

## AUDIT COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 November 2019
<b>Report Subject</b>	School Reserve Balances Year Ending 31 March 2019
<b>Cabinet Member</b>	Leader of the Council & 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 £1.335m at 31 March 2019, an increase of £0.060m (4.7%) compared with the previous year. Overall secondary schools net deficit increased by £0.169m or 13.1%. This was offset by a £0.172 (7.2%) increase in primary school reserves and £0.057m increase in specialist school reserves. A summary of the position is shown in table 1.

**Table 1**

School Sector	2018-19 Schools Delegated Budget	March 2019 Balance surplus/ (deficit)	March 2018 Balance surplus/ (deficit)	Change Between Years
	£'000	£'000	£'000	£'000
<b>Primary</b>	45.378	2.565	2.393	0.172
<b>Secondary</b>	40.557	(1.455)	(1.286)	(0.169)
<b>Specialist</b>	3.851	0.225	0.168	0.057
<b>Overall Totals</b>	89.786	1.335	1.275	0.060

### RECOMMENDATIONS

1	To note the school reserves balances as at the 31 March 2019.
---	---

## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING SCHOOL BALANCES</b>
1.01	The analysis of reserve balances for each school in Flintshire at the end of March 2019 is shown at Appendix 1.
1.02	<p><b>Secondary Schools</b></p> <p>Secondary school budgets continue to be under pressure. At the end of the financial year 7 of Flintshire's 11 secondary schools had deficits amounting to £1.879m. Deficits ranged from £0.009m to £0.646m. The level of reserves held by secondary schools with positive balances is 1% 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.</p> <ul style="list-style-type: none"><li>• The ongoing austerity measures over recent years have resulted in schools having to absorb inflationary increases in pay, pension and NI increases.</li><li>• Demographic changes in the distribution of pupils across the primary and secondary sectors. In recent years, secondary pupil numbers have been declining whilst primary pupil numbers have been increasing and this has 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.</li><li>• Smaller secondary schools with increasing deficits elicits the question as to whether the funding formula provides sufficient resource for schools to operate sustainably.</li></ul> <p>Pressure on secondary school budgets is a position which is replicated across England and Wales.</p>
1.03	<p><b>Primary Schools</b></p> <p>Primary balances in Flintshire showed an overall increase of £0.172m. 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 Primary Headteachers in managing their budgets in the near future.</p> <p>At the end of the financial year there were 6 primary schools with deficit balances totalling £0.121m compared with 3 primary schools with total deficits of £57k in the previous year.</p> <p>There were 21 primary schools with balances greater than £50k. This compares with 19 schools in the previous year. There were 4 primary schools with balances over £100k compared with 1 school in the previous year.</p>

1.04

### **Surplus Balances**

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

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.

A provision under which–

(a) the authority may direct the governing body as to how to spend a surplus in the school balance for a funding period, if–

(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;

(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.

Overall, the value of surplus balances in our schools far exceeds that of deficit balances. In 2018-19, deficit balances totalled £2.000m, while the total value of surplus balances was £3.334m. Of the 64 primary schools there are 21 (33%) with balances which are over the 5% and £50k threshold and 1 secondary school, amounting in total to £1.007m which could be deemed “excessive”.

In theory, over 50% of the school deficits could be eliminated if the authority redistributed reserves from excessive balances within the authority into deficit balances. However, in practice, balances are already committed by the schools to specific projects, or to cover the uncertainty of funding and changes in pupil numbers. Given the relative autonomy that schools have, there would likely be serious challenges involved in trying to reallocate such surpluses.

In accordance with the Regulations, the Authority’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. The plans are scrutinised by the Schools Accounting Team. Where schools have balances over £50k/£100k the spending plans are reviewed by the Portfolio Management Team.

1.05	<p>The ongoing focus for Headteachers on managing a difficult financial situation whilst 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 (SLA). In consultation with schools the SLA was reviewed in 2017 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 2018.</p> <p>The Schools Accounting Team work with schools to develop three year budget plans. This approach helps schools to consider how they can remain sustainable and continue to deliver the curriculum effectively. As part of their three year plans schools need to carefully consider the profile of their workforce and plan how they will make most effective use of their staff and the resources available.</p>
1.06	<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>
1.07	<p>The Schools Finance Manager and Schools Accountant meet with schools in deficit to review and challenge their deficit plans. An application for a licensed deficit is reviewed and approved by the Corporate Finance Manager (s151 officer) and the Chief Officer, Education and Youth. Schools in a licensed deficit need to seek approval from the Authority prior to recruiting employees including making internal appointments.</p>
1.08	<p>Estyn Inspection of Local Government Education Services – June 2019</p> <p>The inspection report stated the following:</p> <p><i>'The local authority's allocation of resources to its education services and schools reflects the high priority given to education in the corporate plan. However, the local authority has allowed a small number of schools to carry a financial deficit balance for too long'.</i></p>

	<i>Recommendation 4 - Manage the reduction in school budget deficits more effectively.</i>
1.09	<p>The Education and Youth Portfolio Management Team and Schools Finance Team have agreed a range of actions which will form part of the Authority's response to Estyn to address recommendation 4:</p> <p><b>Key Actions:</b></p> <ul style="list-style-type: none"> <li>• Task group created to lead this recommendation – Chief Executive, Leader of the Council, Chief Officer, Section 151 Officer, Finance Manager</li> <li>• Review the impact of the Autumn Spending Review and implications for schools funding</li> <li>• Regular meetings between Chief Executive, Leader &amp; Chief Officer and Headteachers/Chairs of Governors to discuss financial position of the Council</li> <li>• Project plan for funding review approved by Schools Budget Forum</li> <li>• Detailed analysis/review of national statistics/benchmarking</li> <li>• Detailed statistical analysis of expenditure profiles for Flintshire schools</li> <li>• Identification of key policies which will underpin/inform the formula development</li> <li>• Development of revised funding formula factors</li> <li>• Consultation with all stakeholders</li> <li>• School Deficit Guidance reviewed and revised and shared with schools</li> <li>• Engage support from GwE to review school curriculum models alongside financial models to ensure optimum efficiency to underpin effective delivery of a quality education offer.</li> </ul>

<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	The report will be submitted to the Schools Budget Forum on 26 September 2019 and Audit Committee on 20 <sup>th</sup> November 2019. 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	Appendix 1 – Final School Balances 2018-19

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

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p><b>School Reserves</b>  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>Estyn</b>  Her Majesty's Inspectorate for Education and Training in Wales.</p> <p><b>Flintshire County Council's Scheme for Financing Schools</b>  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>