

## AUDIT COMMITTEE

|                        |                                                   |
|------------------------|---------------------------------------------------|
| <b>Date of Meeting</b> | Wednesday, 12 September 2018                      |
| <b>Report Subject</b>  | School Reserve Balances Year Ending 31 March 2018 |
| <b>Cabinet Member</b>  | Cabinet Member for Education                      |
| <b>Report Author</b>   | Chief Officer, Education & Youth                  |
| <b>Type of Report</b>  | Operational                                       |

### EXECUTIVE SUMMARY

The overall level of reserves held by Flintshire schools was £1.275m at 31 March 2018. This is a decrease of 11% compared with the previous year. Overall secondary schools net deficit increased by £410k or 47%. This was offset by a £314k (15%) increase in primary reserves. A summary of the position is shown in table 1.

**Table 1**

| School Sector         | 2017-18<br>Schools<br>Delegated<br>Budget | March<br>2018<br>Balance<br>surplus/<br>(deficit) | March<br>2017<br>Balance<br>surplus/<br>(deficit) | Change<br>Between<br>Years |
|-----------------------|-------------------------------------------|---------------------------------------------------|---------------------------------------------------|----------------------------|
|                       | £'000                                     | £'000                                             | £'000                                             | £'000                      |
| <b>Primary</b>        | 48,105                                    | 2,393                                             | 2,079                                             | 314                        |
| <b>Secondary</b>      | 40,145                                    | -1,286                                            | -876                                              | -410                       |
| <b>Specialist</b>     | 3,832                                     | 168                                               | 230                                               | -62                        |
| <b>Overall Totals</b> | <b>92,082</b>                             | <b>1,275</b>                                      | <b>1,433</b>                                      | <b>-158</b>                |

### RECOMMENDATIONS

|   |                                                               |
|---|---------------------------------------------------------------|
| 1 | To note the school reserves balances as at the 31 March 2018. |
|---|---------------------------------------------------------------|

## REPORT DETAILS

| 1.00 | EXPLAINING SCHOOL BALANCES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.01 | <p>The analysis of reserve balances for each school in Flintshire at the end of March 2018 is shown at appendix 1. It should be noted that in March the Authority received an unexpected, although welcome, school maintenance grant from Welsh Government of £710k, the full value of which was allocated to schools. This had a positive effect on the outturn position of school reserve balances however it does to some extent mask the underlying trend.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 1.02 | <p>Secondary school budgets continue to be under pressure. At the end of the financial year six of Flintshire's 11 secondary schools had deficits amounting to £1.591m. Without the school maintenance grant school reserve balances would have been £246k worse.</p> <p>The level of reserves held by schools with positive balances is less than 2% of budget which highlights concerns about the financial resilience of the secondary school sector in Flintshire.</p> <p>There are a number of factors which have contributed to the current financial position. The ongoing austerity measures over recent years have resulted in schools having to absorb inflationary increases in pay, pension and NI increases. Another factor has been the demographic changes in the distribution of pupils across the primary and secondary sectors. Secondary pupil numbers have been declining whilst primary pupil numbers have been increasing and this has resulted in a redistribution of funding between sectors. This trend is now reversing and pupil numbers in the secondary sector are set to increase which will have a positive financial impact on the secondary sector.</p> |
| 1.03 | <p>Primary balances in Flintshire showed an overall increase of £314k, which if adjusted for the maintenance grant would actually be a reduction of £141k (7%). As in previous years primary balances have held up well despite the continuing pressure of austerity measures. Primary Headteachers have been proactive in managing their budgets however as referred to in 1.02 above primary pupils numbers are forecast to reduce and this will create challenges for Headteachers in managing their budgets.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 1.04 | <p>At the end of the financial year there were 3 primary schools with deficit balances totalling £57k compared with 4 primary schools with total deficits of £51k in the previous year.</p> <p>There were 19 primary schools with balances greater than £50k. This reduces to 16 if adjusted for the school maintenance grant. This compares with 14 schools in the previous year.</p> <p><b>Surplus Balances</b></p> <p>In accordance with the Authority's Scheme, schools must provide a statement on how they intend to use any surplus over £50k for primary schools and over £100k for secondary schools and specialist schools. The Authority also requires a statement from schools as to the use that the</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

