⁶

While the relationship is relatively weak, those local authorities with very high values of excessive surplus balances are generally likely to see below average increases in funding. Those with the highest increases under the NFF generally have lower values of excessive balances. The relationship is far from uniform with many areas with relatively low reserves also only seeing small increases under the NFF.

⁶ We use the illustrative rather than actual allocations so we observe the effect of the formula rather than the effect combined with changes in pupil numbers and so on.

Figure 8: Relationship between excessive school balances in 2017-18



Income and expenditure in academies and comparisons with maintained schools

In July 2018, the Department for Education published new statistics on the revenue balances of academy trusts in 2016/17.^{7,8} Rather than considering balances at individual academy level the DfE argues that surplus and deficits should be reported at the trust level because the trust is the legal entity that is responsible for finances. It found that:

- 91.6 per cent of trusts had a cumulative surplus and 2.3 per cent had a zero balance.
- 6.1 per cent of trusts had a cumulative deficit.
- 94.5 per cent of academies were in trusts that had a cumulative surplus with 1.2 per cent in a trust with a zero balance.
- 4.3 per cent of academies were in trusts that had a cumulative deficit.
- The total net financial position of all academy trusts was a cumulative surplus of £2.4 billion, and the average reserve was £791,000.

There are strong policy arguments for reporting balances at trust rather than individual school level. As well as being the legal entity, a trust would find it much easier to recirculate its money around its academies than a local authority would its maintained schools as discussed above.

However, it makes the balances data a less useful indicator of the overall health of the system than it is for maintained schools. This is because the relative proportion of schools in deficit (around 1 in 10 for primary and special schools and 1 in 3 for secondary schools if following the same trends as

⁷ DfE(2018), ‘Academy trusts with a revenue surplus or deficit: 2016 to 2017’, July 2018

⁸ Note that income and expenditure for academies is reported on an academic year basis whereas maintained schools are reported on a financial year basis. In this paper, 2016/17 refers to the academic year and 2016-17 refers to the financial year.

maintained schools) means that grouping schools together will on average lead to an overall surplus at trust level, even if a significant proportion of individual academies are in deficit.

For example, take a trust with three secondary schools. If it reflects national averages for maintained schools then two schools will be in surplus and one in deficit. The net result would probably be that the trust is in surplus and would show three schools that are 'in a trust with an overall surplus' even though one of the schools is in deficit. Indeed, it is not surprising to find that smaller trusts are more likely to be in deficit on this measure. One school having a particular set of circumstances for one year that push it into the red would quite possibly lead the trust into a short-term deficit. A large system leader trust in deficit is more likely to be able to absorb individual academy deficits and year-to-year fluctuations.

Data is available at individual academy level on income and expenditure. This means that it is possible to repeat the analysis of in-year deficits (i.e. schools spending more in a given year than they have in income) and as such draw a comparison with maintained schools and hence the system overall. However, there are two caveats that come with this analysis:

- Academies report income and expenditure on an academic year rather than a financial basis. In order to make the comparison we have looked at income and expenditure in the 2016/17 academic year (the latest for which we have data) having estimated this for maintained schools by combining data for the 2016-17 and 2017-18 financial years (in the ratio 7:5).
- The reporting arrangements for academies differ from maintained schools and so these results are drawn from different data collections.

Figure 9 shows the proportion of schools, both maintained and academies, that had in-year deficits in 2016/17. The analysis is split by type of school and the size of academy trust.⁹ It shows that in 2016/17:

- Across all state-funded schools, 48 per cent of primary schools, 54 per cent of secondary schools, and 45 per cent of special schools, had expenditure that exceeded income;
- Academies were, on average, less likely to have expenditure that exceeded income than local authority maintained schools;
- 38 per cent of primary academies had expenditure that exceeded income compared with 51 per cent in maintained schools, the equivalent figures for secondary were 50 per cent and 64 per cent, and for special schools 38 per cent and 47 per cent.
- Across all school types, secondary schools were more likely to have a deficit in-year balance than primary schools and special schools.
- The propensity for an academy to have a deficit in-year balance was generally lower the larger the size of the trust. At both primary and secondary level, academies in single-academy trusts were more likely to have an in-year deficit than those in starter-trusts, in turn these were more likely to have an in-year deficits than those in established trusts, and those in established trusts were more likely to have an in year-deficit than those in national trusts. However, system-leader trusts did have a higher proportion of schools with in-year deficits than some smaller trusts.

⁹ Single academy trusts, starter trusts (fewer than 1,200 pupils), established trusts (1,200 – 4,999 pupils), national trusts (5,000 – 11,999 pupils), system leader trusts (12,000+ pupils).

