



FINANCIAL MANAGEMENT

Financial Planning in Schools

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London Borough of Haringey
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Haringey
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Budget Monitoring in Schools

Budget monitoring is an on-going process by which the schools ensures that the financial objectives of the schools have been achieved.

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Notes:

ESFA – Education & Skills funding Agency

DfE – Department for Education

LA – Local Authority

VFM – Value for money

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INTRODUCTION

The fundamental aim of this guide is to help schools understand and prepare Annual budget. There is also a guidance on budget monitoring so that schools can manage their budget efficiently, effectively and economically.

Schools Financial Regulations set out the internal controls and procedures to be followed by schools when developing and monitoring their financial budgets.

The manual follows the same structure and order as the financial regulations but is designed to give detailed assistance to schools in designing processes to record and demonstrate compliance with regulations.

In any case where conflict is perceived between this manual and the schools' financial regulations then the regulations will apply.

If a school has difficulty in interpreting the regulations or this corresponding financial manual, they should contact Haringey Schools Finance Team. Sections 45-53 of the School Standards and Framework Act 1998, the annual School Finance (England) Regulations and elements of the Haringey Scheme for Financing Schools also contain regulations supporting this section of the Schools Finance manual

ACCOUNTABILITIES AND RESPONSIBILITIES

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

1. Approval of Annual Budget
2. Authorisation of the 3 years financial plan
3. Setting financial priorities through the School Development Plan
4. Determine of the staff complement and pay policy for the school
5. Approve of Best Value Statement
6. Authorisation of non-budgeted expenditure and virements.

While the day to day responsibility and management of the budget is usually delegated to the Headteacher. The Headteacher in turn will normally rely upon a School Business Manager or Financial Manager/Administrator for support. A Governing Body approved schedule of roles and responsibilities (delegations)

must be in place to ensure that all employees are aware of their responsibilities and roles.

If an externally provided financial advice service is used to assist with accounting and budget setting/monitoring procedures, then responsibility for the budget and meeting deadlines set by the local authority, the DfE or grant awarding bodies remains with Governors and the Headteacher.

NEW ROLE OF SCHOOL BUSINESS MANAGER

Schools should appoint a suitable qualified School Business Manager and to whom responsibility for the school's financial management is delegated. The SBM should play a strategic business partnering role to support school's leadership team.

Schools should assess whether the SBM and others holding key financial posts, should have a business or accountancy qualification and hold membership of a relevant professional body, dependent on the risk, scale and complexity of financial operations.

The changing role of SBM is given below and school should ensure all SBM have been given training on the following areas to support an effective finance function to support financial management in the school.

Strategic Support Role

- Communication
- Sensitivity analysis of data
- 3 years budget forecasts
- Benchmarking
- Trend Analysis
- Ratio analysis
- Worst case and best-case budget forecasts
- Curriculum led Financial planning

Business Partnering Role

- Regular department visits
- Supporting HDs and departments
- Budget holder's involvement in budgets
- Review quarterly forecast with HDs
- Review long-term forecast in line with current year's forecast
- Support with re-structure
- Ownership
- Importance of HD input and feedback

Technology	Risk Management Role
<ul style="list-style-type: none"> • Web-based budget preparation tools • Dashboard reporting • Web-based Risk register • Advanced Excel training 	<ul style="list-style-type: none"> • Update risk register • Review Risk Matrix with the head teachers • Feedback on Risk management and discuss the risk mitigation plan

BUDGET PLANNING

In order to elucidate and expand on school budgeting process, we will like to define school 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)

Hence: All Schools are required to:

- Set realistic budget and have satisfactory systems in place to ensure both the budget setting and regular reporting is robust.
- Monitoring reports to head teacher and Governors are robust.
- Produce detailed income forecast; which is normally comprised of the school formula funding that account for 90% of school income.
- Produce detailed expenditure forecast, however, the expenditure should not exceed budgeted income.
- Local Authority will specify minimum information to be contained in budget plan
- Precise format of a budget plan will be in accordance with the Consistent Financial Reporting (CFR) format as set by the Government and approved by the Governing Body.
- Once the budget plan is approved by the Governing Body it must be submitted to Haringey Schools Finance Team

The budget setting process is an essential part of internal financial control, as it provides a system of planning, coordination and control for senior leadership

team. The council suggest all schools to adopt integrated curriculum financial planning when using the following budget techniques below:

Budget Techniques

1. **Incremental budgeting**
2. **Zero-based budgeting**

Incremental Budget

Incremental budgeting technique involves budget prepared based on current year's performance as a base, with incremental amounts added for the new budget period.

