

Briefing Note to School Budget Forum School Balances 31st March 2021

Background

Since the introduction of Local Management to schools, following the Education Reform Act in 1988, schools have been allowed to carry over from one financial year to the next any surplus or deficit balances they incur from their delegated school budget.

Surplus balances

In Wales the School Funding (Wales) Regulations 2010 suggest that the Local Authority Scheme for Financing Schools, drawn up by each LA also includes a limit to the amount of surplus balance that any one school could carry forward of the higher of £50,000 or a sum equivalent to 5% of their annual delegated budget for a Primary School or £100,000 or a sum equivalent to 5% of their annual delegated budget for a Special or Secondary School. In Cardiff the thresholds agreed with schools are:

- Primary Schools – the higher of £50,000 or 4% of their annual delegated school's budget
- Special and Secondary Schools – the higher of £100,000 or 4% of their annual delegated school's budget

Any schools exceeding these thresholds may, if determined by the LA, receive a direction to spend funding in excess of the threshold or, ultimately, have excess funding clawed back.

Relaxation of thresholds for 2021/22

During the Summer Term of 2021 Welsh Government wrote to all Welsh LA's informing them of a temporary relaxation of the 2010 regulations in respect of surplus balances. In turn the Council's Head of Finance wrote to all Cardiff schools outlining a one-year relaxation of the local parameters for the management of surplus school balances. For the 2021/22 financial year the following parameters will apply:

- Surplus balances held as at 31st March 2021 will be disregarded when considering the issue of directions to spend or to seek clawback against excess school balances.
- There will be **no new** directions to spend, or clawbacks issued during 2021/22. This approach will be applied on the assumption and understanding that the majority of school balances will be utilised during the 2021/22 financial year, with balances returning to a more typical level by 31st March 2022.
- Individual letters will be provided to schools, where relevant, following the closure of the 2021/22 financial accounts, however the paragraphs below provide an overview of the approach that will be applied moving forward. Schools will still be considered to hold an excess balance if their balance exceeds 4% of their formula allocation or £50,000 (primary) /£100,000 (secondary/special), whichever is higher, at the end of the financial year in question.

- Schools that have not recently received a direction to spend but have held excess balances for two consecutive years (ignoring 2020/21 – ie. 2019/20 and 2021/22), or just 2021/22, will be asked to provide information as to why the excess balance is being held. Primary schools that have previously been exempt from the process (as they were growing schools without pupils in all year groups) will be included in the process from 31st March 2022.
- Schools that have not recently received a direction to spend but have held excess balances for at least three consecutive years (ignoring 2020/21 – ie. 2018/19, 2019/20 and 2021/22) will be directed to spend their balance during 2022/23.
- Schools that have not previously received a clawback, but have been directed to spend, and have held excess balances for five consecutive years (ignoring 2020/21 – ie. 2016/17, 2017/18, 2018/19, 2019/20 and 2021/22) will be met with during 2022/23 with a view to implementing a clawback that year. Each clawed back amount will remain available to the school until 31st August 2023.
- Schools that have previously received a clawback, and continue to exceed the thresholds at 31st March 2022, will receive further clawbacks each financial year until the point at which the balance reduces to a level below the threshold for that particular school. Each future clawed back amount will remain available to the school until 31st August in the year following the implementation of the clawback. The balances clawed back during 2020/21, and currently being held centrally, will remain available until 31st August 2022.

Deficit balances

Whilst schools may be allowed to incur and carry forward a deficit balance this should only be with the permission of the LA. Each year a school is required to submit to the LA a balanced budget or request the ability to set a deficit. That request is only agreed if it is supported by a robust medium term business plan showing how the school will return to a balanced budget position in the medium term – usually a term of no more than 3 financial years.

Financial Reporting

School budgets and balances are part of the LA accounts and additionally must be reported at an individual school level to Welsh Government. Annually Welsh Government will publish a statistical analysis of both school budgets and balances. The statistical return for school balances is usually published during the Autumn term following the closure of the financial year in March.

Current school balances

At the end of the 2020/21 financial year the analysis of school balances at an LA level can be found in the following table. An analysis of individual school balances can be found at Appendix 1.

Phase	Bal 31.03.20 £000	Bal 31.03.21 £000	Grants – March 21 £000	Adjusted balance 31.03.21 £000	Adjusted increase 2020-2021 £000
Primary	4,704	12,904	5,884	7,020	2,316
Secondary	608	6,877	3,757	3,120	2,512
Special	504	1,338	155	1,183	679
Total	5,816	21,119	9,796	11,323	5,507

The significant increase in balances between the two financial years may be attributed to the following:

- During March 2021 WG distributed a number of additional revenue grants to schools' budgets totalling £9.8 million (as shown in the above table). These grants covered areas of expenditure including revenue repairs and maintenance and pupil catch-up. Whilst the grants were received too late in the financial year to allow for new expenditure to take place, schools were able to use these grants in-year to offset eligible expenditure already incurred. The knock-on effect of this, however, was to reduce the level of spend against their base funded budget, thereby increasing the balances carried forward into 2021/22. These balances brought forward have formed part of the budget setting process within schools for 2022/23 and are reflected in the governor approved budgets for each school.
- The Covid-19 pandemic also meant that those schools that had planned to use their previous surplus balances on any major works were unable to do so due to covid restrictions in many cases.
- During the 2020/21 financial year there were periods of time when schools were closed, which meant some not insignificant savings against budgets held for premises costs, and sickness absence/supply costs, in particular. In addition, a considerable amount of specific costs associated with the pandemic were supported through the WG Covid Hardship Fund. Whilst it is acknowledged that there may be a perceived disconnect between claiming hardship funding during a period where savings were made in certain areas of the budget, it would have been imprudent not to claim eligible expenditure and lost income at the point schools were entitled to do so. This is particularly so given the uncertainty surrounding the trajectory of the pandemic and the necessarily reactive nature of governmental controls and available support which could not be relied upon to continue ad infinitum.

2021/22 financial year

An examination of school budgets for the 2021/22 financial year indicates that a significant number of schools have budgeted to use their increased surpluses to maintain a balanced budget position.

At the end of the 2019/20 financial year 18 Cardiff schools ended the year with a deficit, by the end of the 2020/21 financial year this had reduced to 2.

In the school budget setting process for the 2021/22 financial year four schools applied to set a deficit budget.

Next steps

During October 2021 the Council's Local Financial Management Team will work with their allocated schools to confirm budget positions and projected school balances for the financial year end in March 2022.

This information will be shared with the Education Management Team and School Budget Forum and inform further discussions with individual schools and governing bodies before the end of the financial year.