

GOVERNANCE & AUDIT COMMITTEE

Date of Meeting	Wednesday 27 th September 2023
Report Subject	School Reserves Year Ending 31 st March 2023 and Overview of Schools Current Financial Position
Report Author	Chief Officer (Education and Youth)

EXECUTIVE SUMMARY

The overall level of reserves held by Flintshire schools was £7.243m at 31 March 2023, a decrease of £5.312m compared with the previous year.

A summary of the position at the end of March 2023 is shown in table 1 below.

Table 1

Sector	Reserves 31st March 2023 (£)	% of Budget	Reserves 31st March 2022 (£)	% of Budget	Variance (£)	Variance (%)
PRIMARY	5,018,600	7.9%	8,445,703	16.2%	-3,427,103	-40.58%
SECONDARY	1,851,699	3.4%	3,488,879	7.3%	-1,637,180	-46.93%
SPECIALIST	372,744	7.2%	620,330	14.7%	-247,586	-39.91%
TOTAL	7,243,043	5.9%	12,554,912	12.1%	-5,311,869	-42.31%

The level of school reserves has decreased considerably across all sectors over the past year as expected.

Higher levels of inflation, supporting learners through the on-going impacts of the pandemic, coupled with significant legislative changes to support learners with additional learning needs and a new curriculum have served to increase needs, demands and workloads in schools. All factors combined have resulted in a reduction in the level of school reserves.

Higher levels of uncertainty around future costs due to continued high 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, the level of school reserves as at the 31 March 2023, and overview of schools' current financial position.
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REPORT DETAILS

