

**Cabinet**

**10 July 2024**

**Maintained Schools Budget Plans  
2024/25**

**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**

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

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

Countywide

### **Purpose of the Report**

- 1 This report highlights that schools have delegated budgets and carry forward surpluses and deficits from year to year. It sets out the responsibilities of the Governing Bodies and the Council with regards to agreeing budgets.
- 2 The report provides an overview of maintained schools' budget plans for 2024/25, as agreed by the relevant Governing Bodies and highlights where the Corporate Director of Resources 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.

### **Executive summary**

- 3 The main source of funding for mainstream primary and secondary schools is the funding formula, which is largely driven by pupil numbers attending the school. More information is provided about this in Appendix 2.

- 4 At 31 March 2024, there were 145 maintained schools with cumulative retained surplus balances of £26.603 million. This represented an in-year increase of £2.902 million on balances held at 31 March 2023 for those 145 schools.
- 5 During 2023/24 99 schools (68%) contributed £5.781 million to their reserves within the year whilst 46 (32%) of schools used £2.879 million of reserves to balance their financial position.
- 6 Sixteen schools converted to academy status during 2023/24, including Wellfield School which had a deficit of £2.992 million upon conversion.
- 7 When schools convert to academies, cumulative balances are usually transferred to MATs, which reimburse local authorities for any deficit balance at the point of conversion. This does not apply where a school converts as a sponsored academy; local authorities are required to write-off any deficits for these schools. Local authorities do have the discretion to write-off the deficits of other schools that are converting where this is a barrier to conversion.
- 8 Wellfield's good Ofsted assessment means that it did not convert as a sponsored academy, and it was at the Council's discretion whether to write-off the deficit balance. The Council has done this for a number of previous conversions in order to preserve education for its communities and has previously created an earmarked reserve to set aside money for this purpose. Cabinet agreed in 2018 to write off this deficit.
- 9 Ten maintained schools had deficit balances totalling £0.801 million as at 31 March 2024, however each of these schools has a budget plan to be in surplus by 31 March 2025.
- 10 In October 2023, the DfE announced additional funding to support individual schools that find themselves in financial difficulties. An overall sum of £20 million was allocated nationally and Durham's share was £0.582 million.
- 11 The grant was used in 2023/24 to support 23 schools in Durham and was a significant part of the reason that no schools require a licensed deficit in 2024/25. Whilst this is undoubtedly positive news, because the grant allocation was one-off and will not be available next year there is a strong likelihood that some schools will require licensed deficits in 2025/26.
- 12 The budget plans agreed by schools for the 2024/25 financial year require a forecast in-year use of £4.489 million of retained balances, reducing the forecast retained balances to £22.114 million at 31 March 2025.

## **Recommendation(s)**

13 Cabinet is recommended to:

- (a) note the contents of this report.

## **Background**

- 14 This report set outs a summary of maintained school budget plans for 2024/25.

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

- 15 School budget setting processes are governed by Education and Skills Funding Agency (ESFA) regulations and funding timetables.
- 16 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 follow receipt of the Dedicated Schools Grant (DSG) 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.
- 17 For maintained schools, 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 as schools operate on an academic year rather than a financial year.
- 18 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.
- 19 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 regularly throughout the year.
- 20 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. Places are funded at 9 maintained special schools, 1 academy special school, 1 maintained pupil referral unit and 1 alternative provision academy free school.
- 21 Initial funding is notified in the autumn, and final funding is notified at the end of February, following consultation between schools and Children

and Young People's Services (CYPS) about requirements for places in the coming year.

- 22 Post-16 funding is determined the ESFA.
- 23 Schools also budget for income from the Pupil Premium and other income such as income from school meals.
- 24 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.
- 25 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.
- 26 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. Local authorities do have the discretion to write-off the deficits of other schools that are converting where this is a barrier to conversion.
- 27 All maintained schools are supported in their financial planning by the council's Schools Finance Team via a Service Level Agreement arrangement. This involves support with the budget setting process, three-year financial planning and forecasting and monitoring during the financial year to highlight where there may be pressure on budgets and action is required to avoid overspending.
- 28 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 redundancy notices under section 188 of the Trade Union and Labour Relations (Consolidation) Act 1992 s.188 and usually culminates in either voluntary or compulsory redundancy.