However, the followings points are important to consider when using these techniques:

1. Adjustment for inflation
2. Adjustment for changes in PayScale
3. Adjustment for changes in Employer's Pensions contributions

Advantages	Drawbacks
1. Easy to prepare	1. Assumed all historic costs are still needed
2. Less preparation time needed	2. No justification for existing costs
3. Impact of change can be seen quickly	3. No Performance target for the budget holders

Zero Based Budgeting

Zero-based budgeting starts budget process from a zero base, with no reference to the prior year's school's performance. This technique achieves an optimal allocation of resources to the area of the school, where they are most needed in order to raise teaching and learning standards.

While preparing zero based budgets, headteacher with the help of SBM must consider the following:

1. Is the cost activity necessary for the school?
2. What would be the impact if they do not continue such activity?
3. Are there other ways to carry out the activity, achieving VFM?

4. Is the current level of provision adequate?
5. How much should the activity cost, advice on procurement?
6. What did they achieved in the past from the activity at least match the costs?

Advantages	Drawbacks
1. All activities are re-evaluated	1. Skills and time
2. It encourages bottom-up approach	2. Raking priorities may be difficult in school
3. Respond to changes in the current funding regime from one year to another	
4. Efficient utilisation of schools' budget allocation	

TIME FOR CHANGE

Integrated Curriculum Financial Planning

Haringey Council require all schools to use new way of planning their budget in order to meet changing need of the current funding system. No matter what technique currently use, integrated curriculum financial planning will help you to manage and control your budget effectively.

Integrated curriculum financial planning creates a direct link between school's curriculum need and funding available to schools. The key characteristics of integrated curriculum led financial planning are given below:

- Establishing a long strategic plan for your school.
- Review your school's pupil number forecast for the next 3 years.
- Identifying an affordable curriculum to achieve the teaching and learning standards based on pupil data.
- Involve senior leadership team and departmental head in budget planning exercise
- Benchmarking your school's performance against similar schools.

Setting Key Performance Indicators

- Affordable pupil-to-teacher ratio
- Sustainable leadership structure
- Economies of scales
- Pupil number projection for the next 3 years
- Procurement threshold for all level of expenditure

-
- Fully costed short/medium, medium/long-term maintenance plan
 - Industry average data

Allocating Budgets

When budgets are allocated, they should be set in CFR format and the following steps should be taken:

1. The initial budget should be compiled in consultation with the budget holders.
2. Responsibility for each cost Centre must be delegated to a named budget holder.
3. The final budgets should be reviewed by the headteacher and schools' governors for approval.
4. The outcome of any budget decisions should be communicated to all relevant budget holders
5. The department should be clear on who is monitoring expenditure against budget and/or is accountable for the use of the budget

Profiling the Budget

Profiling a school's Income and Expenditure budget (which should not be confused with its Cash Flow Forecast) is very important for budget monitoring purposes.

Budget Profile; will allow a school to compare actual Income and Expenditure against budgeted amount. Any variances will be indicated and allowed the school to take appropriate measures.

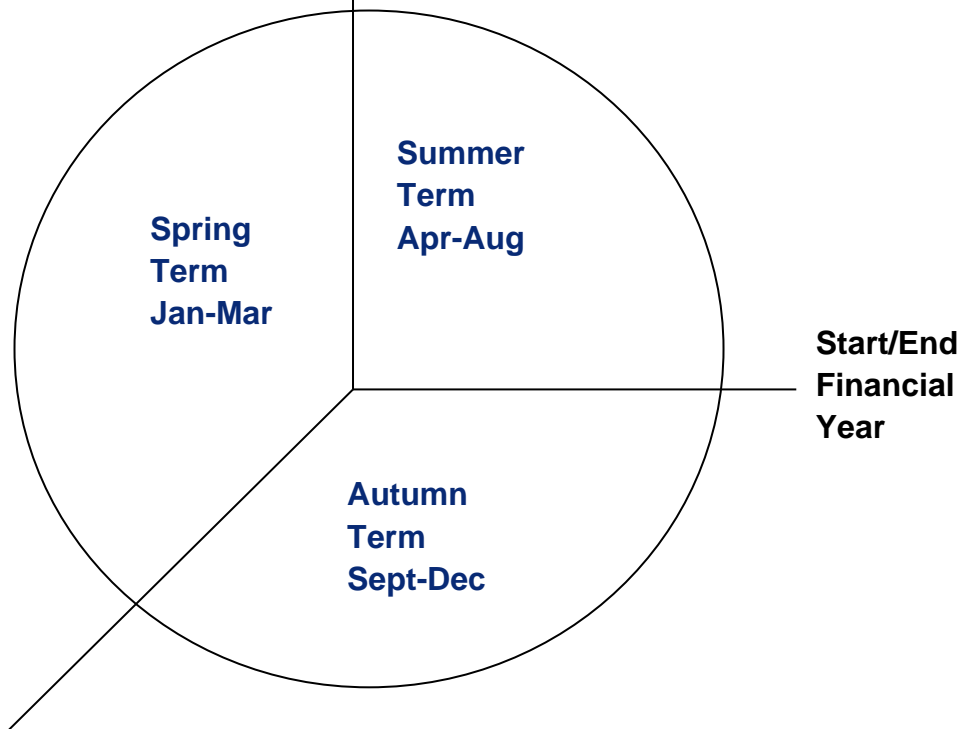
Examples: of a budget profile; budget cycle and Consistent Financial Reporting (CFR)