1.00	EXPLAINING SCHOOL RESERVES																																			
1.01	<p>The overall level of reserves held by Flintshire schools was £7.243m at 31 March 2023, a decrease of £5.312m compared with the previous year.</p> <p>A summary of the position at the end of March 2023 is shown in table 1 below.</p> <p>Table 1</p> <table border="1"> <thead> <tr> <th>Sector</th> <th>Reserves 31st March 2023 (£)</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 style="text-align: right;">5,018,600</td> <td style="text-align: center;">7.9%</td> <td style="text-align: right;">8,445,703</td> <td style="text-align: center;">16.2%</td> <td style="text-align: right;">-3,427,103</td> <td style="text-align: center;">-40.58%</td> </tr> <tr> <td>SECONDARY</td> <td style="text-align: right;">1,851,699</td> <td style="text-align: center;">3.4%</td> <td style="text-align: right;">3,488,879</td> <td style="text-align: center;">7.3%</td> <td style="text-align: right;">-1,637,180</td> <td style="text-align: center;">-46.93%</td> </tr> <tr> <td>SPECIALIST</td> <td style="text-align: right;">372,744</td> <td style="text-align: center;">7.2%</td> <td style="text-align: right;">620,330</td> <td style="text-align: center;">14.7%</td> <td style="text-align: right;">-247,586</td> <td style="text-align: center;">-39.91%</td> </tr> <tr> <td>TOTAL</td> <td style="text-align: right;">7,243,043</td> <td style="text-align: center;">5.9%</td> <td style="text-align: right;">12,554,912</td> <td style="text-align: center;">12.1%</td> <td style="text-align: right;">-5,311,869</td> <td style="text-align: center;">-42.31%</td> </tr> </tbody> </table> <p>The level of reserves each school in Flintshire held at the end of March 2023 is shown at appendix 1, along with the prior year comparator.</p> <p>Please note that the figures in Table 1 include totals 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. Totals are £0.526m at March 2023 and £0.263m at March 2022.</p>	Sector	Reserves 31st March 2023 (£)	% of Budget	Reserves 31st March 2022 (£)	% of Budget	Variance (£)	Variance (%)	PRIMARY	5,018,600	7.9%	8,445,703	16.2%	-3,427,103	-40.58%	SECONDARY	1,851,699	3.4%	3,488,879	7.3%	-1,637,180	-46.93%	SPECIALIST	372,744	7.2%	620,330	14.7%	-247,586	-39.91%	TOTAL	7,243,043	5.9%	12,554,912	12.1%	-5,311,869	-42.31%
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1.02	<p>Overall, the total level of primary school reserves decreased by £3.427m, the total level of secondary schools reserves decreased by £1.637m and the total level of specialist schools reserves decreased by £0.247m.</p> <p>Table 2 below 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 2023 (£)</th> <th>Reserves 31st March 2022 (£)</th> <th>Reserves 31st March 2021 (£)</th> <th>Reserves 31st March 2020 (£)</th> <th>Reserves 31st March 2019 (£)</th> </tr> </thead> <tbody> <tr> <td>PRIMARY</td> <td style="text-align: right;">5,018,600</td> <td style="text-align: right;">8,445,703</td> <td style="text-align: right;">6,025,937</td> <td style="text-align: right;">1,901,956</td> <td style="text-align: right;">2,565,109</td> </tr> <tr> <td>SECONDARY</td> <td style="text-align: right;">1,851,699</td> <td style="text-align: right;">3,488,879</td> <td style="text-align: right;">472,112</td> <td style="text-align: right;">-2,076,302</td> <td style="text-align: right;">-1,454,811</td> </tr> <tr> <td>SPECIALIST</td> <td style="text-align: right;">372,744</td> <td style="text-align: right;">620,330</td> <td style="text-align: right;">404,402</td> <td style="text-align: right;">286,303</td> <td style="text-align: right;">224,789</td> </tr> <tr> <td>TOTAL</td> <td style="text-align: right;">7,243,043</td> <td style="text-align: right;">12,554,912</td> <td style="text-align: right;">6,902,451</td> <td style="text-align: right;">111,956</td> <td style="text-align: right;">1,335,087</td> </tr> </tbody> </table>	Sector	Reserves 31st March 2023 (£)	Reserves 31st March 2022 (£)	Reserves 31st March 2021 (£)	Reserves 31st March 2020 (£)	Reserves 31st March 2019 (£)	PRIMARY	5,018,600	8,445,703	6,025,937	1,901,956	2,565,109	SECONDARY	1,851,699	3,488,879	472,112	-2,076,302	-1,454,811	SPECIALIST	372,744	620,330	404,402	286,303	224,789	TOTAL	7,243,043	12,554,912	6,902,451	111,956	1,335,087					
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	<p>Prior to the pandemic, in 2018/19 and 2019/20 the level of school reserves were very low and was a cause for concern for all. During the height of the pandemic, in both financial years 2020/21 and 2021/22 Welsh Government provided significant additional funding to all schools through specific grants which had the effect of increasing the level of school reserves. Whilst grants are still being made by Welsh Government to support the ongoing effects of the pandemic, overall grant funding levels have reduced in 2022/23. Higher levels of inflation, supporting learners through the on-going impacts of the pandemic, coupled with significant legislative changes to support learners with additional learning needs and a new curriculum have served to increase needs, demands and workloads in schools. All these factors combined have resulted in a reduction in the level of school reserves.</p>
1.03	<p>Council’s role in monitoring the level of School Reserves.</p> <p>The School Funding (Wales) Regulations 2010 require local authorities to have the following provisions in their Scheme for Financing Schools:</p> <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>
1.04	<p>In accordance with the Regulations, the Council’s Scheme for Financing Schools requires a spending plan from schools to confirm 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 2023/24 budget, and the impact of grants in recent years from Welsh Government, the Council notified all schools that it would not be automatically clawing back school reserves in excess of 5% of school budget share at 31st March 2023. However, schools were advised that the Council would require more detailed information to better understand each school’s financial position at 31st March 2023 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>

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:

- A challenging recruitment market with conditions generally making it difficult to recruit, especially employees on a supply or temporary basis or specialisms such as teachers of Welsh.
- 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 difficulties in finding contractors, sourcing materials, and works also needing 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 uncertainty over future funding levels and reductions to school budgets.

