

## Section B: Financial planning

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### Why is this area important?

Financial planning is an essential part of good financial management. It provides a school with a clear view of how it intends to use its resources. It has two interrelated elements: the School Improvement Plan and the school's budget.

The School Improvement Plan forms a major building block for constructing the budget. It identifies the school's educational priorities and usually has a strong focus on raising standards (or maintaining high standards). It is important, therefore, that the School Improvement Plan indicates the resource implications of each priority to guide decisions on the school's budget.

The School Improvement Plan should reflect the decisions made about the cost-effectiveness of the options considered, and should indicate ways in which the progress of an initiative can be monitored. An evaluation framework should also be built into school improvement plans to assess the success of each initiative. A summary of ongoing spending also needs to be included in the improvement plan so that there is a clear link between the school's priorities and spending plans.

Budgeting is essential to good financial management. The budget sets out how resources are allocated and provides a mechanism for monitoring expenditure through the year. It should be the concrete expression of the School Improvement Plan. It provides a coherent framework, which allows staff and governors to see how the school's spending will help the school achieve its targets and other objectives. Clearly identified links are, therefore needed between the school's annual budget and its improvement plan.

Good budgeting means not running into deficit, but equally not carrying large balances of unspent money from year to year without good reason. This means considering how the budget for a particular area of spending will balance out over a longer period than the next financial year. Surpluses beyond 5% (*secondary*) or 8% (*primary, special and nursery*) of the planned budget share should only be allowed to accrue for a specific purpose, such as to smooth out any variations in staffing as a result of fluctuating pupil numbers.

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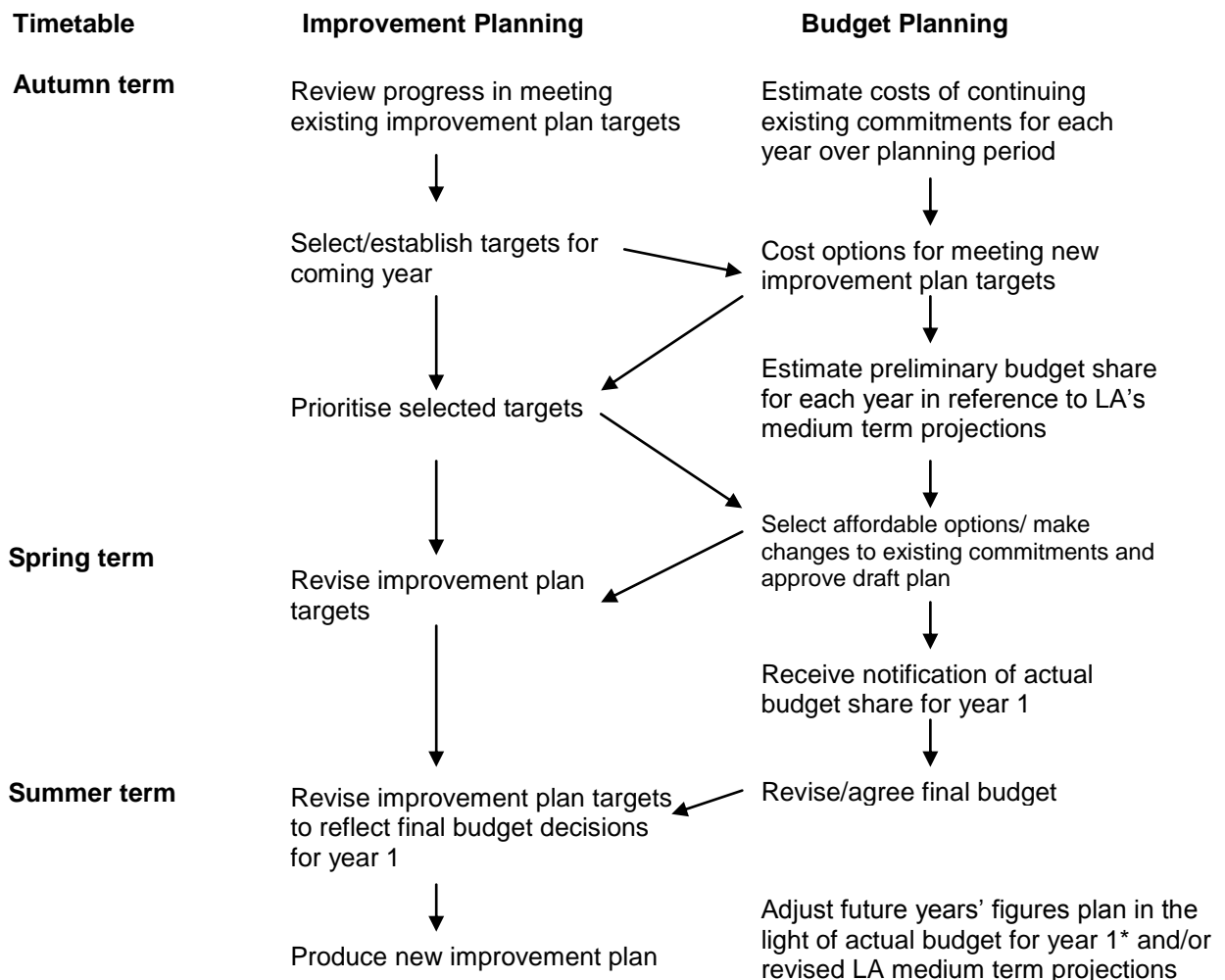
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## KB STD B 1

