

GOVERNANCE AND AUDIT COMMITTEE

Date of Meeting	Wednesday, 28 th September 2022
Report Subject	School Reserves Year Ending 31 March 2022
Report Author	Chief Officer (Education and Youth)

EXECUTIVE SUMMARY

The overall level of reserves held by Flintshire schools was £12.555m at 31 March 2022, an increase of £5.652m compared with the previous year.

A summary of the position at the end of March 2022 is shown in table 1 below.

Table 1

Sector	Reserves 31st March 2021 (£)	% of Budget	Reserves 31st March 2022 (£)	% of Budget	Variance (£)	Variance (%)
PRIMARY	6,025,937	11.4%	8,445,703	16.2%	2,419,766	4.84%
SECONDARY	472,112	1.1%	3,488,879	7.3%	3,016,767	6.23%
SPECIALIST	404,402	9.4%	620,330	14.7%	215,928	5.27%
TOTAL	6,902,451	6.8%	12,554,912	12.1%	5,652,461	5.23%

The level of school reserves has increased considerably across all sectors over the past year and continues the trend seen at the end of the last financial year, however this is a reversal of trends prior to 2020/21.

A factor contributing significantly to the increase in school reserves is the volume of additional grants being awarded to schools by Welsh Government in recognition of the significant effect the pandemic has had on our learners and the need for schools to provide additional support. Whilst additional grant funding is to be welcomed and notification of grants was generally earlier than received last year, a number of grants were awarded during the last quarter of the financial year and have the impact of inflating the level of school reserves at the year end.

Higher levels of uncertainty around future pay and utility costs due to levels of inflation not seen for decades will mean setting future balanced budgets at a Council, and at an individual school, level will be very challenging in the medium term. Prudent management of school reserves will be an important component in assisting schools to achieve balanced budgets over this difficult period.

RECOMMENDATIONS

1	To review the report and level of school reserves as at the 31 March 2022.
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REPORT DETAILS

