

SCHOOL BUDGET PLANNING GUIDE

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1. Introduction

The fundamental aim of this guide is to help schools understand and prepare an Annual Budget or a sequence of budgets to cover a number of years. Furthermore, a section on budget monitoring is also included which is also part of the overall budgeting sequence in schools.

The Governing Body has a strategic role in the financial management of schools and its key responsibilities include:

- Approval of Annual Budget
- Authorisation of the 3 year financial plan
- Setting financial priorities through the School Development Plan
- Determination of the staff complement and pay policy for the school
- Approval of Best Value Statement
- Authorisation of non budgeted expenditure and virements

2. What is the Annual Budget?

The Annual Budget is a statement of what the likely income and expenditure will be in a school. It needs to be considered carefully so that schools can weigh up whether they have enough funds to pay for the activities that they believe are necessary for the school to deliver its School Development Plan (SDP).

The aim of the budget setting process is to ensure resource allocation matches school priorities. Unplanned over-spending or under-spending of a school budget can deflect schools from previously agreed spending priorities, and this can affect the achievement of school development plans. Each can equally be a sign of weak financial management.

The important things a school needs to decide are whether their ***budget is realistic***, and whether ***they have satisfactory systems*** in place to aid both the setting of the Annual Budget and subsequent regular period reporting (monitoring) to the Head Teacher and Governors. For instance, an error in calculating the teaching staff budget could leave a school with an end of year shortfall and could result in spending cuts being necessary.

Key benefits of setting a realistic budget that directs limited school resources in line with school priorities are:

- **Financial** – A good budget lowers the risk of financial crisis in the year, hence, the school is more likely to be able to fund its planned activities and less likely to spend valuable teaching and management time responding to funding shortages.
- **Educational** – The school needs to have the right resources to support the changing needs of the curriculum and the mix of pupils (e.g. inclusion of special educational needs pupils). A good budget will allocate resources to these areas of need or development and therefore helps the school to achieve its aims.
- **Image** – A school that is managed well financially is likely to have a better external and internal image than a school with budgetary problems. Where there is competition for resources (pupils, staff and sponsorship etc) a school with a positive image may fare better.

3. Multi and Three Year Budgets

There should be annual and multi-year budgets. An annual budget is an absolute requirement as part of the local authority's own budgeting arrangements (schools' accounts are part of the LA statutory account). Ideally, these annual budgets for the school will be prepared in the context of a longer term financial plan covering at least three years that takes account of issues in the SDP, such as:

- Forecast pupil numbers, likely staffing profile etc.
- Longer-term improvement and development aspirations

In this way the longer term financial plan or budget can help to demonstrate the sustainability of the SDP – see Section 5 below.

4. Planning the Annual Budget

The Annual Budget runs from the 1st of April each year. Schools may face difficulties if they leave their budget planning until they are advised of their final School Budgets in February/March, weeks before the start of each new financial year. However, by preparing a draft budget in the winter (see the Budget Planning Cycle at Section 22) schools will have already indicated likely expenditure levels and therefore approximate income requirements for the forthcoming year. The following should be considered:

- **Income:**
 - The schools formula budget typically accounts for over 90% of annual school income. This funding is determined by school pupil numbers and therefore the **October Pupil Census** return will form the basis for income levels for the new financial year.
 - **In addition there may be other sources of income such as Pupil Premium, 6th Form, Devolved Formula Capital, High Needs Top Ups etc and private income which should be taken into account.**
- **Expenditure** – Staffing costs in schools typically account for between 75 to 85% of the overall school expenditure and premises costs 10 to 12%. It is therefore important to forecast likely costs in these areas early in the calendar year. Again, once the Pupil Census return is complete in **October**, provisional arrangements can be made in estimating the staffing requirements from the new academic year Curriculum Planning timetable. The School's ICT and Premises Development Plans can also be costed and prioritised at this stage and put into the provisional budget figures.

5. Linking the Budget to the School Development Plan (SDP)

This document may go under different names, such as a 'School Development Plan', a 'School Improvement Plan' or the 'Post-Inspection (Ofsted) Action Plan'. Whatever its name, it is a high-level strategic planning document covering all the school's activities over a period of three or four years. There is no prescribed format for the plan. However, this document will demonstrate the quality of the school's leadership and direction and Ofsted inspectors will look at it closely during inspection.