## School Budget Planning and Final Outturn 2023/24

- 29 The schools that are currently maintained had retained balances of £23.770 million on 31 March 2023 and the balances held on 31 March 2024 for these schools was £26.672 million, an in-year increase of £2.902 million.
- 30 The total schools reserves balance at 31 March 2024 was £27.231million as it included £0.559 million of reserves to be transferred for schools that have converted to academy status.
- 31 When schools convert to academy status the council is required to retain the balance for a period of time whilst we finalise the balance. Once finalised a transfer of the balance is then made to the Academy. This may be over financial years depending on the timing of the conversion.
- 32 The table below summarises the changes in schools-related balances, including changes in respect of schools that have now converted to academies:

School balances	Balance on 31 March 23	Movement in year	Balance on 31 March 24
	£ million	£ million	£ million
Maintained schools	23.770	2.902	26.672
Schools that have or are in the process of converting	4.636	-4.077	0.559
<b>TOTAL</b>	<b>28.406</b>	<b>1.175</b>	<b>27.231</b>

- 33 The table below breaks down the balances for those maintained schools that are still in place, split between the different phases of education, and excludes the schools that converted after 31 March 2022:

School balances by phase	Balance on 31 March 23 £ million	Movement in year £ million	Balance on 31 March 24 £ million
Nursery	0.789	0.178	0.967
Primary	18.151	2.109	20.260
Secondary	1.983	-0.032	1.951
Special/Alternative Provision	2.847	0.647	3.494
<b>TOTAL</b>	<b>23.770</b>	<b>2.902</b>	<b>26.672</b>

- 34 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 and also purchase places in Endeavour Academy School, which is an alternative provision academy school.
- 35 On 31 March 2024 there were ten schools with deficit balances totalling £0.801 million. For comparison purposes, on 31 March 2023 there were ten schools with deficit balances totalling £3.080 million.
- 36 For 2023/24 the Corporate Director of Resources exercised his judgement to grant licensed deficits to seven schools that were unable to set a balanced budget and requested permission to set a deficit budget. Two of these seven schools (Wellfield School and Peases West Primary) converted in year and are now part of a Multi-Academy Trust.
- 37 Of the ten schools with deficit balances on 31 March 2024, all have set balanced budgets for 2024/25. No schools require a licensed deficit in 2024/25, although this partly reflects support provided via a one-off grant from DfE for schools in financial difficulty.
- 38 The council currently maintains 145 schools, including nursery, primary, secondary, special schools and a single Alternative Provision (AP) school. The AP school is for pupils who have been permanently excluded from other schools, or who are at risk of permanent exclusion
- 39 The original budget for 2024/25 for these 145 maintained schools is circa £254 million, funded by income of £64 million, formula funding budget shares of £186 million (from central government funding) and a budgeted use of circa £4.5 million of accumulated schools' reserves. The table below summarises the schools' initial budgets.

<b>Subjective Budget Heading</b>	<b>Nursery £million</b>	<b>Primary £million</b>	<b>Secondary £million</b>	<b>Special / AP £million</b>	<b>Original Annual Budget £million</b>
Employees	5.158	140.685	15.034	42.235	203.112
Premises	0.329	10.640	1.308	1.777	14.054
Transport	0.001	0.481	0.184	2.400	3.066
Supplies and services	0.629	23.706	2.787	6.896	34.018
DRF		0.162			0.162
<b>Gross expenditure</b>	<b>6.117</b>	<b>175.674</b>	<b>19.313</b>	<b>53.308</b>	<b>254.412</b>
Income	-4.435	-45.483	-4.125	-9.742	-63.785
<b>Net expenditure</b>	<b>1.682</b>	<b>130.191</b>	<b>15.188</b>	<b>43.566</b>	<b>190.627</b>
Budget share	1.875	126.486	13.971	43.846	186.178

<b>Subjective Budget Heading</b>	<b>Nursery £million</b>	<b>Primary £million</b>	<b>Secondary £million</b>	<b>Special / AP £million</b>	<b>Original Annual Budget £million</b>
<b>Reserves</b>	<b>-0.193</b>	<b>3.705</b>	<b>1.217</b>	<b>-0.280</b>	<b>4.449</b>
Balance at 31 Mar 2024	0.967	19.780	1.951	3.494	26.192
<b>Balance at 31 Mar 2025</b>	<b>1.160</b>	<b>16.075</b>	<b>0.734</b>	<b>3.774</b>	<b>21.744</b>

40 Forty two schools have set a budget which has created a surplus budget. This surplus contribution to reserves is budgeted at £2.242 million. Ten schools were required to do this as they were in deficit at the end of 2023/24. The remainder one hundred and three schools have budgeted to use £6.691 million pounds of reserves to balance their budget.