1.00	EXPLAINING SCHOOL RESERVES																																			
1.01	<p>The overall level of reserves held by Flintshire schools was £12.555m at 31 March 2022, an increase of £5.652m compared with the previous year.</p> <p>A summary of the position at the end of March 2022 is shown in table 1 below.</p> <p>Table 1</p> <table border="1"> <thead> <tr> <th>Sector</th> <th>Reserves 31st March 2021 (£)</th> <th>% of Budget</th> <th>Reserves 31st March 2022 (£)</th> <th>% of Budget</th> <th>Variance (£)</th> <th>Variance (%)</th> </tr> </thead> <tbody> <tr> <td>PRIMARY</td> <td>6,025,937</td> <td>11.4%</td> <td>8,445,703</td> <td>16.2%</td> <td>2,419,766</td> <td>4.84%</td> </tr> <tr> <td>SECONDARY</td> <td>472,112</td> <td>1.1%</td> <td>3,488,879</td> <td>7.3%</td> <td>3,016,767</td> <td>6.23%</td> </tr> <tr> <td>SPECIALIST</td> <td>404,402</td> <td>9.4%</td> <td>620,330</td> <td>14.7%</td> <td>215,928</td> <td>5.27%</td> </tr> <tr> <td>TOTAL</td> <td>6,902,451</td> <td>6.8%</td> <td>12,554,912</td> <td>12.1%</td> <td>5,652,461</td> <td>5.23%</td> </tr> </tbody> </table> <p>The level of reserves each school in Flintshire held at the end of March 2022 is shown at appendix 1 along with the total amount of additional grant funding each school received during 2021/22 and 2020/21 financial years.</p> <p>Please note that the figures in Table 1 for March 2022 includes a total of £0.263m that schools are required to set aside in the ICT HwB Reserve held centrally on schools behalf. This is to fund future investment in schools ICT and was a requirement by Welsh Government as part of the conditions of the HwB grant to ensure levels of ICT investment in schools in recent years funded by grants are sustained.</p>	Sector	Reserves 31st March 2021 (£)	% of Budget	Reserves 31st March 2022 (£)	% of Budget	Variance (£)	Variance (%)	PRIMARY	6,025,937	11.4%	8,445,703	16.2%	2,419,766	4.84%	SECONDARY	472,112	1.1%	3,488,879	7.3%	3,016,767	6.23%	SPECIALIST	404,402	9.4%	620,330	14.7%	215,928	5.27%	TOTAL	6,902,451	6.8%	12,554,912	12.1%	5,652,461	5.23%
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1.02	<p>Overall, the total level of primary schools reserves increased by £2.420m, the total level of secondary schools reserves increased by £3.017m and the total level of specialist schools reserves increased by £0.216m.</p> <p>This is a continuation of the situation at the last year end with reserves increasing, however this is a reversal of trends seen in recent years. Table 2 below illustrates and shows the level of school reserves at the year-end over the past 5 years.</p> <p>Table 2</p> <table border="1"> <thead> <tr> <th>Sector</th> <th>Reserves 31st March 2018 (£)</th> <th>Reserves 31st March 2019 (£)</th> <th>Reserves 31st March 2020 (£)</th> <th>Reserves 31st March 2021 (£)</th> <th>Reserves 31st March 2022 (£)</th> </tr> </thead> <tbody> <tr> <td>PRIMARY</td> <td>2,402,461</td> <td>2,565,109</td> <td>1,901,956</td> <td>6,025,937</td> <td>8,445,703</td> </tr> <tr> <td>SECONDARY</td> <td>-1,285,856</td> <td>-1,454,811</td> <td>-2,076,302</td> <td>472,112</td> <td>3,488,879</td> </tr> <tr> <td>SPECIALIST</td> <td>168,193</td> <td>224,789</td> <td>286,303</td> <td>404,402</td> <td>620,330</td> </tr> <tr> <td>TOTAL</td> <td>1,284,798</td> <td>1,335,087</td> <td>111,956</td> <td>6,902,451</td> <td>12,554,912</td> </tr> </tbody> </table>	Sector	Reserves 31st March 2018 (£)	Reserves 31st March 2019 (£)	Reserves 31st March 2020 (£)	Reserves 31st March 2021 (£)	Reserves 31st March 2022 (£)	PRIMARY	2,402,461	2,565,109	1,901,956	6,025,937	8,445,703	SECONDARY	-1,285,856	-1,454,811	-2,076,302	472,112	3,488,879	SPECIALIST	168,193	224,789	286,303	404,402	620,330	TOTAL	1,284,798	1,335,087	111,956	6,902,451	12,554,912					
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The common factor affecting both financial years 2020/21 and 2021/22 is the significant additional funding all schools have received in the form of specific grants.

1.03 Additional Grants

In recognition of the challenges the pandemic presented to both schools and learners, Welsh Government over the past 2 years have provided significant additional funding to schools in the form of grants which must be spent on specific activities and targets. The challenges continue as the effects of school closures during the pandemic, on our learners becomes clearer. To assist schools and councils in planning services Welsh Government have indicated that ‘catch up’ programmes will continue into 2022/23, 2023/24 and 2024/25 albeit at a reduced funding level.

Additional grants have also been awarded to support other ongoing developments in schools including the introduction of the new curriculum and the phased implementation of new legislation for learners with additional learning needs.

Table 3 below shows the level of grants schools have received in the last 3 financial years split across the 3 sectors. Demonstrating the total amount of additional funding being awarded to schools all with specific terms and conditions that must be adhered to.

Table 3

Sector	Grants 2021/22	Grants 2020/21	Grants 2019/20
PRIMARY	14,370,115	11,404,009	8,852,568
SECONDARY	10,898,836	9,222,854	8,018,691
SPECIALIST	364,503	197,703	203,801
TOTAL	25,633,455	20,824,566	17,075,060

A number of additional grants in 2021/22 were announced in the last quarter. These announcements were earlier than last financial year. Due to their notification dates being in the last quarter, combined with other issues such as difficulties in recruiting suitable employees, this can have the effect of displacing expenditure already incurred and act to release planned use of general schools funding. This inflates the level of school reserves as at 31st March 2022, as the school allocations are carried forward into 2022/23 financial year to fund spending in 2022/23.

Whilst additional funding is welcomed, it is important to note that grants come with specific terms and conditions which must be adhered to, and therefore schools are restricted to what they can use the funding for. Grants also create an administrative burden on schools and councils in the form of returns, monitoring outcomes, tracking expenditure etc, which is generally unfunded.