To ensure that the SDP is viable and that its implementation is feasible, it should be supported by a financial plan or multi year budget covering the same period. When drawing up the plan, it is important that:

- The first year of the SDP must be fully costed with subsequent years showing indicative costing

- the multi year budget should be seen as the financial expression of the SDP.
- timetables for the devising of the SDP (and for other plans referred to below in Section 6) are integrated
- the same group of staff have responsibility for devising, planning and setting the budget
- the SDP does not become unrealistic through a disproportionate focus on the costs of initiatives in year 2 and year 3.

6. Other Plans that require Linkage to the Budget

It is good practice for the SDP to summarise the information from other, more detailed, long term strategic plans to show how the allocation of resources and the budget for the year supports the priorities identified in the plans. These plans might include, for example:

- Asset Management Plan;
- Premises Development Plan;
- Staff Development Plan;
- IT/ICT Development Plan;
- Local Authority Plans;
- Central Government Plans; and
- **Ofsted Reports.**

7. Financial Benchmarking & Self-Assessment

Through the recording of income and expenditure at ledger code level schools are able to report through “Consistent Financial Reporting” their costs to the Department for Education (DfE). This data is uploaded on to the benchmarking website <https://sfb.teachernet.gov.uk/login.aspx> where schools can compare their costs with specific schools or statistical neighbours. This allows schools to identify areas for meaningful challenges as to how and why particular budgets are set before embarking upon their own budget calculations.

Schools can also analyse historical data for their individual school allowing them to challenge the amounts and trends in their own budgets.

Schools have the ability to improve value for money and alter budgets they may set by essentially “Self assessing”. The Audit Commission tool in particular for schools <http://www.audit-commission.gov.uk/2011/03/better-value-for-money-in-schools/> looks at:

- the deployment of classroom staff, including class sizes and allocation of teachers and teaching assistants;
- the breadth and focus of schools’ curriculum offer;
- approaches to covering for staff absence, including supply teachers; and
- the size, cost and composition of the wider (non-teaching) school workforce.

Benchmarking can be carried out at any time; however the most up to date data is usually available in August each year.

8. Budget Additions and Deductions throughout the Financial Year

Schools may receive additions or deductions to their budget. These additions and deductions must be accounted for when planning a budget. They could include:

- 14-19 Bursary Fund;
- Pupil Premium adjustments;
- Mainstream 6th Form and High Needs Element;
- Devolved Formula Capital;
- Summer Schools; and
- Primary Schools Sports Funding.

These additions and deductions should be accounted for on the school budget proposal alongside any carry forwards or deficits that have materialised.

9. Estimating Staff Salaries and the Three Year Expenditure Planning Tool

Staff salaries are the largest constituent part of a schools budget. In percentage terms it can range from 75% to 85% of the total budget set. The percentage very much depends upon the priorities set by the school in their SDP.

When calculating salaries, schools must consider the following:

- Pay awards
- National Insurance
- Superannuation (pension)
- Increments
- Pay Protection
- Special or extra allowances (e.g. PPA cover)
- Maternity Cover
- Secondments
- Overtime

LGSS Schools Finance provides all schools with a three year expenditure planning tool, which allows schools to calculate all their staffing costs. These staffing costs can be modelled with “what if” scenarios and can be projected for a further two years. There is also a Salary Calculator on the LGSS HR for Schools website which provides non-teaching staffing costs.

A revised 3 Year Expenditure Planning Tool will be published by LGSS Schools Finance in January each year which will incorporate the latest national insurance and superannuation rates.

When budget planning results in a potential need to reduce staffing levels, schools should ensure that they liaise with their LGSS Finance and HR Advisors (**or external service provider if applicable**) as specific NCC policy applies to making staff redundant which must be followed.

10. Forecasting Operational Expenditure

There are a number of expenditure items in the school that may be incurred to ensure the school can undertake its daily activities. These include:

- Utilities
- Cleaning Contract
- Business Rates
- Repairs & Maintenance
- Insurance Services
- Postage
- Telephones
- Examinations & Assessments
- Service Level Agreements

All of the above may be subject to annual inflation which should be factored into any spending plans.

11. Allocating Curriculum Department Budgets

A formula based system of setting the curriculum budgets can be applied. The formula is driven by multiplying the *number of pupils x number of classes* for each curriculum department in all year groups. Of the resultant point scores, additional weighting is given to those subjects with higher consumable costs, and all sixth form points are attributed an extra 20% weighting.

