



EDUCATION SCRUTINY COMMITTEE – 13TH JANUARY 2020

SUBJECT: SCHOOL BALANCES – AN OVERVIEW

REPORT BY: CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES

1. PURPOSE OF REPORT

1.1 The purpose of this report is to provide Members with:

- An overview of the school balances (reserves) position across Wales;
- A more detailed update on the position of Caerphilly schools.

2. SUMMARY

2.1 The report identifies a significant change in the level of school balances over the last 5 financial years (2014-15 to 2018-19) and a very different picture between the primary and secondary sector. The data included within the report relates only to prior financial years.

3. RECOMMENDATIONS

3.1 Members are requested to note the contents of this report.

4. REASONS FOR THE RECOMMENDATIONS

4.1 The purpose of this report is to provide Members with an overview and update on the school balances position across Wales and within Caerphilly Borough.

5. THE REPORT

5.1 Overview of School Balances Position Across Wales

5.1.1 In October each year, Welsh Government publishes annual data on school reserves, this information is available on their website – “Stats Wales”. The latest information published is for financial year 2018-19, this data provides a snap shot of school reserves as at 31st March 2019. A summary of the position across all Welsh Local Authorities (in all school sectors) is contained in Appendix 1.

5.1.2 The table looks at the school reserves position for all nursery, primary, secondary, middle and special schools for the period 31st March 2015 to 31st March 2019. The data illustrates the following:

- School balances across Wales have reduced from £64m to £46m over the 4 year period;

- Based on the pupil population in 2019-20 the average level of reserves across Wales (based on the reserves position as at 31st March 2019) was £102 per pupil.
- As at 31st March 2019 4 Local Authorities in Wales reported a deficit (negative balances) position for school reserves, ranging from £11 to £22 per pupil;
- Of the remaining 18 Local Authorities the level of reserves held per pupil range from £27 to £251 per pupil. The highest per pupil positive reserve is Swansea and the lowest is Bridgend. The Caerphilly position is 13th lowest level of reserves.

(It's important to note that the per pupil analysis is based on analysis within the Authority)

5.1.3 Further analysis of the data, illustrates a different position across the sectors as detailed in Appendix 2 and Appendix 3.

- In the primary sector school balances have reduced from £48m to £47m over the 4 year period, as at 31st March 2019 all Local Authorities in Wales reported a positive primary school reserves position.
- In the secondary sector school balances have reduced from a positive balances position of £10m as at 31st March 2015 to a negative position of £4m as at 31st March 2019.
- As at 31st March 2019, 10 local authorities in Wales reported a positive balances across the secondary sector and 12 a negative balances position.
- Since March 2015, 4 local authorities have reported a negative balances position across the secondary sector in each year to March 2019.

5.1.4 Under the School Funding (Wales) Regulations 2010, where a school's reserve exceeds a certain threshold, a local authority may recover that amount. In primary schools this is the balance in excess of £50k or 5% of the schools formula allocation (whichever is the higher). In secondary schools the figure is £100k or 5% of the formula allocation. The school reserves position is reported regularly to a local authority's School Budget Forum meeting.

5.1.5 The issue of school reserves has been highlighted by Welsh Government in recent years, over concerns that this money needs to be used to support delivery to school pupils. It remains the responsibility of a local authority to work with schools on this matter. The data contained in Appendix 4, illustrates the fact that whilst the cumulative position across Wales is significant the position at local school level can be quite different, with some schools reporting sizeable deficits over a number of years. Whilst there are many factors that impact on the financial outlook for a school, a large on-going deficit position becomes a much greater challenge to address the longer the position is "allowed" to continue.

5.2 Overview of the Caerphilly Schools Position

5.2.1 The position for Caerphilly is slightly distorted over the period reported due to the difficulty experienced by Cwmcarn High School and the subsequent decision by the schools Governing Body (27th June 2016) to seek to close the school. As reported to Scrutiny previously the school had experienced budgetary problems over a number of years and this was exacerbated by a dramatic fall in pupil numbers following the announcement that the school was to close. Members will recall that monies were set aside from the Authority's General Fund as part of the 2018/19 budget (£1.4m) to meet the projected deficit on closure. The breakdown below provides a summary of the reserve position for Caerphilly schools over the last 3 years, this includes an adjustment to take account of the position with Cwmcarn High School.

Balances as at	31st March 2017	31st March 2018	31st March 2019
Including Cwmcarn	£2,330k	£2,040k	£2,520k
Excluding Cwmcarn	£2,687k	£3,072k	£2,520k

Note in 2018-19 the deficit on Cwmcarn was funded in year and hence not part of the Authority's reported school balances as at 31st March 2019.