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

- Reserves to be used in balancing future budgets / maintaining existing levels of expenditure when the number of pupils on roll, and therefore funding, falls.
- Increasing levels of employees to reduce class sizes and raise standards / focus on catch up learning as a result of the pandemic.
- Increasing demands to support pupils with Additional Learning Needs over and above delegated funding received
- Purchasing additional resources and ICT equipment.
- Building and premises projects e.g. a numbers of schools have indicated that they need to invest in fencing linked to safeguarding concerns raised.
- Increased expenditure linked with recommendations made by Estyn inspections.

1.05

Secondary Schools Reserves

During the year there has been a general decrease in reserves in the secondary sector. Overall secondary reserves stood at £1.852m - a decrease of £1.637m. This equates to 3.4% of secondary budgets and is a decrease from 7.3% at 31st March 2022.

Table 3 categorises school reserves by number in various percentage brackets.

Table 3

No. of Secondary Schools	Reserves 31st March 2023	Reserves 31st March 2022
In Deficit Reserves	2	2
Reserves between 0% and 5% of School Budget	5	1
Reserves between 5% and 10% of School Budget	2	4
Reserves between 10% and 15% of School Budget	2	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 2 the previous year. Deficits amounted to £0.366m compared with £0.745m the previous year. In line with the Protocol for Schools in Financial Difficulty school support and challenge meetings will be continuing 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 at 3.4% is low.

1.06 Primary Schools Reserves

During the year there has been a general decrease in reserves in the primary sector. Overall primary reserves stood at £5.019m, a decrease of £3.427m. This equates to 7.9% of primary budgets, a decrease from 16.2% at 31st March 2022.

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

Table 4

No. of Primary Schools	Reserves 31st March 2023	Reserves 31st March 2022
In Deficit Reserves	6	0
Reserves between 0% and 5% of School Budget	17	3
Reserves between 5% and 10% of School Budget	20	7
Reserves between 10% and 15% of School Budget	17	20
Reserves between 15% and 20% of School Budget	2	16
Reserves in excess of 20%	2	18
TOTAL	64	64

6 primary schools ended the year with negative reserves compared with none the previous year. 3 of the 6 were small negative balances (that is under £5,000 or 1% of budget) and therefore are not classed as requiring a licensed deficit. The remaining 3 were above that threshold, however licensed deficit applications were not received as required under the Protocol for Schools in Financial Difficulty. The Council has written to all 6 of the governing bodies concerned to remind them of the requirements of the Protocol.

1.07 2023/24 – Summary of individual schools’ budgetary positions

The Scheme for Financing Schools requires the governing body of each school to submit a budget plan to the Chief Officer (Education and Youth) by 30th June in each financial year. The Scheme prohibits schools from planning for a deficit when preparing their annual budget plans. Governors have no legal right to set a deficit budget without the consent of the Council and must not presume that such consent will be granted.

If a school cannot set a balanced budget, to gain approval for a planned deficit, the school must submit a licensed deficit application. The application must accompany the budget plan by the 30th June and be in the format prescribed within the Protocol for Schools In Financial Difficulty. This must

	<p>be approved by the full governing body and recorded in the minutes. The licensed deficit application should be underpinned by a deficit recovery plan indicating what actions will be taken to bring the financial position back into balance.</p> <p>Schools should only apply for a licensed deficit in circumstances where they cannot set a balanced budget without seriously impacting on essential educational provision. Schools must, where possible, avoid the need to apply for a licensed deficit by robustly managing their 3-year budget planning process and being proactive in responding to changes early enough to allow mitigating actions to be implemented.</p>
1.08	<p>The Council set its 2023/24 budget in February 2023, after which individual school funding allocations were released. Following the release of individual school funding allocations, the Council’s Finance, HR and School Improvement teams all saw significant increases in activity related to schools seeking support in setting a balanced budget for 2023/24. The challenges schools face include:</p> <ul style="list-style-type: none"> • On-going impacts of the pandemic on learners, coupled with significant legislative changes from ALNET and a new curriculum serving to increase needs, demands and workloads in schools. • Some schools have seen a steady fall in pupil numbers (over capacity). • High inflation • Reduction in grant funding (compared to previous years) • 3% reduction in the Schools’ Budget (after funding pay and energy inflation in full and demographic increases).
1.09	<p>The Council has now received almost all schools budget plans and licensed deficit applications. Plans have been received much earlier from schools than seen in previous years. The challenges schools are facing have resulted in higher levels of redundancies being made in schools than seen for a few years. To date, all activity has been covered by employees volunteering to mitigate compulsory redundancies having to be made. Table 5 below summarises redundancy information across the sectors:</p>