### **Schools Reserve**

41 The Council has previously created an earmarked reserve to set aside money for circumstances where it decides to write-off the deficit balance of a school upon conversion to academy status in order to preserve education for its communities.

42 The balance on this reserve on 31 March 2024 was £1.7 million and there is currently no expectation of schools converting in 2024/25 with a deficit budget.

### **Conclusion**

43 There are significant financial challenges for schools in the current financial year and beyond, largely linked to increases in employee costs and other inflationary factors.

44 This report outlines budget position for 145 maintained schools in 2024/25 and no licenced deficits.

### **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 in accordance with the Academy Conversions (Transfer of School Surpluses) Regulations 2013 (the "Regulations"). 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. Additional oversight for schools in licensed deficit is provided via the Principal Account-School Funding, in addition to support from the regular School Funding Officer.

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 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.

In addition if a school is in deficit and the school transfer to academy status the council has to finance the write off of the deficit value. The council is also responsible for financing any ER/VR costs associated with cost reduction strategies in schools

### **Procurement**

None.

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

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- 1 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).
- 2 The local formula is funded through the Schools Block of the Dedicated Schools Grant. Allocations are based on pupil numbers and application of the National Funding Formula (NFF). The NFF is expected to replace local formulas by no later than 2027-28, at which point the NFF will determine funding for all schools across the country. Many local authorities, including Durham, have already aligned their formulas to the NFF, although it is not possible for local formulas to match the NFF exactly. 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.
- 3 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.
- 4 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.
- 5 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).

- 6 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 0.04% lower than the NFF values.
- 7 The existing 2024/25 formula is summarised in the table below.

2024/25 Mainstream Primary and Secondary Funding Formula		Eligible pupils	Formula values £	Allocation through formula £	
Basic funding per pupil	Primary	37229.75	3,560.60	132,560,068	34.00%
	KS3	16578.00	5,020.02	83,221,881	21.35%
	KS4	10359.00	5,658.77	58,619,171	15.04%
Deprivation	FSM (Primary)	12561.68	489.81	6,152,795	1.58%
	FSM (Secondary)	8556.00	489.81	4,190,787	1.07%
	FSM6 (Primary)	12651.71	819.68	10,370,310	2.66%
	FSM6 (Secondary)	8891.00	1,199.53	10,664,992	2.74%
	IDACI Band F (Primary)	5135.08	234.91	1,206,267	0.31%
	IDACI Band E (Primary)	6153.20	284.89	1,752,970	0.45%
	IDACI Band D (Primary)	3915.69	444.82	1,741,793	0.45%
	IDACI Band C (Primary)	3115.17	484.81	1,510,261	0.39%
	IDACI Band B (Primary)	3516.30	514.8	1,810,179	0.46%
	IDACI Band A (Primary)	2373.30	679.73	1,613,205	0.41%
	IDACI Band F (Secondary)	3710.92	339.87	1,261,214	0.32%
	IDACI Band E (Secondary)	4324.97	449.82	1,945,470	0.50%
	IDACI Band D (Secondary)	2848.66	629.75	1,793,949	0.46%
	IDACI Band C (Secondary)	2069.06	689.73	1,427,089	0.37%
	IDACI Band B (Secondary)	2392.35	739.71	1,769,641	0.45%
	IDACI Band A (Secondary)	1587.97	944.63	1,500,035	0.38%
EAL	Primary	1053.31	589.77	621,207	0.16%
	Secondary	253.35	1,584.37	401,405	0.10%
Mobility	Primary	270.83	959.62	259,890	0.07%
	Secondary	52.82	1,379.46	72,863	0.02%
Low Prior Attainment	Primary	11346.01	1,169.54	13,269,592	3.40%
	Secondary	5697.88	1,774.30	10,109,742	2.59%
Minimum per-pupil funding				262,333	0.07%
<b>Total for pupil-led factors</b>				<b>350,109,109</b>	<b>89.80%</b>
Lump sum	Primary	211	134,400.00	28,358,400	7.27%
	Secondary	30	134,400.00	4,032,000	1.03%
Sparsity				1,129,730	0.29%
<b>Total for school-led factors</b>				<b>33,520,130</b>	<b>8.60%</b>
<b>Total for premises factors</b>				<b>6,231,156</b>	<b>1.60%</b>
<b>Total funding</b>				<b>389,860,395</b>	<b>100.00%</b>