

## **Cabinet**

**15 September 2021**

**Maintained Schools Budget Plans and  
Permission to Set Deficit Budgets  
2021/22**



**Ordinary Decision**

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### **Report of Corporate Management Team**

**John Pearce, Corporate Director of Children and Young People's Services**

**Councillor Ted Henderson, Portfolio Holder for Children and Young People's Services**

**Paul Darby, Corporate Director of Resources (Interim)**

**Councillor Richard Bell, Deputy Leader and Portfolio Holder for Finance**

### **Electoral division(s) affected:**

Countywide

### **Purpose of the Report**

- 1 To provide an overview of maintained schools' initial budget plans for 2021/22, as agreed by the relevant Governing Bodies.
- 2 To highlight where the Corporate Director of Resources (Interim) has exercised his judgement in terms of approving the setting of deficit budgets, in accordance with the Council's constitution and the Scheme of Financing for Schools.
- 3 The report also includes details of changes to sparsity funding for the 2022/23 funding formula and a consultation about the future of locally set funding formulas, which is currently considered via the Schools Forum.

### **Executive summary**

- 4 School's carry forward under and overspends against their budgets as part of their retained balances. This is a concern for the council,

because deficit balances could become a cost to the council if a school closes or converts and becomes a sponsored academy.

- 5 At the end of 2020/21 the net balances carried forward by maintained schools were £30.087 million, an increase of £11.831 million during the year. This was a significant underspend compared to schools' initial budget plans, which envisaged a £7.624 million reduction in reserves to fund planned expenditure in year (based on the schools that are still maintained and setting a budget for 2021/22). The outturn position was significantly different therefore to what these schools had planned and forecast, with the outturn position being affected by the pandemic.
- 6 The initial budget plans submitted by schools for 2021/22 again sees a significant forecast use of schools' reserves to balance individual budgets in year. Plans agreed by individual governing bodies show that schools are currently planning to utilise £7.752 million of their retained balances in 2021/22, reducing the forecast schools' balances as at 31 March 2022 to £22.335 million.
- 7 The continuing pandemic and the need for schools to help pupils to catch up following a year of disrupted education means that there is significant uncertainty about what schools will need to spend during the current year. This will be monitored closely and updated forecasts will be presented to Cabinet as part of the quarterly forecast of outturn reports.
- 8 Six schools had deficit balances at 31 March 2021. The initial budget plans for four of these schools has resulted in the Corporate Director of Resources having to exercise his judgement in terms of approving the setting of deficit budgets, in accordance with the Council's constitution and the Scheme of Financing for Schools. The other two schools have been able to balance their budgets in 2021/22.
- 9 The approved accumulated deficits of the schools that have set a deficit budget in 2021/22 is £3.710 million.
- 10 One of the schools that has had a licensed deficit approved is due to convert to be sponsored by a Multi-Academy Trust in September, as part of the Roman Catholic Diocese academisation plans. The licensed deficit at the point of conversion will be written off and charged against the Schools Reserve, which had a balance of £3.357 million at 1 April, 2021, having been utilised to write off deficits totalling £4.720 million last year.
- 11 The main source of funding for mainstream primary and secondary schools is the funding formula and more information is provided about this in Appendix 2, including changes to sparsity funding for the 2022/23 funding formula and a consultation about the future of locally set funding

formulas. This will be considered in consultation with the Schools Forum and all schools and implications factored into the local formula proposals for 2022/23 that Cabinet will consider later this year.

### **Recommendation(s)**

12 Cabinet is recommended to:

- (a) note the contents of this report;
- (b) note the action taken under delegated powers by the Corporate Director of Resources (Interim) to approve licensed deficits for four schools in 2021/22; and
- (c) note the proposed changes to sparsity funding for the 2022/23 funding formula and the current consultation about the future of locally set funding formulas – the outcome of which will be reported to Cabinet in December.