1.04 Council’s role in monitoring the level of School Reserves.

The School Funding (Wales) Regulations 2010 require local authorities to have the following provisions in their Scheme for Financing Schools:

	<p>The use that a governing body proposes to make of a surplus in the school balance which exceeds 5% of the school budget share or £10,000, whichever is the greater.</p> <p>A provision under which–</p> <p>(a) the authority may direct the governing body as to how to spend a surplus in the school balance for a funding period, if–</p> <ul style="list-style-type: none"> (i) in the case of a primary school the surplus is £50,000 or more, and (ii) in the case of a secondary school or a special school the surplus is £100,000 or more; <p>(b) the authority may, if the governing body do not comply with such a direction, require the governing body to pay all or part of that surplus to the authority to be applied as part of their schools budget for the funding period in question.</p>
1.05	<p>In accordance with the Regulations, the Council’s Scheme for Financing Schools requires a spending plan from schools as to the use that the governing body proposes to make of a school balance which exceeds the limits specified.</p> <p>Given the level of uncertainty within which schools were preparing to set their 2022/23 budget, and the impact of grants in recent years from Welsh Government, the Council notified all schools in January 2022 that it would not be automatically clawing back school reserves in excess of 5% of school budget share at 31st March 2022. However, schools were advised that the Council would require more detailed information to better understand each school’s financial position at 31st March 2022 and each governing body’s plan for spending reserves in excess of the 5% level over the medium term (3 years).</p> <p>Schools were required to complete a revised ‘School Reserve Declaration Form’, by 30th June, alongside setting their annual budget. An example form is attached at Appendix 2 for information.</p> <p>Analysis of the completed forms shows that the main reasons schools gave for balances being excess of the 5% of school budget recommendation are as follows:</p> <ul style="list-style-type: none"> • Grants from Welsh Government acting to replace spending from school reserves. • A challenging labour market with conditions generally making it difficult to recruit, especially employees on a supply or temporary basis. • Building / premises projects that schools had planned and had set reserves aside to fund haven’t been able to take place due to issues and delays related to the pandemic. It is difficult to find contractors and some materials, and works also need to coincide with school holidays. • Reserves built up due to a combination of additional resources and savings from periods of school closures during the pandemic. • Reserves purposefully built up to fund a predicted shortfall in funding in future years due to falling pupil numbers.

- Reserves purposefully built up due to concerns over ability to afford future energy price increases.

Plans schools have for spending their reserves over the medium term are as follows:

- Reserves to be used in balancing future budgets.
- Increasing levels of employees to reduce class sizes and raise standards / focus on catch up learning as a result of the pandemic.
- Staff release time, training, purchasing resources required to introduce the new Additional Learning Needs legislation which is being phased in.
- Preparing for the introduction of the new curriculum.
- Purchasing additional resources and ICT equipment.
- Building and premises projects e.g. a numbers of schools have indicated that they need to invest in their outdoor learning environments.

1.06 Secondary Schools

During the year there has been a general increase in reserves in the secondary sector. Overall secondary reserves stood at £3.489m - an increase of £3.017m. This equates to 7.3% of secondary budgets and is an increase from 1.1% at 31st March 2021.

Table 4 categorises school reserves by number in various percentage brackets.

Table 4

No. of Secondary Schools	Reserves 31st March 2021	Reserves 31st March 2022
In Deficit Reserves	4	2
Reserves between 0% and 5% of School Budget	1	1
Reserves between 5% and 10% of School Budget	6	4
Reserves between 10% and 15% of School Budget	0	2
Reserves in excess of 15% of School Budget	0	2
TOTAL	11	11

2 schools out of 11 were in a deficit position compared with 4 the previous year. Deficits amounted to £0.745m compared with £1.912m the previous year. In line with the Protocol for Schools in Financial Difficulty school support and challenge meetings will be continue to be held with these schools.

In general, the financial resilience of the secondary school sector in Flintshire is still of concern. The total level of reserves across the sector has risen to 7% at 31st March 2022 however at 31st March 2021 it was just 1.1% of secondary budgets, and for the previous 3 years the sector was in deficit overall.

