

AUDIT COMMITTEE

Date of Meeting	Wednesday, 18 November 2020
Report Subject	School Reserve Balances Year Ending 31 March 2020 and Protocol for Schools In Financial Difficulty.
Cabinet Member	Leader of the Council and Cabinet Member for Education
Report Author	Chief Officer, Education & Youth
Type of Report	Operational

EXECUTIVE SUMMARY

There continues to be pressure on school budgets demonstrated by reducing school reserves. The overall level of reserves held by Flintshire schools was £0.112m at 31 March 2020, a decrease of £1.241m (92%) compared with the previous year.

Managing the financial situation during the current financial year will be very challenging for Headteachers and Governors which will be exacerbated by uncertainties associated with the Covid 19 situation.

Overall secondary schools net deficit position increased by £0.639m (44%). There was also a significant reduction in primary balances of £0.663 (26%). Specialist school balances increased by £0.061m.

A summary of the position at the end of March 2020 is shown in table 1 below.

Table 1

School Sector	2019-20 Schools Delegated Budget	March 2020 Balance surplus/ (deficit)	March 2019 Balance surplus/ (deficit)	Change Between Years
	£'m	£'m	£'m	£'m
Primary	47.633	1.920	2.583	(0.663)
Secondary	42.171	(2.094)	(1.455)	(0.639)
Specialist	3.827	0.286	0.225	0.061
Overall Totals	93.631	0.112	1.353	(1.241)

RECOMMENDATIONS

1	Members are requested to note the school reserve balances as at the 31 March 2020.
2	Members are requested to note the changes to the Protocol for Schools in Financial Difficulty.

REPORT DETAILS

1.00	EXPLAINING SCHOOL BALANCES
1.01	The analysis of reserve balances for each school in Flintshire at the end of March 2020 is shown at appendix 1.
1.02	<p>Secondary Schools</p> <p>Secondary school budgets continue to be under significant pressure. At the end of the financial year six of Flintshire's 11 secondary schools had deficits amounting to £2.315m. Deficits ranged from £0.012m to £0.776m.</p> <p>Of particular concern are St David's High School with a deficit of £0.776m and Ysgol Treffynnon with a deficit of £0.761m. Both schools are forecasting a worsening financial position in future years with little expectation of being able to recover the deficits. In line with the Protocol for Schools in Financial Difficulty school support and challenge meetings have been held and both schools were invited to a Financial Performance Monitoring Group (FPMG) meeting with senior members and officers and GwE representatives.</p> <p>In general, the financial resilience of the secondary school sector in Flintshire is of concern. The level of reserves held by secondary schools with positive balances was only 0.4% of budget.</p> <p>There are a number of factors which have contributed to the current financial position.</p> <ul style="list-style-type: none">• The ongoing austerity measures over recent years have resulted in schools having to absorb inflationary increases in pay, pension and NI increases.• 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.• Smaller secondary schools with increasing deficits elicits the question as to whether the funding formula provides sufficient

	<p>resource for schools to operate sustainably. St David's pupil numbers for September are estimated at 350 and Treffynnon 477.</p> <ul style="list-style-type: none"> As part of the response to the Estyn recommendation initial work was conducted with secondary schools to review the funding formula. However, without additional funding for schools a revision to the current formula would not be feasible.
1.03	<p>Primary Schools</p> <p>Primary balances in Flintshire decreased by £0.663m. In previous years, primary balances have held up well despite the continuing pressure of austerity measures and this has offset the worsening position of secondary schools. As referred to in 1.02 above, demographic changes mean that primary pupil numbers are forecast to reduce and this will create challenges for Primary Headteachers in managing their budgets in future years.</p> <p>At the end of the financial year there were nine primary schools with deficit balances totalling £0.227m compared with six primary schools with total deficits of £0.121m in the previous year.</p> <p>There were 16 primary schools with balances greater than £50k. This compares with 21 schools in the previous year, two primary schools had balances over £100k compared with four schools in the previous year.</p>
1.04	<p>Surplus Balances</p> <p>The School Funding (Wales) Regulations 2010 require 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> <p>(i) in the case of a primary school the surplus is £50,000 or more, and</p> <p>(ii) in the case of a secondary school or a special school the surplus is £100,000 or more;</p> <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> <p>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 and submitted to the Portfolio Management Team for their review and approval.</p>

1.05	<p>Deficit Balances</p> <p>In response to the worsening financial position of some secondary schools and the recommendation made by Estyn (see below) the Education & Youth Portfolio developed a Protocol for Schools in Financial Difficulty which was finalised and issued to schools in October 2019 and provides a framework for schools to apply to the Authority for a licenced deficit.</p> <p><i>Estyn Inspection of Local Government Education Services – June 2019 stated the following:</i></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> <p>The Protocol provides a framework for the Council to give an appropriate level of challenge and support to help them schools in financial difficulty set a balanced budget. If this is not achievable the Council will support schools in preparing 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>
1.06	<p>Flintshire Internal Audit Service conducted an advisory review of the Protocol in March and there will be a full internal audit conducted of the Licenced deficit process in 2020/21. The recommendations of the advisory review were as follows:</p> <ol style="list-style-type: none"> 1. The Protocol does not specifically state that 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. Inclusion of such a statement in the Protocol would ensure clarity and consistency of messaging between the Protocol and the Scheme for Financing Schools. 2. The step-by-step procedure for applying for a deficit does not include clear timescales of the process. With the only defined dates being when the original budget plan is to be submitted. A timeline which includes deadlines for different steps of the application would provide clear guidance on what is expected by the school and what to expect from the Council. 3. It would be useful for the protocol to include some further information or signposting around sound financial management and polices which the schools should be using to effectively manage their financial responsibilities. This could further help prevent deficits arising. It would also be useful to include a list of the training which is available to schools on financial management. 4. An appendix which includes examples of how the application and recovery plan should be completed would be helpful, or alternatively

	<p>information on the level of detail required for approval of the deficit budget by the Council.</p> <p>Work is ongoing to address these recommendations and the protocol has been updated to reflect recommendations 1 and 2. This is attached at Appendix 2.</p>
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2.00	RESOURCE IMPLICATIONS
2.01	The impact of continuing austerity measures on the financial resilience of schools is an area of concern.

3.00	RISK MANAGEMENT
3.01	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.
3.02	To balance budgets schools may need to review their staffing 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.
3.04	There may be an adverse financial impact arising due the Covid-19 pandemic and schools attention will be focused on delivery of education during this crisis.
3.05	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.

4.00	CONSULTATIONS REQUIRED / CARRIED OUT
4.01	<p>A report on school balances was submitted to the Flintshire Schools Budget Forum held in September and circulated to all Headteachers.</p> <p>This report will be submitted to the Audit Committee.</p>

5.00	APPENDICES
5.01	APPENDIX 1 – Final School Balances 2019-20 APPENDIX 2 - Protocol for Schools in Financial Difficulty

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None.

7.00	CONTACT OFFICER DETAILS
7.01	Contact Officer: Lucy Morris, Schools Finance Manager Telephone: 01352 704016 E-mail: Lucy.morris@flintshire.gov.uk

8.00	GLOSSARY OF TERMS
8.01	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.
	Estyn Her Majesty's Inspectorate for Education and Training in Wales.
	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.