## **Background**

- 13 This report set outs a summary of maintained school budget plans for 2021/22 and details of schools that have requested to set a licensed deficit this year i.e. those whose budget plan will result in the school having a deficit balance carried forward at 31 March 2022.
- 14 Previous reports have outlined the significant financial difficulties being experienced by a number of schools across the county as a result of real terms reductions in schools funding, reductions in admission numbers and to a lesser extent school formula funding changes, which has necessitated approval for the setting of licensed deficits within some schools in previous years. To date licensed deficits have mainly arisen in some secondary schools, with many of these now having converted to be sponsored by a Multi-Academy Trust and the accumulated deficit position written off by the Council.
- 15 Setting a licenced deficit is a particular concern and potential financial risk to the council, because schools that have a poor OFSTED judgement are required to become sponsored academies and if / when they do academise, any deficit balance that they are carrying becomes a cost to the local authority and is not transferred to the sponsoring Multi Academy Trust.

## **School Budget Setting Processes and Challenges**

- 16 School budget setting processes are governed by Education and Skills Funding Agency (ESFA) regulations and funding timetables.
- 17 For mainstream primary and secondary schools, the formula funding allocations for each school are not finalised until February, though schools are provided with indicative allocations in advance of this to frame initial budget planning. The finalised allocations follows receipt of our Dedicated Schools Grant allocation in December along with data from the ESFA for each school. The data, which is based on the October census, must be used in determining formula funding and includes pupil numbers and the proportions of pupils qualifying for different formula factors, e.g. deprivation. Appendix 2 provides more information about this formula and future developments, including changes to sparsity funding next year.
- 18 At the same time as formula funding is being finalised, supporting information is prepared in respect of payroll costs and the cost of Service Level Agreements. Detailed final budget information is issued to all maintained schools at the end of February. The School Funding Team then visit each school for a budget-setting visit in March and April. Schools vary in the extent to which they need assistance and advice on budget-setting, from those that do most of the work themselves, for

which the visit is largely a review of the plan and set-up of the school's financial system for the change of financial year, and those who do little work in advance of the meeting, with most schools falling somewhere in between.

- 19 The timetable and process followed this year was once again impacted by Covid-19, which meant that many schools have had to set budgets using online meetings and electronic exchange of information instead of through face-to-face meetings with members of the council's School Funding Team. This has largely worked well and reduced downtime and travel costs to attend meetings, though the feedback from some schools has been that they would prefer a return to face to face visits. We will seek to maintain the use of remote meetings in future as far as possible whilst accommodating the specific needs of individual schools.
- 20 For maintained schools, the budgets are set for the financial year, which covers elements of two academic years. Staff restructuring, which is often necessary to balance budgets and to respond in changes in pupil numbers, usually takes effect from September each year, because schools operate on an academic year rather than a financial year.
- 21 Funding for early years provision is allocated to nursery schools and nursery units in primary schools. Most funding is in the form of an hourly rate, which is updated termly to take account of termly headcounts. In addition, nursery schools receive a formula funding allocation, which is fixed for the year and which is notified at the end of February.
- 22 Funding for pupils with Special Educational Needs and Disabilities in mainstream schools varies during the year according to pupil movements and changes in assessments. Initial funding is notified in March and is updated on a monthly basis throughout the year.
- 23 For special schools and alternative provision (for excluded pupils), funding is agreed based on anticipated numbers and a formula which allocates funding according to the numbers of places required in each category of need. Initial funding is notified in the autumn, and final funding is notified at the end of February, following consultation between schools and CYPS about requirements for places in the coming year.
- 24 Post-16 funding is determined the ESFA.
- 25 Schools also budget for income from the Pupil Premium and other income, including income from school meals.
- 26 Schools can set a budget with an in-year deficit, providing that they have enough surplus retained balances (reserves) carried forward to do so without this resulting in the school having a net deficit balance at the

end of the financial year. Where a school cannot do this and therefore wishes to set a licensed deficit, it must have permission from the council's Corporate Director of Resources – the statutory Responsible Financial Officer (s.151 officer) to do so.