- **Salaries and Wages:** Usually paid monthly or weekly
- **Other staff costs:** Usually paid in arrears and have different payment dates from salaries (Examples: Income Tax, National Insurance and Pension)
- **Utilities:** Normally paid on a quarterly basis. Heating and lighting will be weighted more to winter months
- **Educational Supplies:** Often required earlier in academic year
- **Catering:** Need to review historic pattern

THE BUDGETARY CYCLE

Monitoring and Reviewing of year's budget outturn
Pre-planning new financial year
Preparation of 3 years Budget plan
Closure of financial year

Implementation of current budget plan
Monitoring and Reviewing of Actual Vs Budgets
Review of current year's budget
External Audit



Start/End Academic Year

Planning for forthcoming academic year
Monitoring and Reviewing of Actual Vs Budgets
Reconciliation of controls accounts (payroll, VAT)

CONSISTENT FINANCIAL REPORTING (CFR)

The consistent financial reporting (CFR) framework provides a standard template for schools to collect information about their income and expenditure in the financial year.

The Government has introduced CFR as a standardised national reporting framework to:

- Improve schools' accountability
- Ensure minimum standards of financial reporting
- Improve schools' ability to manage finances
- Enable data to be transferred electronically from schools to the ESFA and then to the DfE to support benchmarking and enables comparative reports to be produced for governors and local authorities.
- Provide a small number of standard expenditure and income headings

REVENUE INCOME	
I01: funds delegated by the local authority	I02: funding for sixth form students
I03: high needs top-up funding	I04: funding for minority ethnic pupils
I05: pupil premium	I06: other government grants
I07: other grants and payments received	I08a: income from letting premises
I08b: other income from facilities and services	I09: income from catering
I10: receipts from supply teacher insurance claims	I11: receipts from other insurance claims
I12: income from contributions to visits etc.	I13: donations and/or voluntary funds
I15: pupil-focused extended school funding and/or grants	I16: community-focused school funding and/or grants
I17: community-focused school facilities income	I18: additional grant for schools

CAPITAL INCOME	
CI01: capital income	CI02: Don't use
CI03: voluntary or private income	CI04: direct revenue financing

REVENUE EXPENDITURE	
E01: teaching staff	E02: supply teaching staff
E03: education support staff	E04: premises staff
E05: administrative and clerical staff	E06: catering staff
E07: cost of other staff	E08: indirect employee expenses
E09: staff development and training	E10: supply teacher insurance
E11: staff-related insurance	E12: building maintenance and improvement
E13: grounds maintenance and improvement	E14: cleaning and caretaking
E15: water and sewerage	E16: energy
E17: rates	E18: other occupation costs
E19: learning resources	E20: ICT learning resources
E21: examination fees	E22: administrative supplies
E23: other insurance premiums	E24: special facilities
E25: catering supplies	E26: agency supply teaching staff
E27: bought-in professional services: curriculum	E28a : bought-in professional services: other (except PFI)
E28b: bought-in professional services: other (PFI)	E30: direct revenue financing (revenue contributions to capital)
E31: community-focused school staff	E32 Community-focused school costs

CAPITAL EXPENDITURE	
CE01: acquisition of land and existing buildings	CE02: new construction, conversion and renovation
CE02: new construction, conversion and renovation	CE04: information and communication technology

A complete guidance to help schools collect information about their income and expenditure, download a complete guide on **“Consistent financial reporting framework”** from the link: <https://www.gov.uk>

BUDGET MANAGEMENT

Budget monitoring is an on-going process by which the school ensures that the development/improvement plan is achieved, in terms of its expenditure and income objectives.