5.2.2 A full list of Caerphilly school reserves, as at 31st March 2019, are included in Appendix 5 (this includes details from 1st April 2017). As at 31st March 2019:

- 18 schools (21%) reported a deficit (negative) reserve position;
- 6 of the 18 schools were secondary schools and 12 primary schools;
- 12 primary schools represents 16% of schools in this sector, whilst 6 secondary schools represents 55% of this sector;
- In 2019-20, 7 of the 12 primary schools set a balanced budget for the year, whilst 5 schools have set a deficit budget which required approval from the Chief Education Officer, Corporate Director and the Section 151 Officer. Each of these schools has provided a plan demonstrating that they are working to an action plan to meet the necessary financial requirements.
- As at 31st March 2019 35 primary schools (48%) had balances over their formula allocation in 2018/19. All schools are required to submit a spending plan to show the intended areas of spend and value, this is monitored and reported to School Budget Forum. The spending plans submitted are agreed and are deemed as a "direction to spend" by the Authority, hence if the school has a balance in excess of the recommended amount at the end of the following financial year **without valid reasons**, a clawback of sums will be recommended to School Budget Forum.
- In 2019-20 2 of the 6 secondary schools set a balanced budget in 2019-20 and 4 requested the appropriate approval to set a deficit budget. These requests were all supported.
- As at 31st March 2019 of our 11 secondary schools, 2 reported balances in excess of 5% of their formula allocation (this is the level at which clawback can be enforced); 1 other school has a balance of less than 5% but in excess of the £100k. Again spend will be monitored with the same approach applied as with our primary schools.
- Trinity Fields carry forward balance from 2018/19 is £188k (5.46% of the formula allocation).

5.2.3 All schools are provided with details of funding for the current year plus a forecast for the following 2 years. Schools (Headteacher & Governing Body) work to set a balanced budget year on year within the funding envelope provided and utilising any reserves carried forwards. The challenge for a school becomes much greater if a deficit position is brought forward from the previous financial year(s). The Scheme for Financing Schools requires a school to "deliver" a balanced budget by year 3 (current financial year plus 2) and schools will work towards this with appropriate support from the local authority (Education Officers, Finance and HR etc.).

5.2.4 In late 2018 following conversations at Director level with Headteachers, in particular with regards to schools in difficulty being able to deliver a balanced budget by year 3 (current financial year plus 2 further financial years), further conversations took place with the Section 151 Officer and Senior Officers in education with regards to the possibility of increasing the flexibility for our schools in this regards. Everyone recognised the financial challenges facing Local Government and Schools in 2019-20 and future years; the challenges presented by indicative financial projections for future years; the annual settlement from Welsh Government. Consequently recognising the financial challenges presented, whilst also

recognising our responsibility with regards to sound financial management it was agreed that schools would have a “new” level of flexibility beyond planning and working towards delivering a balanced budget over the 3 year period.

- 5.2.5 In November 2018 schools were advised that they would be supported to work towards delivering a “balanced” budget by year 3 (current year plus 2) but with a 3% flexible margin based on each schools individual level of formula funding. This means that the value of the 3% will vary from school to school.
- 5.2.6 In terms of specific financial support to our schools, all of the Authority’s schools choose to buy into a service level agreement (SLA) with the Education Finance Team. Whilst there are 2 levels of support, core and premium, key support includes the following:
- Financial comparative statements – these include the previous years financial outturn position for comparative purposes, current year budget and future projections; salary profiles including increments & pay awards; pupil projections utilised for calculating formula projections;
 - Finance support for Headteachers and Governing Bodies;
 - Attendance at Finance Sub Committee – in accordance with SLA purchased;
 - To provide advise and guidance through a redundancy process.

5.3 **Summary**

- 5.3.1 In reviewing the information relating to school reserves it is quite clear that the position is very different between the primary and secondary sectors. That said it is important that reserve balances are reviewed at school level, since the cumulative picture at Local Authority level or on an All Wales level can mask some significant pressures locally (school level).

6. **ASSUMPTIONS**

- 6.1 The data contained within this report is available on the Welsh Government Website – Stats Wales. All data relates to prior financial years consequently no assumptions have been made with regards to the figures reported.

7. **LINKS TO RELEVANT COUNCIL POLICIES**

- 7.1 Effective financial planning and financial controls contribute to the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015. In particular as follows:

A healthier Wales, supporting vulnerable learners can improve their well-being and educational achievement.

A more equal Wales, a society that enables people to fulfil their potential no matter what their background is; and

A Wales of cohesive communities, improving quality of life with attractive, viable, safe and well connected communities.

8. **WELL-BEING OF FUTURE GENERATIONS**

- 8.1 Effective financial management is a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

9. **EQUALITIES IMPLICATIONS**

9.1 There are no direct equality implications to this report, therefore no Equality Impact assessment has been undertaken.

10. FINANCIAL IMPLICATIONS

10.1 Whilst there are no direct financial implications contained within this report the data provides the financial picture across Wales at local authority and school level.

11. PERSONNEL IMPLICATIONS

11.1 There are no direct personnel implications contained within this report.

12. CONSULTATIONS

12.2 There are no consultation responses that have not been reflected in this report.

13. STATUTORY POWER

13.1 Local Government Act 1972.

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Appendix 1: School Reserves Position – Across Wales – Local Authority Level
Appendix 2: School Reserves – Across Wales – Across Sectors
Appendix 3: School Reserves – Local Authority Level – Across Sectors
Appendix 4: Stats Wales Data – All Schools in Wales
Appendix 5: School Reserves – Caerphilly