### Development and budget planning

The school should have a School Improvement Plan (SIP), which includes a statement of its educational goals to guide the planning process.

- 1 Concern has been expressed by the Audit Commission that schools generally lack a clear link between the budget and the improvement plan.
- 2 The DfE advises on a process for producing the improvement plan which seems equally applicable to large schools. We have adapted this to include medium term planning. Set out below is an example showing how schools can document improvement planning as a four-stage process.
- 3 An integrated approach to improvement and budget planning:



\* Alternatively undertake this in the autumn term

#### 4 Improvement planning as a four stage process

Stage 1 – Review	This will examine the present situation, and then identify specific objectives for improvement in the next year and beyond.
Stage 2 – Priorities	Specific priorities for the curriculum are identified by subject or category for the present and succeeding years <u>and costs should be included.</u>
Stage 3 – Action Plan	Plan with dates and targets to monitor progress.
Stage 4 – Expenditure forecasts	Review current resources to identify spending priorities. Identify resource changes. Budget priorities for current year/ future years. Expenditure forecasts will be considered by finance committee so that a budget can be set.

#### **KYB STD B 2**

##### **Medium term educational and budget plan**

The SIP should cover in outline the school's educational priorities and budget plans for the next three years, showing how the use of resources is linked to the achievement of the school's goals.

- 1 Schools are recommended to consider medium term budgeting to match the period covered by the improvement plan.

#### **KYB STD B 3**

##### **SIP to state school's educational priorities**

The SIP should state the school's educational priorities in sufficient detail to provide the basis for constructing budget plans for the next financial year.

#### **KYB STD B 4**

##### **New initiatives to be appraised**

New initiatives should be carefully appraised in relation to all likely costs and benefits and their financial sustainability before being approved by the governing body.

**KYB STD B 5**  
**Expenditure on continuing commitments**

The SIP should also state intended expenditure on continuing commitments, including a short commentary on any significant changes from the previous financial year.

**KYB STD B 6**  
**Formal procedures for planning the budget**

A formal timetable and procedures should be drawn up for constructing the SIP and budget to ensure that the governors have time to consider all relevant factors.

- 1 The LA has a set budget planning timetable for issuing budget figures to allow schools to prepare estimates of expenditure and income sufficiently in advance of each financial year to allow for consideration and approval by the governing body. Governing bodies should ensure that they schedule their meetings to approve the budget in advance of submission date to the LA. Even if details of the school's funding have not been finalised it is important that the governing body considers spending priorities in the light of the estimated or indicative budget.

The following is the timetable:

<b>January</b>	LA issues Service Level Agreements for schools to consider which services they may wish to purchase from the LA.
<b>January</b>	LA production of school budget allocations for the next financial year, reflecting October school pupil census numbers.  Final budget allocations for the next year
<b>May</b>	School submission of balanced budget by the 1 <sup>st</sup> Friday in May

If schools buy into the Schools Bursarial Service they can obtain support and advice in budget planning.

(See Appendix 4&5 for suggested Timetable for Heads / Finance staff)

**KYB STD B 7**  
**Link between budget and SIP plans**

There should be a clear, identifiable link between the school's annual budget and its improvement plan.

See Standard B1

**KYB STD B 8**  
**Planning for solvency**

The school's budget should be based on realistic estimates of all expected expenditure and income, including grant income, so that planned expenditure does not exceed the available budget.

See Standard B11

**KYB STD B 9**  
**Periodic review of budget**

The governing body should ensure that the main elements of the school's budget are periodically reviewed to ensure that historic spending patterns are not unhelpfully perpetuated.

**KYB STD B 10**  
**Budget profiling**

The head teacher should profile the budget and forecast cash flow to take account of likely spending patterns.

Payroll expenditure is usually profiled over twelve months as salaries are paid each month. Non-payroll expenditure varies. For example, the energy budget should be profiled to account for higher energy consumption in the winter months.

**KYB STD B 11**  
**Budget surpluses to be earmarked**

Any budget surpluses should be earmarked for specific future needs to ensure that pupils benefit from a planned approach to spending that does not deprive them of resources in a given year.