Demographic changes in the distribution of pupils across the primary and secondary sectors have taken place in recent years, with secondary pupil numbers declining whilst primary pupil numbers were increasing. This resulted in a redistribution of funding between sectors. However, this trend is now reversing and pupil numbers in the secondary sector are now increasing

which will have a positive financial impact on the secondary sector going forward. There is still concern for our smaller secondary schools with deficit reserves.

Under the Protocol for Schools in Financial Difficulty rigorous reviews have taken place during the past year to fully understand the financial position of each school in deficit. The schools in deficit cannot set an in year balanced budget from the resources allocated through the funding formula whilst delivering a broad and balanced curriculum. This elicits the question as to whether the funding formula provides sufficient resource for schools, particularly smaller schools, and those serving our most deprived communities, to operate sustainably. As part of the response to the Estyn recommendation to manage the reduction in school budget deficits more effectively, additional funding was allocated to secondary schools in 2021/22 for this purpose and initial work was conducted with secondary schools to review the funding formula. The funding remains in the base budget and the work on the formula continues to ensure every secondary school receives an allocation that allows them to operate sustainably.

1.07 Primary Schools

During the year there has been a general increase in reserves in the primary sector. Overall primary reserves stood at £8.446m an increase of £2.420m. This equates to 16.2% of primary budgets, an increase from 11.4% at 31st March 2021.

Table 5 categorises school reserves by number in various percentage brackets.

Table 5

No. of Primary Schools	Reserves 31st March 2021	Reserves 31st March 2022
In Deficit Reserves	1	0
Reserves between 0% and 5% of School Budget	7	3
Reserves between 5% and 10% of School Budget	17	7
Reserves between 10% and 15% of School Budget	21	20
Reserves between 15% and 20% of School Budget	13	16
Reserves in excess of 20%	5	18
TOTAL	64	64

At the end of the financial year there were no primary schools in deficit compared with 1 in the previous year.

Demographic changes in the distribution of pupils across the primary and secondary sectors have taken place in recent years, with secondary pupil numbers declining whilst primary pupil numbers increased. This resulted in a redistribution of funding between sectors. However, this trend is now reversing and pupil numbers in the secondary sector are now increasing with pupil numbers in the primary sector declining. Funding will need to be redistributed from Primary to Secondary which will have a negative financial impact on the primary sector going forward.

2.00	RESOURCE IMPLICATIONS
2.01	No direct resource implications as a result of this report. The impact of high levels of inflation on the financial resilience of schools is an area of concern.

3.00	RISK MANAGEMENT
3.01	As budgets come under increasing pressure from high levels of inflation and reduced financial settlements from Welsh Government compared with recent years, there is a risk that more schools will slip into a deficit position. The Schools Accounting Team have developed a risk rating process to identify schools where the financial position is a cause for concern so that they can target their support.
3.02	To balance budgets schools may need to review their employment structures which may result in redundancies.
3.03	Continued pressure on school finances may result in increased class sizes, a reduced curriculum and falling standards.

4.00	CONSULTATIONS REQUIRED / CARRIED OUT
4.01	This report has been circulated to all Headteachers and will be reviewed by the Schools Budget Forum and the Education, Youth and Culture Overview and Scrutiny Committee at their September 2022 meetings.

5.00	APPENDICES
5.01	Appendix 1 - School Reserves 2021-22 Appendix 2 – School Reserves Declaration Form 31 st March 2022

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None.

7.00	CONTACT OFFICER DETAILS
7.01	Contact Officer: Liz Thomas, Strategic Finance Manager - Schools Telephone: 01352 702289 E-mail: liz.thomas@flintshire.gov.uk

8.00	GLOSSARY OF TERMS
8.01	<p>School Reserves – Reserves are sums of money that schools carry forward from one year to the next. They arise from underspends and overspends against school allocations over time. Schools are responsible for managing their own finances. The level of reserves held by an individual school will depend on a number of factors. These will include the timing of receipt of income and of payments, and the level of contingency fund the school governing body considers appropriate and the particular plans each school has for expenditure.</p>
	<p>Flintshire County Council's Scheme for Financing Schools – The Scheme defines the financial relationship between Flintshire County Council and its maintained schools. The Scheme details the financial management arrangements to which the Authority and its schools are required to adhere. The framework for this Scheme is based on legislative provisions contained in sections 45-53 of the School Standards and Framework Act, 1998 and as further detailed in The School Funding (Wales) Regulations 2010.</p>