A costed SDP sets the framework for the total curriculum budget. Subject leaders submit a bid focussing on the priorities of the SDP. The budget submitted should be shaped to incorporate:

- Money for equipment
- Supply cover for non-contact time to realise plans
- Training requirements , including course costs & cost of supply
- Specific ICT requirements
- External grants that can be bid for
- Time to meet with inspectors or advisors

The leadership team should evaluate the bid and feedback decisions to subject leaders. Their decision must be based upon the following criteria:

- The link between the development of the subject and the school's priorities for the children.
- That the principles of best value have been met.

The above process empowers the subject leaders and therefore engenders accountability.

12. Forecasting the ICT Budget

The ICT Development Plan is a three-year development plan for the school. The ICT plan incorporates all required ICT investments including:

- Hardware
- Software
- Staff Training
- Developmental projects

The School ICT Development Plan should include investment for future IT needs with a priority rating score to show which programmes are to be undertaken first. Each project is scored 1, 2 or 3 under the following criteria:

- **Priority 1** – Essential to school operational needs including curriculum timetable, statutory requirements, a health and safety need
- **Priority 2** – Standards driven project likely to impact on teaching and learning
- **Priority 3** – Other investments and development plans

13. Prioritising the Premises Development Plan (PDP)

The PDP is a three-year development plan for the school. The PDP incorporates all required premises investments including:

- Structural and other building investments required as a result of the Asset Management Plan (further details are contained in the NCC Property Management Book)
- Classroom and general space refurbishments
- Office space refurbishments
- External space investments
- Health & Safety, including security

The plan should include a rating system to indicate which programmes are to be undertaken first. Each project is scored 1, 2 or 3 under the following criteria:

- **Priority 1** – Essential to school operational needs including curriculum timetable, statutory requirement, Health & Safety need, Asset Management priority
- **Priority 2** – Standards driven project likely to impact on Teaching & Learning
- **Priority 3** – Other investments and development plans

14. High Needs Funding

Funding for mainstream High Needs pupils in Primary and Secondary schools is now split into 3 elements as follows:

- Element 1 – core education funding;
- Element 2 – additional support funding (£6k); and
- Element 3 – top up funding where individual pupils have significant additional needs.

High Needs Elements 1 and 2 funding is now included in schools formula budgets.

High Needs Element 3 funding is provided automatically for statements finalised before 1st April 2013 or in other instances is subject to an application process through the High Needs Panel.

15. Budget Profiling

Profiling is the practice of predicting the pattern of expenditure across the financial year. This is important, as some parts of a school budget do not occur evenly each month of the year. Profiling is essential for salaries where both the expenditure level is high and the costs can be variable if staffing levels are to alter during the year. Other budget headings that should be profiled include energy where costs range throughout the seasons.

16. Surpluses (Carry Forwards)

The NCC Scheme for Financing Schools sets a cap on carry forwards for schools i.e. 8% for primary schools and 5% for secondary schools (of the budget issued) or a minimum carry forward allowed for any school of £20,000. This is considered to be a reasonable amount to take into account any unforeseen circumstances

In addition, there are allowable exceptions when planning surpluses (which should be taken into account before applying the 5% or 8% cap) which are shown in the latest version of the Scheme.

Whilst schools are permitted to have a limited carry forward (contingency for unforeseen requirements), this should be one of the first areas to be considered when schools are making budget plans, particularly when such plans might involve a reduction in staffing levels.

Schools should also look at all possible savings to avoid redundancy.

17. Deficit Budgets

Following the above process of budget planning, prioritisation against other plans, benchmarking and making full use of any contingency available a school may find that they are unable to set a balanced budget for the following financial year.

In this event the following will apply:

- Advice should be sought in the first instance from LGSS Schools Finance to review the school's proposed budget plan to see if there is any area which might be further reviewed and whether long term the school the school is able to afford its staffing structure.
- Where there are implications for staffing levels, then further advice should be sought from the school's HR provider where specific policy must be followed in the event of any proposals to make staff redundant. Where possible, it is often helpful for the HR provider and LGSS Schools Finance to

meet jointly with the school to discuss the staffing structure and timeframe for any proposed changes.

- Where a school can demonstrate that achieving such a balance within the next financial year will prove to be severely detrimental to the functioning of the school, the local authority may approve a licensed deficit for up to three years by which time the school will be expected to return to a balanced budget position.