- 27 The respective duties and responsibilities of schools and local authorities are determined by local schemes of delegation, prepared in line with statutory guidance. These schemes confirm the arrangements for delegation to governing bodies, but also give authorities powers to monitor school budgets and determine whether a school is allowed to set a licensed deficit. The scheme also sets out the procedure for dealing with schools causing concern, including the power to require schools to provide budget plans and, in extreme cases, to suspend delegation. Schemes also prohibit authorities from writing-off the deficits of schools with deficit balances, in order that authorities cannot favour one school over another by allowing one to overspend and write-off the deficit.
- 28 Schools' budget plans change over the course of the financial year, to reflect changes such as:
- Staff movement, which can have a significant effect on a school
  - Changes in early years pupil numbers
  - Changes in numbers and needs of SEND pupils
  - Final allocations of post-16 funding
- 29 Budgets are reviewed with the School Funding Team in the autumn term, which includes a review of the current year and a projection for the following year. This allows schools to start planning, particularly where they will need to reduce staffing to balance their budget.
- 30 Where schools need to reduce staffing, this process begins with a strategy meeting involving governors and the head teacher, supported by the School Governor Support Service and Human Resources, with advice from the School Funding Team. If it is agreed that the school needs to change or reduce staffing, it forms a First Committee to begin the formal process of staff reduction, which includes the issue of s.188 notices and usually culminates in either voluntary or compulsory redundancy.

## **Overview – School Budget Planning and Final Outturn 2020/21**

- 31 The schools that are currently maintained had retained balances of £18.255 million at 31 March 2020 and their initial budget plans for the 2020/21 financial year included planned use of £7.624 million of those

balances, which would have left them with net balances of £10.631 million at 31 March 2021. The actual balances held at 31 March 2021 for these schools was £30.087 million, an in year increase in balances of £11.832 million.

- 32 School spending plans for 2020/21 were significantly disrupted by the pandemic. Most budget plans were prepared either before or shortly after the start of the first national lockdown, when there was little information about how schools would be affected by the pandemic and what financial support might be available. The main areas of underspend were in relation to supply cover and discretionary expenditure and the receipt of unbudgeted income. Schools were clearly cautious about spending in a period of uncertainty last year. Schools also received significant Covid-related funding towards the end of the year.
- 33 The table below summarises the changes in schools-related balances, including changes in respect of schools that have now converted to academies:

School surplus and (deficit) balances	Balance at 31 March 2020 £ million	Movement in 2020/21 financial year £ million	Balance at 31 March 2021 £ million
Maintained schools	18.255	11.831	30.087
Schools that converted after 31 March 2021	0.694	-	0.694
Schools that converted in 2020/21	(3.357)	3.357	-
School that converted in March 2020	0.475	(0.475)	-
<b>TOTAL</b>	16.067	14.714	30.781

- 34 Note that the £3.357 million for schools that converted in 2020/21 includes schools for which the council wrote-off deficit balances to the Schools Reserve, and other schools which had surplus balances which were transferred to their Multi Academy Trust post transfer.
- 35 The table below breaks down the balances for those maintained schools that are still in place between different phases of education, excluding the schools that converted after 31 March 2021:

School surplus and (deficit) balances by phase	Balance at 31 March 2020 £ million	Movement in 2020/21 financial year £ million	Balance at 31 March 2021 £ million
Nursery	0.937	0.098	1.034

School surplus and (deficit) balances by phase	Balance at 31 March 2020 £ million	Movement in 2020/21 financial year £ million	Balance at 31 March 2021 £ million
Primary	16.973	7.636	24.608
Secondary	(2.426)	3.654	1.228
Special / Alternative Provision	2.772	0.444	3.216
<b>TOTAL</b>	<b>18.255</b>	<b>11.831</b>	<b>30.087</b>

36 Alternative Provision is for pupils who have been permanently excluded from school, or who are at risk of exclusion. In Durham, the council maintains The Woodlands school for these pupils.

37 At 31 March 2021 there were six schools with deficit balances totalling £3.744 million. For comparison purposes, at 31 March 2020 there were 21 schools with deficit balances totalling £8.402 million.

38 For 2020/21 the Corporate Director of Resources exercised his judgement to grant licensed deficits to eight schools that were unable to set a balanced budget and requested permission to set a deficit budget. Three of these eight schools converted in year and are now part of a Multi-Academy Trust. Of the remaining five schools all but one complied with the conditions of the licensed deficit.