Budget monitoring ensures that resources deployed by the school are used for their planned purposes and are properly accounted for internally and where necessary effectively reported to external bodies.

This will ensure the economic, effective and efficient use of resources and aid the identification of potential (underspend) opportunities and/or (overspend) issues and allow corrective action to be taken.

The headteacher and governing body are responsible for monitoring the budget, but they may delegate authority to others within the school.

However, the headteacher and governing body cannot delegate their responsibility for the management of resources (income and expenditure) within their budget.

The budget monitoring should be at a regular interval (at least monthly) for Head Teachers and Termly for Governors) to help ensure, schools have the confidence that they are in control of their budget.

The monitoring should be robust to ensure planned objectives are on track and provides enough time for remedial actions to be taken.

All schools are required to submit their budget monitoring reports along with other financial information to Haringey School Finance team.

1. Schools in surplus submit accounts by the 15th of the following quarter
2. Schools in deficit submit their accounts by the 15th of the following month

If 15th falls on weekend, the submission deadline will be the following Monday.

Submission timetable	Schools in surplus	Schools in deficit
Budget monitoring report	Quarterly	Monthly
CFR Report – I&E	Quarterly	Monthly
Balance Sheet	Quarterly	Monthly
Cash Flow forecast	Quarterly	Monthly
VAT	Monthly	Monthly

For budget monitoring to be efficient and effective:

Regular meetings between the Head of Department and the individual budget holders should be held about their budgets.

If you require support, help and guidance, to produce budget monitoring reports please contact schools finance team at Haringey.

Governors should review the budget on a quarterly basis to ensure any variances identified and actions taken to ensure the school budget come in line with budget.

The budget must be monitored and reported on a regular basis.

- a. Approved budget to be entered onto the finance system at the commencement of the new financial year
- b. Returns made to Haringey Schools Finance as required
- c. Reports to full governors' meetings and Resource Committee meetings in format required by the governors, on termly/half termly basis
- d. Headteacher to receive monthly written report from the SBM.
- e. Budget holders to receive regular reports from the finance department on their relevant cost centre.
- f. Headteacher/School Business & Administration Manager to monitor expenditure to ensure it is in line with budget plan and that it does not exceed income
- g. Headteacher/ School Business Manager to ensure all income and reimbursements are collected promptly
- h. Headteacher/ School Business Manager to immediately alert governors of any variances to the budget plan

Revisions to Budget Plans

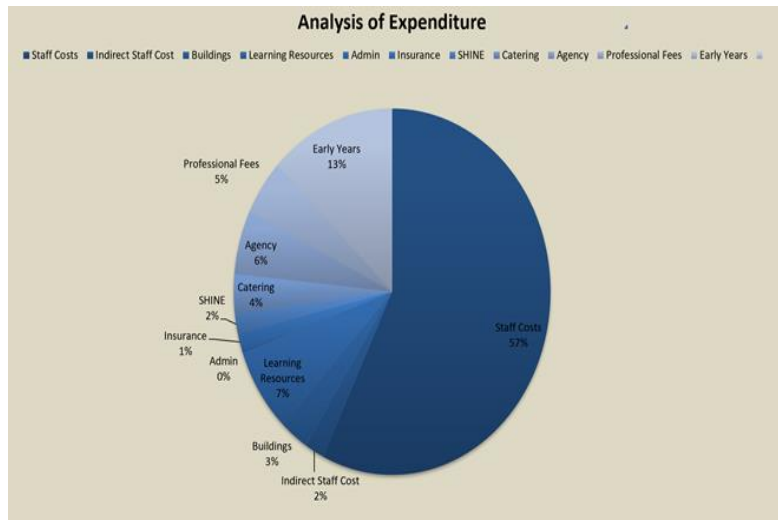
During the year it may become necessary for the Governing Body to agree changes (virements) to the original budget. When this happens, the school will submit details of the approved changes to the local authority on the virement forms provided. These will normally be sent to the local authority with the Quarterly Monitoring Returns.

If the local authority deems it necessary schools may be required to submit revised budget plans. This would only occur if it became evident that the Governors approved budget was not sustainable.

Monitoring to Budget Plans

Budget is the driving force of every schools and that's why it is important that schools should have budget control indicators in place.

These Indicators will help guide schools towards financial stability and ensure they are financially viable.



