

## **Distribution Sub-Group (2019) Paper 08 – Revenue Outturn mapped to IBA service areas – school reserves**

**This discussion paper has been written by officials of the Welsh Government. Ministers have not had an opportunity to comment on the contents. Exemplifications of changes are provided simply to inform discussion by DSG members. They are not Welsh Government proposals or statements of Government policy for or against changes.**

### **Revenue Outturn mapped to IBA service areas – school reserves**

#### **Summary**

1. This paper investigates the mapping and the construction of the Revenue Outturn (RO) data within the Local Government Settlement build. In particular, this paper highlights the issues regarding the Education element and the treatment of reserves.

#### **Views sought**

2. Members are asked to confirm they're content with the change and note the distributional implications of the proposed changes.

#### **Previous papers**

*Distribution Sub-Group (2018) Paper 05 – Revenue Outturn Data mapped to IBA service areas – Education*

*Distribution Sub-Group (2018) Paper 09 – Revenue Outturn/Account Data mapped to IBA service areas*

#### **Background**

3. There are 37 Indicator Based Assessments (IBAs) for service areas that use the Revenue Outturn (RO) data to produce the local government settlement funding distribution.
4. After doing some routine analysis on the RO dataset, it has been discovered that the education element currently includes the following line – “Adjustment for contributions to (col 1b) / from (col 6b) school reserves “.
5. The currently model therefore includes school expenditure from and to reserves, and will have an impact on the distribution of the education IBAs.
6. Annex A provides an illustration of this in practice. Within this example, the movement from reserves is greater than going into reserves for primary and secondary schools.
7. The RO model would interpret this as negative net current expenditure for these RO lines and feed them through to their respective IBAs. In practice this means that the IBA for primary and secondary schools would be underestimated (given the negative net expenditure) at a Wales level.
8. A positive net current expenditure value would therefore over estimate that indicator.

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### Analysis

9. The most recent data shown in table 1, highlights that secondary and middle schools both show negative net expenditure, so the equivalent IBAs are currently being under-estimated.

**Table 1 - Adjustment for contributions to/from school reserves by total expenditure delegated to schools type (£000s), 2017-18**

	Gross expenditure	Total Income	Net current expenditure
Nursery schools	60.287	-38.279	22.008
Primary schools	14,984.565	-6,687.145	8,297.420
Secondary schools	5,397.182	-9,230.029	-3,832.847
Special schools	1,647.994	-841.585	806.409
Middle schools	611.154	- 1,603.471	-992.317

Source: [Revenue outturn \(RO\) data collection](#), Welsh Government

10. To correct this oversight, we can exclude this line from the RO build. This is because the income field in the reserve adjustment should be included in another expenditure line.

11. The table below shows that this does not have a significant financial impact on any authority. The largest decrease is to Wrexham down £51k and the largest increase is in Rhondda Cynon Taf (up £33k)

**Table 2: Funding exemplification based on the 2019-20 settlement AEF after floor value, by RO method.**

	£000s			
	Currently used	Mapping change	Change	% Change
Isle of Anglesey	95,791	95,791	0	0.0%
Gwynedd	176,552	176,549	-3	0.0%
Conwy	154,192	154,192	0	0.0%
Denbighshire	143,637	143,659	23	0.0%
Flintshire	188,980	188,980	0	0.0%
Wrexham	175,252	175,200	-51	0.0%
Powys	174,291	174,291	0	0.0%
Ceredigion	102,091	102,099	7	0.0%
Pembrokeshire	162,448	162,433	-15	0.0%
Carmarthenshire	260,388	260,390	2	0.0%
Swansea	322,211	322,216	5	0.0%
Neath Port Talbot	214,796	214,820	25	0.0%
Bridgend	191,807	191,808	2	0.0%
The Vale Of Glamorgan	152,070	152,076	6	0.0%
Rhondda Cynon Taf	367,339	367,372	33	0.0%
Merthyr Tydfil	91,304	91,297	-8	0.0%
Caerphilly	268,614	268,633	19	0.0%
Blaenau Gwent	110,815	110,798	-17	0.0%
Torfaen	132,650	132,668	18	0.0%
Monmouthshire	93,229	93,229	0	0.0%
Newport	214,343	214,341	-2	0.0%
Cardiff	444,629	444,587	-42	0.0%
<b>Wales</b>	<b>4,237,431</b>	<b>4,237,431</b>	<b>0</b>	