39 Of the six schools with deficit balances at 31 March 2021, two have set balanced budgets for 2021/22 and the remaining four have been granted licensed deficits following approval by the Corporate Director of Resources (Interim). All other maintained schools have set balanced budgets for 2021/22, though there is once again a planned significant use of retained balances to achieve this in the initial budget plans.

## Budget plans for 2021-22

40 The table below summarises the initial budget plans for maintained schools:

	Nursery £ million	Primary £ million	Secondary £ million	Special / AP £ million	Total £ million
Employees	(4.384)	(153.042)	(34.732)	(30.210)	(222.368)
Premises	(0.272)	(10.200)	(2.595)	(1.294)	(14.361)
Transport	(0.001)	(0.369)	(0.450)	(1.141)	(1.961)
Supplies & Services	(0.432)	(29.911)	(6.469)	(4.887)	(41.699)
Income	3.804	41.814	13.209	5.872	64.700
<b>Net expenditure</b>	<b>(1.285)</b>	<b>(151.709)</b>	<b>(31.037)</b>	<b>(31.660)</b>	<b>(215.690)</b>
Formula Funding	1.072	145.670	30.672	30.524	207.938



	<b>Nursery £ million</b>	<b>Primary £ million</b>	<b>Secondary £ million</b>	<b>Special / AP £ million</b>	<b>Total £ million</b>
Use of reserves	0.213	6.039	0.365	1.135	7.752
Retained Balance at 31 March 2021	1.034	24.608	1.228	3.216	30.087
<b>Retained Balance at 31 March 2022</b>	<b>0.822</b>	<b>18.569</b>	<b>0.863</b>	<b>2.081</b>	<b>22.335</b>

- 41 The initial budget plans include planned in-year use of retained balances of £7.752 million, which would leave schools with balances of £22.335 million at 31 March 2022. The continuing pandemic, and the need to help pupils to catch-up following a year of disrupted education mean that significant variation is likely between the initial budget plans and the final outturn. Based on previous years, it is unlikely that the use of retained balances will be at that level in the coming year.

### **Licensed deficits**

- 42 Schools can only set a deficit budget plan if the Corporate Director of Resources gives approval to do so. In 2021/22 there are four schools for which a licensed deficit has been agreed. A summary of the position for each school is set out below. The licensed deficits are the maximum permitted deficit balance at 31 March 2022 and not an in-year deficit or surplus position.

#### **Ferryhill Station Primary**

- 43 This school was granted a licensed deficit in 2020/21. It has been working with another school and is looking to continue to work with that school in the future to help reduce its costs and eradicate the accumulated deficit.
- 44 The school has been part of Education's Intervention for Improvement (MII) scheme in which standards have been carefully monitored over a two year period. New leadership planning and shared headship arrangements have been successful and the school has been guided into a longer term federation arrangement with Ludworth Primary and Nursery School to address its financial and leadership capacity issues.
- 45 The Corporate Director of Resources (Interim) has approved a licensed deficit of £19,000 for the current year, which includes an in-year budgeted surplus of £26,000 to reduce the accumulated deficit. The agreement to a licensed deficit budget is subject to the governing body agreeing to plan to balance the budget by the end of the 2022/23 financial year. The plans developed by the school will be submitted to the Council in the Autumn and subject to challenge and review.

### **St Thomas More RC Primary**

- 46 This school is due to convert in September 2021 as part of the Roman Catholic Diocese plans to academise all RC schools by July 2022. The school is expected to join the Bishop Wilkinson Multi-Academy Trust and the Corporate Director of Resources (Interim) has approved a licensed deficit of £65,000 to the point of conversion. The council has already agreed to write-off the deficit at the point of conversion in order to facilitate conversion. The licensed deficit will be reviewed if the school does not convert on the expected date in September.

### **Wellfield**

- 47 This school has a legacy of long-standing financial issues, though in recent years has become much more financially stable and is starting to payback the deficit that it accumulated. The school had an in-year surplus of £0.292 million in 2020/21 and a retained deficit balance of £3.114 million as at 31 March 2021. The Corporate Director of Resources (Interim) has approved a licensed deficit of £2.914 million, which requires the school to have an in-year surplus of £0.2 million in 2021/22.