Figure 9: The percentage of schools with in-year deficits in the 2016/17 academic year by type of school and size of academy trust

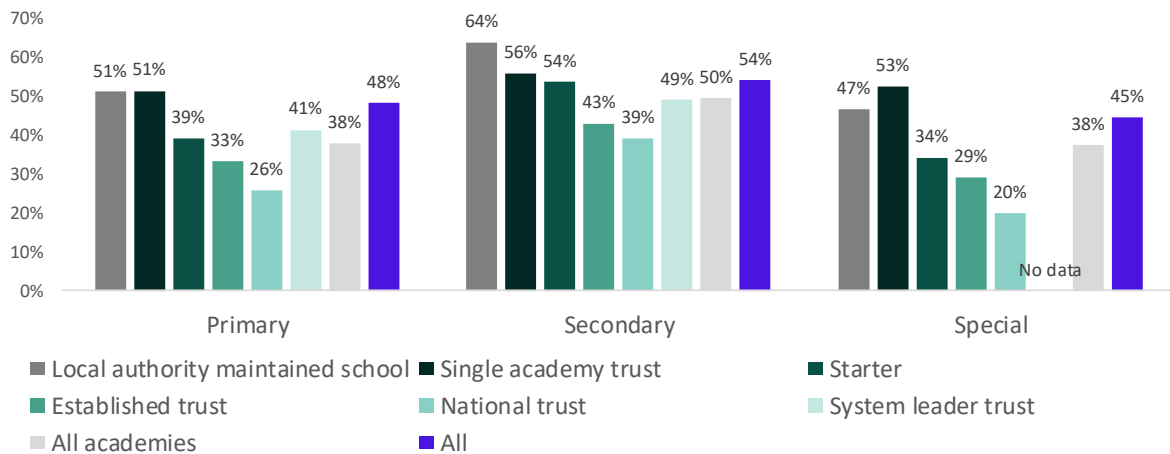
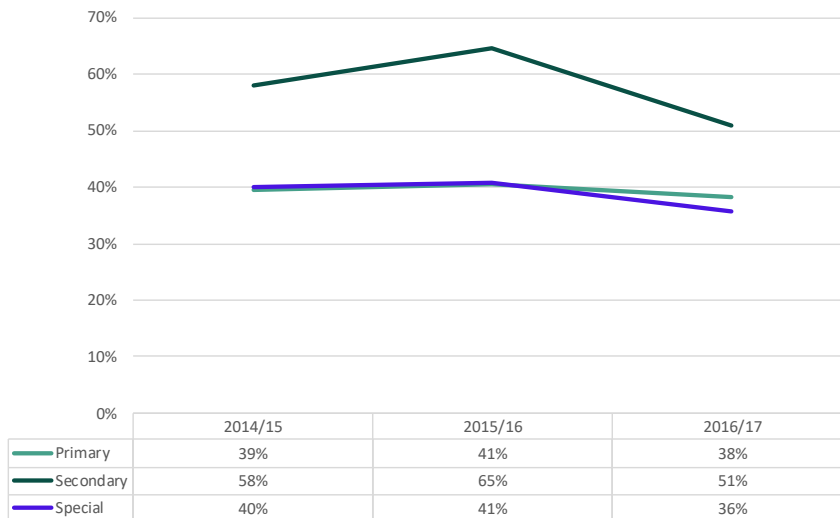


Figure 10 shows how this propensity to have a higher income than expenditure has changed over time for academies. It tracks the group of academies that have data in each year from 2014/15 to 2016/17 (this means it is limited to a subset of around 2,100 academies out of a total of 5,900). Amongst primary academies, the propensity to have an expenditure greater than income is largely unchanged over the three years and special schools have fallen slightly. Secondary academies have however seen a large fall in the most recent year after increasing in 2015/16.

Figure 10: The percentage of academies with in-year deficits 2014/15 to 2016/17



Conclusion

Financial pressures are continuing to be felt in schools in England.

The proportion of local authority maintained primary and secondary schools with a deficit balance increased in 2017-18, and there continue to be big differences between phases. Nearly 1 in 3 maintained secondary schools now has a deficit balance compared with 1 in 12 maintained primary schools. While the proportion of special schools in deficit decreased slightly, those in deficit tended to have larger debts than before.

It would appear from this data that schools are continuing to adjust their overall expenditure in line with income, as the proportion of maintained schools spending more than their income fell for primary, secondary and special schools. However, a significant proportion of all state-funded schools – 48 per cent of primary, 54 per cent of secondary, and 45 per cent of special – spent more than their income in the 2016/17 academic year (the latest year for which data is available for all schools). Within this report we have not examined the nature of savings and efficiencies that schools have made and hence are unable to speculate on whether they are likely to have any impact on educational outcomes. We will be doing further work on trends in expenditure and the scope for efficiency savings later in the year.

The value of surplus balances far exceeds that of deficit balances. In 2017-18 the total value of deficit balances was £233m. The total value of surplus balances was £1,794m of which £580m was balances above the excessive balance threshold. But, as we highlight in this report, the Department for Education and ultimately local authorities, face a number of challenges in redistributing that money. Whilst local authorities are able to use mechanisms for controlling excessive surpluses there is limited evidence that they are being used to a significant extent.

The results here present some interesting findings for academies, in particular that moving from starter to national trusts, the proportion of academies with in-year deficits falls and in all cases is lower than the average for local authority schools. A possible explanation for this is that trusts have the ability to move funding around to best meet the needs of their individual academies. However, because there is currently no transparent mechanism for this (unlike the DfEs pro-forma for local funding formulae) it is difficult to assess whether this is the case.