Schools should refer to the NCC Deficit Budget Policy in the first instance.

18. Submission of the Budget Proposal

When the final budget information has been issued, a budget proposal form is provided by LGSS Schools Finance for schools to submit their proposed budget. The budget will be checked by finance staff for reasonableness and then confirmed to the school. Schools should note that the use of balances must also be included on the Budget Proposal Form.

19. Cash Flow Management

Cash flow is a matter to be considered both during the budget setting process and the course of the year.

Schools need to prepare cash flow forecasts to ensure that they will have sufficient funds to meet their expenses month by month during the year. Cash flow forecasts do not need to be completed in excessive detail and broad categories of income and expenditure are sufficient.

These forecasts recognise that income and expenditure does not arise evenly each month and will greatly inform the development of the **budget profiles** referred to at Section 15 above. With the exception of most payroll costs, expenditure items are markedly seasonal with, for example, peaks of utility costs arising during the winter months.

Managing the cash flow should be part of the monthly financial management procedures and completed as part of the month end close down process.

20. Best Value

Best value principles usually prescribe the use of the four “C’s”.

- Challenge – why, how and by whom the service is carried out.
- Compare – performance against other schools.
- Consult – involving stakeholders especially parents and pupils.
- Compete – as a means of securing efficient and effective services.

Schools must demonstrate best value at all times from quotations to strategic decision making.

21. The Budget Planning Cycle

The following provides a guide for school management to the annual sequence of events for budget planning and submission:

MONTH	EVENT	REMARKS
August	DfE provides latest CFR Data on the Benchmarking website	Provides data for benchmarking.
October	Pupil count.	Forms basis for following year school budget allocation
November/ December	Funding levels for following financial year announced by DfE.	
November to January	Budget preparation process in schools – where staffing levels affected, seek advice from LGSS Schools Finance and HR provider. Where potential deficit identified seek LGSS Schools Finance advice.	
February/ March	Final Budget allocation notified to schools.	
April	Governors agree budget plan for year and submit Budget Proposal Form to LGSS Schools Finance for approval. Application for deficit budget submitted if appropriate.	
May/June	Budgets approved by LGSS Schools Finance/deficit budgets authorised.	

22. Budget Monitoring

Regular monitoring of income and expenditure against the agreed budget is central to effective financial management. It allows governors, headteacher, bursar and staff to maintain financial control by reviewing the current position and taking any remedial action necessary.

It is essential to closely monitor the budget because:

- The school may realise extra funding during the year leading to a larger surplus than expected, in which case the school may wish to meet some requests for additional funding that had previously been put on hold.
- Unexpected expenditure may occur, e.g. building works in the summer may overrun budget, or additional members of staff may be required.
- There may be a shortfall in expected income, such as lettings or private income.

- The number of pupils arriving in September may be more or less than the actual figures reported in the **previous October Pupil Census and differ to those assumed when the school's budget was prepared/submitted.**
- Other initial assumptions in preparing the annual budget could be wrong

It is highly recommend that schools produce the following reports from FMS6:

- **A Cost Centre Summary Report** which provides a summary report for Governors to scrutinise all budget headings and income/expenditure recorded on the school accounting system. This should be supported by a narrative report to explain particular areas as necessary.
- **A Cumulative Expense Analysis Report** which provides a detailed report for the Bursar and Head to monitor all income and expenditure against the budget on a monthly basis and take action where necessary including submitting reports to governor meetings.

23. Useful Links

LGSS Schools Finance website:

http://www.northamptonshire.gov.uk/en/councilservices/educationandlearning/services/schlfm/pages/budget_funding.aspx

DfE Funding:

<http://www.education.gov.uk/schools/adminandfinance>

CFR Benchmarking:

<https://sfb.teachernet.gov.uk/login.aspx>

SFVS:

<http://www.education.gov.uk/schools/adminandfinance/financialmanagement/Schools%20Financial%20Value%20Standard/a00192114/schools-financial-value-standard-sfvs>

Audit Commission:

<http://www.audit-commission.gov.uk/2011/03/better-value-for-money-in-schools/>

24. Further Advice and Assistance

Schools requiring further advice or assistance with the budget setting process should contact their Finance or HR Advisor who can arrange for a visit to the school if required:

Finance email enquiries: Finschools@northamptonshire.gov.uk