### **Durham Community Business College**

- 48 This school was formerly part of The Durham Federation, with Fyndoune Community College, which closed on 11 April 2021. There are significant concerns regarding the financial viability of this school given the low numbers of pupils attending the school and parental preference patterns. The Corporate Director of Resources (Interim) has approved a licensed deficit of £0.814 million, which includes an in-year deficit of £310,000, and work continues on the future options for this school through the Education Review programme.
- 49 The budgets for the four schools that have been given permission to set a deficit budget in 2021/22 is summarised below:

	<b>Deficit at 31 March 2021 (£ million)</b>	<b>Planned in-year (use) of / cont. to reserves (£ million)</b>	<b>Planned deficit at 31 March 2022 (£ million)</b>	<b>Licensed deficit (£ million)</b>
Ferryhill Station	(0.045)	0.026	(0.019)	(0.019)
St. Thomas More RC	(0.047)	(0.025)	(0.072)	(0.065)
Wellfield	(3.114)	0.200	(2.914)	(2.914)
DCBC	(0.504)	(0.310)	(0.814)	(0.814)

- 50 The planned deficit for St Thomas More is the budget for a full year and is more than the licensed deficit; this is because the schools is expected to convert to an academy in September 2021 and the licensed deficit agreed is the position expected to the point of conversion in September 2021.

## Main implications

### Financial implications

- 51 The council has a responsibility for the oversight of maintained schools, including their financial planning.
- 52 If a school is allowed to set a deficit budget without good reason and without corrective action being taken by the Governing Body, then it is likely that its financial position will deteriorate over time until it reaches a point where it is unable to clear the accumulated deficit and the only option for the school is for the school to close or become part of a multi-academy trust as a sponsored academy.
- 53 Where a school converts to become a sponsored academy, any deficit must be written-off by the council from its own resources. Surplus balances are transferred to the sponsored academy's Multi Academy Trust.

### Schools Reserve

- 54 The council has a Schools Reserve to fund the cost of writing-off deficits of schools that are converting. The balance on the Schools Reserve at 1 April 2020 was £7.077 million.
- 55 During 2020/21 the council wrote-off £4.720 million of accumulated deficits for schools that converted in year to become sponsored academies, including schools where it had agreed to write-off the accumulated deficits to assist with the school being sponsored, where deficit balances were a barrier to conversion:

	(£ million)
Bluebell Meadow Primary	0.260
Tanfield School	1.020
Wolsingham School	1.750
Peterlee St Bede's	1.640
The Sacriston Primary	0.050
<b>TOTAL</b>	<b>4.720</b>

- 56 This use of reserves above reduced the balance on the Schools Reserve to £2.357 million. As part of the final accounts closedown, £1 million was added to the Schools Reserve to increase the sums held and ensure sufficient funding is in place to cover any potential deficit write offs going forward. The balance on the Schools Reserve at 1 April 2021 is therefore £3.357 million.
- 57 A further write-off of up to £65,000 is expected in year in respect of St Thomas More RC school when it converts to form part of the Bishop Wilkinson Multi-Academy Trust.

## **Conclusion**

- 58 This report notes that schools have delegated budgets and carry forward surpluses and deficits. It sets out the responsibilities of the Governing Bodies and the Council with regards to agreeing budgets.
- 59 The main source of funding for mainstream primary and secondary schools is the funding formula and more information is provided about this in Appendix 2, including changes to sparsity funding for the 2022/23 funding formula and a consultation about the future of locally set funding formulas. This will be considered in consultation with the Schools Forum and all schools and implications factored into the local formula proposals for 2022/23 that Cabinet will consider later this year.
- 60 At 31 March 2021, schools had surplus balances of £30.087 million, which was an in year increase of £11.831 million on their balances at 31 March 2020, and much higher than they had originally planned. It is common for schools to underspend against their initial plans, but the pandemic caused significant disruption and uncertainty in the 2020/21 financial year and schools were clearly cautious in their spending and experienced unprecedented one off savings last year, particularly in agency supply teaching costs and also received covid grant funding support that was not budgeted.
- 61 The initial budget plans agreed by schools for the current financial year indicate an in year use of £7.752 million of their retained balances, reducing the forecast retained balances to £22.335 million. There is a lot of uncertainty about how school budget plans will be affected by the need to help pupils to catch up following disruption to their education. The ongoing pandemic will also affect their spending plans and will require careful monitoring.
- 62 Six schools had deficit balances at 31 March 2021. The initial budget plans for four of these schools has resulted in the Corporate Director of Resources having to exercise his judgement in terms of approving the setting of deficit budgets, in accordance with the Council's constitution and the Scheme of Financing for Schools. The other two schools that

had a deficit balance at 31 March 2021 set balanced budgets for 2021/22.