Table 5

Redundancy Information	Primary	Secondary	Total
Voluntary Redundancies - Teachers (FTE at 31 st Aug. 2023)	5	12.8	17.8
Voluntary Redundancies - Non-Teachers (FTE at 31 st Aug. 2023)	1.85	2.53	4.38
Total Costs (Redundancy and Pension Strain (£)at 31 st Aug. 2023)	£193,976	£537,339	£731,315
Estimated annual savings made as a result (£)	£357,815	£933,155	£1,290,970

There have been no redundancies to date in the specialist sector. The information relates to the 31st August 2023, and is subject to increase if further redundancies are made between 31st August and the end of the financial year. A small number of schools may make voluntary redundancies at 31st December 2023.

Other actions schools have taken to reduce costs include:

- Not renewing fixed term contracts where grant funding has ceased
- Not replacing leavers
- Offering employees opportunities to reduce hours

The Council acknowledges the significant challenges schools are currently facing, and recognises the financial pressures schools, like all council budgets, are experiencing and thanks its headteachers and governing bodies for their work to date in reducing costs under difficult circumstances.

1.10

The Protocol for Schools in Financial Difficulty is intended to act as a mechanism for the Council to provide schools with an appropriate level of challenge and support to help them set a balanced budget or if this is not achievable to prepare a recovery plan that sets out the action the school will take to achieve a sustainable financial position over an agreed period of time.

Table 6 below summarises the licensed deficit information for 2023/24 across the sectors:

Table 6

Licensed Deficit Information	Primary	Secondary	Specialist	Total
No. of schools forecasting a deficit at 31 st March 2024	9	5	0	14
No. of schools needing to apply for a licensed deficit	8	2	0	10
Estimated total deficits 31 st March 2024 (£)	-£0.3m	-£1.2m	0	-£1.5m
Forecast level of total reserves 31 st March 2024 (£)	£2.1m	-£0.3m	£0.2m	£2m
Planned use of reserves during 2023/24	£2.9m	£2.2m	£0.2m	£5.3m

1.11 As reported previously, under the Protocol for Schools in Financial Difficulty, rigorous reviews will take place to fully understand the financial position of each school in deficit.

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 secondary 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. 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.

1.12 Demographic changes in the distribution of pupils across the primary and secondary sectors have taken place in recent years, with secondary pupil numbers increasing whilst primary pupil numbers declined. This resulting in a redistribution of funding between sectors. However, this trend is forecast to change with forecast pupil numbers across both sectors decreasing which will have a negative financial impact on the primary and secondary sector going forward. There is concern for the financial resilience of our smaller schools.

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 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 School Budget Forum and the Education, Youth and Culture Overview and Scrutiny Committee at their September 2023 meetings.

5.00	APPENDICES
5.01	Appendix 1 - School Reserves 2022-23 Appendix 2 – School Reserves Declaration Form 31 st March 2023

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> <p>Protocol for Schools in Financial Difficulty - Acts as a mechanism for the Council to provide schools with an appropriate level of challenge and support to help them set a balanced budget or if this is not achievable to prepare a recovery plan that sets out the action the school will take to achieve a sustainable financial position over an agreed period of time.</p>