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12. The reason behind this change in funding can be explained by the percentage share of each LA, shown in table 3.
13. As this proposal nets off the adjustment to reserves, we see from table 1 that nursery/primary and special education are both positive so netting these will lower the pot for the IBAs. Similarly, for the secondary schools value is negative, which when netting off will result in their IBA bucket increasing.
14. For example, Wrexham decreases because of its lower relative share in the secondary IBA, which now has more funding associated to it, when compared to the nursery/primary and special education IBAs.
15. Similarly Rhondda Cynon Taf increases due to its larger percentage share in the secondary IBA than the others outlined.

**Table 3: Percentage shares of the primary, secondary and special education IBAs**

	<b>Nursery/Primary</b>	<b>Secondary</b>	<b>Special</b>
Isle of Anglesey	2.4%	2.1%	2.3%
Gwynedd	4.0%	3.9%	3.8%
Conwy	3.3%	3.5%	3.6%
Denbighshire	3.2%	3.6%	3.2%
Flintshire	5.0%	5.1%	5.2%
Wrexham	4.6%	3.8%	4.6%
Powys	4.1%	4.0%	3.9%
Ceredigion	2.2%	2.2%	2.0%
Pembrokeshire	4.0%	3.7%	4.0%
Carmarthenshire	6.2%	6.2%	6.0%
Swansea	7.5%	7.6%	7.2%
Neath Port Talbot	4.5%	4.9%	4.7%
Bridgend	4.6%	4.7%	4.5%
The Vale of Glamorgan	4.4%	4.5%	4.1%
Rhondda Cynon Taf	8.0%	8.6%	8.3%
Merthyr Tydfil	2.0%	1.8%	2.1%
Caerphilly	6.0%	6.4%	6.3%
Blaenau Gwent	2.2%	1.9%	2.4%
Torfaen	3.0%	3.3%	3.2%
Monmouthshire	2.6%	2.5%	2.8%
Newport	5.2%	5.2%	5.0%
Cardiff	11.2%	10.6%	11.0%

### **Conclusion**

16. DSG members are asked to agree to the potential changes outlined in this paper and consider any distributional issues for future years.

### **Recommendations**

17. DSG are asked to agree the change in the RO mapping for the 2020-21 settlement.

### **Local Government Finance Policy**

#### **Welsh Government**

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Annex A

Table 1: Example

01 Education expenditure, 2017-18		Enter data in £ thousands					This form should be completed on a non-FRS17 and PFI "Off Balance Sheet" basis.					
Servic	<a href="#">Notes for guidance hyperlink</a>				** Record as negative **	** Record as negative **					** Record as negative **	
		Teachers	Other direct spend (employee costs and running costs)	Central and departmental support services costs	Income from joint arrangements with other local authorities	GROSS EXPENDITURE (1.1)+(1.2)+(2)+(3)	Income from sales, fees and charges	Other income (excluding joint arrangements)	Income from joint arrangements with non-local authority bodies	TOTAL INCOME(6.1)+(6.2)+(7)	NET CURRENT EXPENDITURE (5)+(8)	Specific and special government grants
		1.10	1.20	2.00	3.00	5.00	6.10	6.20	7.00	8.00	10.00	11.00
<b>Delegated Expenditure</b>												
<b>Nursery schools</b>												
209	Adjustment for contributions to (col 1b) / from (col 6b) school reserves (see note)		5.000			5.000		-2.000		-2.000	3	
<b>Primary schools</b>												
10	Adjustment for contributions to (col 1b) / from (col 6b) school reserves (see note)		100.000			100.000		-150.000		-150.000	-50	
<b>Secondary schools</b>												
21	Adjustment for contributions to (col 1b) / from (col 6b) school reserves (see note)		25.000			25.000		-26.000		-26.000	-1	
<b>Special schools</b>												
32	Adjustment for contributions to (col 1b) / from (col 6b) school reserves (see note)		1.000			1		0.000		0.000	1	
<b>Middle schools</b>												
259	Adjustment for contributions to (col 1b) / from (col 6b) school reserves (see note)		0.000			0.000		0.000		0.000	0	