- 63 The approved accumulated deficits of the schools that have set a deficit budget in 2021/22 is £3.710 million.
- 64 One of the schools that has had a licensed deficit approved is due to convert to be sponsored by a Multi-Academy Trust in September, as part of the Roman Catholic Diocese academisation plans. The licensed deficit at the point of conversion will be written off and charged against the Schools Reserve, which had a balance of £3.357 million at 1 April 2021, having been utilised to write of deficits totalling £4.720 million last year.

### **Background papers**

- None

### **Other useful documents**

- None

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## **Appendix 1: Implications**

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### **Legal Implications**

Section 15 of the Education and Inspections Act requires a Local Authority to publish statutory proposals where it is considering discontinuing a maintained school. Section 16 of the Act requires the Local Authority to consult such people as they feel to be appropriate and to have regard to guidance published by the Secretary of State before publishing such proposals.

The Corporate Director Resources is responsible by virtue of Section 151 of the Local Government Act 1972 for the administration of the authority's financial affairs. The Corporate Director Resources also has a duty to report certain matters to the authority by virtue of Section 114 of the Local Government Finance Act 1988.

Schools have delegated budgets, but if a school closes or converts as a sponsored academy then any deficit balance remains with the council, which must meet the cost of writing-off the deficit from its general funds. Surplus balances of closing schools are credited to the council, but it does not retain any surplus balance for a school becoming a sponsored academy: the academy receives the balance upon conversion.

The funding framework governing schools finance, which replaced Local Management of Schools, is based on the legislative provisions in sections 45-53 of the School Standards and Framework Act 1998. Under this legislation the council is required to publish a Scheme of Financing for Schools. The scheme sets out the financial relationship between the authority and the maintained schools which it funds, including the respective roles and responsibilities of the authority and the schools. The scheme does not limit unreasonably the flexibility of schools to control and deploy their budgets, recognising the need for public monies are involved to be properly accounted for and recorded. The scheme includes provisions which are binding on both parties. Under the scheme, any deficits of expenditure against budget share (formula funding and other income due to the school) in any financial year will be charged against the school and will be deducted from the following year's budget share to establish the funding available to the school for the coming year.

Schools cannot set a deficit budget without the prior agreement in writing of the authority. For clarity, a deficit budget is one where the gross expenditure in the budget plan exceeds the total of funding, income and the balance (surplus or deficit) brought forward from the previous year. This consent is

given by the Section 151 officer - Corporate Director, Resources; where approval is given this is known as a licensed deficit.

The scheme of delegation allows for deficit budgets, but only for three years, and no more than 20% of the school's budget share, up to a maximum of £750,000.

## **Finance**

Schools are funded through Dedicated Schools Grant and operate to delegated budgets, which are the responsibility of individual school governing bodies. Where a school wishes to set a deficit budget (where its spending exceeds its resources in year – including any retained balances brought forward from previous years) it can only do so in accordance with EFA guidance and the Scheme of Financing for Schools and with the permission of the council's S151 Officer; where approval is given this is known as a licensed deficit.

Changes (restrictions) placed on the council through formula funding regulations, has made funding for mainstream schools more sensitive to changes in pupil numbers, and has reduced the scope of local authorities to use its funding formulas to target funding to schools that are struggling financially.

From April 2013 schools now have the powers to accept pupil numbers above their Pupil Admission Number, which is what the council (through the Schools Admissions Team) previously used to cap the admission numbers to an individual school and help manage demand across schools. In addition, from April 2015 schools that had a poor Ofsted judgement have been required to convert and become sponsored academies.