Budget Control Indicators

1. Key Performance Indicators

Examples

- Number of teaching staff FTE (No of pupil on roll divided by 20)
- Senior Leadership Team FTE (1 per 200 pupils on roll)
- Support Staff FTE (No of pupil on roll divided by 40)
- Percentage of Salaries to overall budgets
- Percentage of total income generated to overall income

2. Budget Vs Actual Vs Forecast

Examples

- Variance analysis
- Threshold for further analysis

3. Ratio Analysis (Scoring model for ration analysis)

Examples

- Profitability ratio
- Liquidity analysis
- Cash flow ratio

4. Breakeven Analysis

Examples

- Minimum number of pupils on roll to breakeven
- Total incoming = Total costs

Monthly monitoring of expenditure is essential for all schools. Haringey Council would like to see that schools have controls in place to ensure that budgets are managed and monitored effectively.

To monitor income and expenditure, SBM will need following information:

- a. Annual budget for the schools and profiled for the year to date.
When profiling the budget, planned expenditure patterns should be considered. You can see how to profile your school budget in above sections.
- b. Actual expenditure for the period
- c. All open purchase order and future expenditure commitments
- d. Brought forward balances
- e. Carry forward analysis after meeting all commitments for the year.
When actual expenditure and commitments together are compared to the full year budget, this will indicate the balance of budget remaining at the review point
- f. Budget outturn for the year. This is the expected position against budget at the end of the year after considering all anticipated expenditure along with variance analysis.
- g. Analysis and explanation of any positive or negative variances with comments
- h. Action plan for variance analysis

The monitoring of expenditure against budget should be regularly undertaken at an overall level by the Head of Department and the head teacher at a more detailed level by the individual budget holders.

3-year Forward Plan

Schools must carry forward from one financial year to the next any surplus/deficit in net expenditure relative to the school's budget share for the year plus/minus any balance brought forward from the previous year.

Taking the above into account, schools should not normally plan their budget to achieve a surplus balance at year end. It is, however, prudent to include a contingency in the budget to provide for unforeseen items.

The Department of Education will require local authorities to include within the Schemes for Financing Schools a mechanism for controlling surplus school balances above certain threshold.

In order to allow the local authority to monitor school balances effectively, Governing Bodies are required to advise the local authority on the Intended use of surplus balances (after taking account of any retrospective adjustments). Especially in cases where the total balance exceeds 5% for secondary school and 8% for Primary.

Any uncommitted surplus balances at the end of the financial year may be subject to a claw back by the Haringey Council. The criteria for claw back are set out on the council's Scheme for Financing Schools and will be the subject of further guidance from the authority.

Borrowing by Schools

“The scheme should contain a provision reminding schools that governing bodies may borrow money (which includes the use of finance leases) only with the written permission of the Secretary of State.

However, the Secretary of State's general position is that schools will only be granted permission for borrowing in exceptional circumstances.

From time to time, the Secretary of State may introduce limited schemes, in order to meet broader policy objectives.

The scheme must contain a provision that allows schools to use any scheme that the Secretary of State has said is available to schools without specific approval, currently including the Salix scheme, which is designed to support energy saving.

Following consultation, the Secretary of State directs that from 22 March 2018 the text below shall be incorporated into the schemes of all local authorities in England.

The loan may be used:

1. Loans will only be used to assist schools in spreading the cost over more than one year of large one-off individual items of a capital nature that have a benefit to the school lasting more than one financial or academic year
2. Loans will not be used as a means of funding a deficit that has arisen because a school's recurrent costs exceed its current income.
3. If loans are made to fund a deficit and a school subsequently converts to academy status, the Secretary of State will consider using the power under paragraph 13(4)(d) of Schedule 1 to the Academies Act 2010 to

make a direction to the effect that such a loan does not transfer, either in full or part, to the new academy school.”

(Source: Statutory guidance Schemes for financing local authority maintained schools)

License Deficit

The Scheme for Financing Schools permits schools in an extreme circumstance to apply for licensed deficit for a maximum period of three year. These are subject to various limitations. For further details refer to licensed deficit policy for schools.

School will need to comply with the following procedure before council can approve their application for the cash flow advance:

1. Three years budget forecast
2. Deficit recovery plan if schools in deficit
3. Cash flow forecast for the next 12 months
4. Benchmarking analysis or Income, expenditure, balances and workforce comparison

The local authority monitors the control of school deficits by ensuring that all such deficits are contingent upon an approved and monitored recovery plan.

The local authority has the power to write off the deficit balance of a school only in exceptional circumstances, such as a closure or amalgamation.