|      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|      | <p>governing body proposes to make of a school balance which exceeds 5% of the school budget share or £10,000, whichever is the greater.</p> <p>The Schools Accounting Team request and scrutinise this information paying particular attention to those schools with balances over £50k/£100k.</p> <p>However, in 2017/18 the Authority indicated to schools that given the continuing pressures on budgets a flexible approach would be adopted to surplus balances.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 1.05 | <p>The ongoing pressures and the focus for Headteachers on managing a difficult financial situation and striving for educational excellence is a constant pressure. Staffing generally equates to a majority proportion of a school's budget, so schools must have a long-term plan that takes into account potential staffing changes through retirement, mobility, progression, change in numbers, etc.</p> <p>The Schools Accounting Team provides financial support to schools through a service level agreement. In consultation with schools the service level agreement was reviewed last year and an enhanced level of service was offered to primary schools. Most schools signed up for the enhanced service and the new offer was implemented from September 2017.</p>                                                                                                                                                                                                                                                                                                       |
| 1.06 | <p>The Schools Accounting Team are working with schools to take a longer-term view of their financial position, not a year-on-year approach. As a minimum, schools will need to set up a three-year budget plan (schools in deficit a five-year plan) which is regularly reviewed and rolled forward, looking at how they can remain sustainable and continue to deliver excellent educational outcomes. As part of this, schools will need to carefully consider their staffing mix, and plan how they will make most effective use of their staff.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 1.07 | <p><b>Deficit Balances</b></p> <p>Governors have no legal right to set a deficit budget without the consent of the Authority and should not presume that such consent will be granted. However, the Authority will consider approving a licensed deficit to a school where it agrees that there are circumstances in which it would be unreasonable for that school to balance its budget in the current financial year.</p> <p>Outside this provision, schools should ensure that total planned expenditure for the financial year should not exceed the budget share, adjusted by amounts carried forward from the previous financial year. The Authority has no power to write off the deficit balance of any school.</p> <p>Deficit balances are carried forward every year by the deduction of the relevant amounts from the following year's budget share. The Authority has a licensed deficit guidance and procedure which schools must adhere to.</p> <p>Appendix 2 see extract from the Scheme for Financing Schools<br/>Appendix 3 Licensed deficit application guidance</p> |

|      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.08 | <p>We are developing resources for Headteachers and governors to support them in carrying out financial health checks.</p> <ul style="list-style-type: none"> <li>• An <b>efficiency metric</b>, which indicates how a school's efficiency compares to similar schools.</li> <li>• A <b>benchmarking report card</b>, which encourages comparisons of spending data between similar schools.</li> <li>• A <b>top-ten checks list</b>, which provides guidance as to the types of questions governing bodies may wish to ask their school leadership teams relating to financial health.</li> </ul> <p>This will be assisted by the national schools benchmarking tool which is being developed by Welsh Government.</p> |
|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|             |                                                                                                           |
|-------------|-----------------------------------------------------------------------------------------------------------|
| <b>2.00</b> | <b>RESOURCE IMPLICATIONS</b>                                                                              |
| 2.01        | The impact of continuing austerity measures on the financial resilience of schools is an area of concern. |

|             |                                                                                                                                                                      |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>3.00</b> | <b>CONSULTATIONS REQUIRED / CARRIED OUT</b>                                                                                                                          |
| 3.01        | This report will be submitted to Education & Youth Scrutiny Committee and the Schools Budget Forum in September. The report has been circulated to all Headteachers. |

|             |                                                                                                                                                                                                                                                                                                                                                                |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>4.00</b> | <b>RISK MANAGEMENT</b>                                                                                                                                                                                                                                                                                                                                         |
| 4.01        | As funding levels to schools decrease as a consequence of the austerity measures facing local government, 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. |
| 4.02        | To balance budgets schools may need to review their staffing structures which may result in redundancies.                                                                                                                                                                                                                                                      |
| 4.03        | Continued pressure on school finances may result in increased class sizes, a reduced curriculum and falling standards.                                                                                                                                                                                                                                         |
| 4.04        | Schools forecasting a significant deficit position will be required to apply for a licensed deficit. The application will be reviewed by the Finance Manager and approval granted by the Chief Officer.                                                                                                                                                        |
| 4.05        | Schools deficits are funded by the overall collective balances of schools, however there is a risk that the level of deficits will exceed the positive balances. This means that the Authority will have to consider how net deficit school budgets are funded.                                                                                                |

|             |                                                                                                                                                                                                 |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>5.00</b> | <b>APPENDICES</b>                                                                                                                                                                               |
| 5.01        | <u><b>APPENDIX 1 – Final School Balances 2017-18</b></u><br><u><b>APPENDIX 2 – Extract Scheme for Financing Schools</b></u><br><u><b>APPENDIX 3 - Licensed Deficit Application Guidance</b></u> |

|             |                                                                                                                                                                                                                          |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>6.00</b> | <b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>                                                                                                                                                                           |
| 6.01        | None.<br><br><b>Contact Officer:</b> Lucy Morris, Education & Youth Finance Manager<br><b>Telephone:</b> 01352 704016<br><b>E-mail:</b> <a href="mailto:Lucy.morris@flintshire.gov.uk">Lucy.morris@flintshire.gov.uk</a> |

|             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>7.00</b> | <b>GLOSSARY OF TERMS</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 7.01        | <p><b>School Reserves</b><br/>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><b>Benchmarking</b><br/>The process of measuring the performance of a school’s products, services, or processes against those of another school either of a similar size and demographic or a school considered to be the best in the sector. The point of benchmarking is to identify internal opportunities for improvement.</p> <p><b>Flintshire County Council’s Scheme for Financing Schools</b><br/>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> |