There are a small number of maintained schools in financial difficulty across the county, with insufficient capacity in some areas to accommodate the pupil numbers displaced should these schools need to close. Notwithstanding this, should a school close, the additional cost of providing home to school transport to pupils' nearest schools can be significant. There would also need to be significant capital investment to expand other secondary schools to accommodate additional pupils should a secondary school close for financial reasons.

Where a school is in financial difficulties, officers from the Education Service can advise schools about where there is scope to make savings, supported by the Schools Finance Team.

## **Consultation**

None.

## **Equality and Diversity / Public Sector Equality Duty**

None.

## **Climate Change**

None

## **Human Rights**

None.

## **Crime and Disorder**

None.

## **Staffing**

Staffing within schools is continually reviewed as schools consider arrangements for balancing their budgets on an annual basis. Any staff restructuring exercises are considered in line with the council's existing schemes and the School Brokerage Scheme to minimise redundancies wherever possible.

## **Accommodation**

None.

## **Risk**

If schools become financially unsustainable there is a risk to their ability to deliver a good standard of education. This would normally lead to a school failing an Ofsted inspection and being required to seek a Multi-Academy Trust to sponsor it. This can be problematic where the school has significant in-year deficits and is perceived as a financial liability for an existing trust to take on. At the point of conversion the Council would have to meet the cost of writing-off the deficit.

In such a situation, the Council is at risk of damage to its reputation by being perceived to have failed to monitor the performance and financial position of maintained schools.

## **Procurement**

None.



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## **Appendix 2: Mainstream Primary and Secondary Formula Funding - Overview**

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The main source of funding for mainstream primary and secondary schools is the local funding formula. Local formulas are set by councils, but must comply with statutory regulation, which restricts local discretion over formula factors and how they are applied. The formula is used for both maintained schools and academies, albeit the formula applies to maintained schools from April, (the start of the local authority financial year) but to academies from the following September (the start of the academy financial year).

Most funding in the formula is allocated through pupil-led factors, including a basic amount per pupil and additional pupil needs. Additional pupil needs factors are based on measures such as deprivation which are linked to lower educational attainment. Other funding is provided through school and premises-led factors to ensure that schools with fewer pupils (and hence less pupil-led funding) have a minimum amount of funding to cover fixed costs.

A further allocation is made through Minimum Per Pupil Funding, which provides additional funding for schools that have relatively low levels of funding for additional pupil needs and larger schools whose school and pupil-led funding per pupil is smaller than other schools.

The formula also provides protection for schools in respect of changes in funding per pupil from year-to-year. This protection can stop funding reducing too quickly, or can provide a minimum increase, depending on the funding regulations for that year. This protection takes the form of the Minimum Funding Guarantee and Funding Floor.

The protection through the Minimum Funding Guarantee and Funding Floor does not apply to schools whose funding is reducing because of falling pupil numbers, but these schools do receive a degree of protection through the formula, because it uses lagged pupil numbers, which means that there is a delay between numbers falling and funding reducing. The lag is because pupil numbers are taken from the October School Census but do not apply until the formula that applies from the following April (for maintained schools) or September (for academies).

The local formula is funded through the Schools Block of the Dedicated Schools Grant.

Funding levels for 2022/23 have recently been announced and include increases in overall funding per pupil of 2.7% per primary pupil and 3.2% per secondary pupil.

Schools will be consulted about the formula for 2022/23 in September and Cabinet will be asked to approve a provisional formula in November or December 2021, pending confirmation of funding and pupil numbers by the DfE.

The increases quoted above are for the units of funding per pupil used to allocate funding to local authorities. Increases for individual schools will vary, depending on the application of the final version of the formula to the specific circumstances of each school.

A significant change to the formula for 2022/23 affects the way in which sparsity funding is allocated. This funding is provided for small schools in sparsely populated areas that receive relatively small amounts of pupil-led funding. Eligibility for sparsity funding is determined by the DfE and only a small number of schools qualify in Durham. Schools do not automatically qualify for sparsity funding because they are rural schools.

The sparsity changes being proposed are to the way in which eligibility is determined and to the way in which the formula calculates funding for eligible schools. There is also an increase in the maximum amount of funding permitted for this particular factor. The DfE expects more schools to be eligible, but it is not feasible to estimate the effect in Durham until the DfE provide illustrative figures.

The DfE has also announced a consultation into the replacement of local funding formulas by the National Funding Formula (NFF). The DfE's aim is that the NFF is used to determine funding for all schools across the country. Since 2018-19, the NFF has been used as the basis for determining the units of funding per pupil that determine overall allocations of funding to local authorities, and many local authorities, including Durham, have aligned their formulas to the NFF.

The units of funding are determined using data that is one year older than that used in the local formulas and this means that local formulas cannot match the NFF exactly.

Durham's formula for the current financial year uses the NFF values for school-led factors, (lump sum per school and sparsity funding), but pupil-led factors that are 1.46% higher than the NFF values. The difference in pupil-led factors is the percentage difference necessary to make use of all of the funding provided for the formula.

The replacement of local formulas by the NFF has been government policy since 2010. The NFF was due to replace local formulas in 2019/20, but has been delayed for several reasons since then, most recently because of the disruption caused by the pandemic. The current proposals would require local authorities to increase convergence to the NFF from 2023-24 onwards but do not give a definite date for the replacement of local formulas. A report on the consultation will be submitted to Cabinet in September. The proposals are unlikely to have a significant effect in Durham, because the local formula is already closely aligned to the NFF, but further clarification is required.

The existing 2021/22 formula is summarised in the table below:

2021/22 Mainstream Primary and Secondary Funding Formula		Eligible pupils	Formula values £	Allocation through formula £	
Basic funding per pupil	Primary	38,760.75	3,168.56	122,815,692	35.63%
	KS3	15,995.00	4,468.25	71,469,585	20.74%
	KS4	10,178.00	5,035.40	51,250,302	14.87%
Deprivation	FSM (Primary)	11,525.76	466.71	5,379,191	1.56%
	FSM (Secondary)	6,493.00	466.71	3,030,351	0.88%
	FSM6 (Primary)	12,500.39	583.39	7,292,580	2.12%
	FSM6 (Secondary)	8,382.07	852.25	7,143,649	2.07%
	IDACI Band F (Primary)	5,376.66	218.14	1,172,844	0.34%
	IDACI Band E (Primary)	6,478.70	263.79	1,709,034	0.50%
	IDACI Band D (Primary)	4,273.06	415.98	1,777,513	0.52%
	IDACI Band C (Primary)	3,159.35	451.49	1,426,418	0.41%
	IDACI Band B (Primary)	3,701.19	481.93	1,783,713	0.52%
	IDACI Band A (Primary)	2,377.23	629.04	1,495,384	0.43%
	IDACI Band F (Secondary)	3,599.46	314.52	1,132,110	0.33%
	IDACI Band E (Secondary)	4,183.93	421.05	1,761,661	0.51%
	IDACI Band D (Secondary)	2,759.41	588.46	1,623,807	0.47%
	IDACI Band C (Secondary)	1,976.21	639.19	1,263,171	0.37%
	IDACI Band B (Secondary)	2,401.41	689.92	1,656,783	0.48%
IDACI Band A (Secondary)	1,480.84	877.62	1,299,615	0.38%	

2021/22 Mainstream Primary and Secondary Funding Formula		Eligible pupils	Formula values £	Allocation through formula £	
EAL	Primary	613.51	558.02	342,353	0.10%
	Secondary	97.05	1,506.66	146,219	0.04%
Mobility	Primary	82.44	913.13	75,278	0.02%
	Secondary	-	1,308.82	-	-
Low Prior Attainment	Primary	11,259.57	1,110.97	12,509,089	3.63%
	Secondary	5,236.31	1,684.22	8,819,083	2.56%
Minimum per-pupil funding				991,900	0.29%
<b>Total for pupil-led factors</b>				<b>309,367,326</b>	<b>89.76%</b>
Lump sum	Primary	212.00	117,800.00	24,973,600	7.25%
	Secondary	31.00	117,800.00	3,651,800	1.06%
Sparsity				495,507	0.14%
<b>Total for school-led factors</b>				<b>29,120,907</b>	<b>8.45%</b>
<b>Total for premises factors</b>				<b>6,183,858</b>	<b>1.79%</b>
<b>Total funding</b>				<b>344,672,091</b>	<b>100.00%</b>