**Deficits**

- 1 Governing bodies are not allowed to plan for a deficit budget unless they have prior approval from the LA for a licensed deficit budget. For approval to be given, schools need to provide an explanation for incurring a deficit and produce a financial plan stating in detail how the deficit will be paid back within a maximum period of three years.

## Carry forward

- 1 “It is appropriate that schools should hold balances as a contingency for specific projects outlined in the Improvement plan. It is the element of balances held for no clear reason which causes concern”. *Audit Commission.*
- 2 The importance of schools considering the level of their balances with care in their budget planning and review processes is crucial. There are many reasons for schools having carry forwards. Any organisation operating to cash limits is well advised to give consideration to whether it needs some level of reserve. In addition, Local Management of Schools’ Budgets provides the opportunity to accumulate funds for specific projects. However, funds put aside from a given year’s budget for no particular purpose will be at the expense of the resources available for the education of the current cohort of pupils.
3. **A new Balance Control Mechanism (BCM) to control school balances was introduced from financial year 2013-14. The mechanism will operate as follows:**
  - a. **The Authority shall calculate by 31 May each year the surplus balance, if any, held by each school as at the preceding 31 March. For this purpose the balance will be the recurrent balance as defined in the Consistent Financial Reporting Framework, including creditor and debtor provisions.**
  - b. **The Authority shall then deduct from the resulting sum: (i) Accruals falling below the year end outstanding provisions limit of £250 per account code (ii) Committed expenditure where orders were placed before 31<sup>st</sup> March but awaiting delivery for goods and services and (iii) any amounts which the school has assigned for specific purposes. These specific projects should be in the School Improvement Plan. All items under this category must have been signed off by the Governing Body prior to the end of the financial year in question. Any funds exempted under this heading cannot be used for other purposes without prior agreement from the Local Authority.**
  - c. **If the result of steps a and b is a sum is the greater of 5% of the total budgeted income for that year for secondary schools, 8% for primary and special schools and nurseries, then the authority shall deduct from the current year’s budget an amount equal to the excess over the 5% and 8% levels as appropriate.**
  - d. **A school may appeal against a decision to deduct excessive school balances. Membership of each Panel will comprise: Chair or the Vice Chair of the Schools Forum and 2 Members (Head teacher or Governor Members) of the relevant “group” of School**

**Members on the Forum to which the school belongs. The two members shall be appointed by the Chair or Vice Chair who is convening a particular panel.**

**e. At year end every school with balances above the prescribed % will need to complete a School Balances form. Any item not clearly recorded in the School Improvement plan will be rejected and may be subject to claw back.**

- 4 The planned level of balances should be the product of a conscious decision formally approved by the governors and linked to the School Improvement Plan. Governing bodies and parents should be fully aware of the actual and budgeted levels of carry-forward at their schools. Governors should be given the information to make considered judgements taking account of all the circumstances about the level of carry-forward for which they are budgeting.
- 5 The practice of holding balances as 'reserves', which are not included as part of the annual budget setting exercise, is not considered appropriate. By including balances in the annual budget, schools will ensure that balances are properly linked into the School Improvement Plan and are not simply held as unspecified contingency funds.
- 6 Inevitably during the year actual levels of balances will tend to deviate from the plan because of unforeseen factors. The level of balances should therefore be reviewed when:
  - I. considering the prospects for the medium term budget.
  - II. in determining the annual budget.
  - III. at the start of the spring term (when schools have a good idea of any expected surplus in the current financial year).
- 7 It is important that balances built up through cautious budgeting should be considered as part of medium term budgeting to determine realistic balances that need to be held by the school, for example to offset specific reductions in financing anticipated in the future.
- 8 The use of all funds carried forward should be clearly documented in the governing body minutes.

## **Contingencies**

- 9 In setting their budgets, schools need to consider not only the level of carry forward but also the level of in-year contingency. Just as the level of carry forward will vary according to individual schools' needs so will the

level of in-year contingency. The contingency itself should be regularly reviewed during the year to ensure this is being fully spent, unless a particular need is identified and recorded to meet a specific purpose in a future year.

- 10** It is now mandatory for all local authorities to include surplus balance controls and operate claw back mechanisms for revenue balances. Under the mechanism, **if the unassigned (Non-Earmarked) balance is a sum greater than 5% (secondary) or 8% (primary and special) of the planned budget share, then the authority shall reduce the school's budget share by the amount equal to the excess.** Please refer to KYB STD B11 Contingency item number 3.

#### **KYB STD B12**

##### **Governing body approval of budget**

The governing body should approve the school's budget and SIP after careful consideration and ***before the beginning of the relevant financial year.***

#### **KYB STD B 13**

##### **Keeping the LA informed**

The head teacher should promptly forward details of the approved budget and any subsequent changes to the LA.

See B6 for budget submission timetable.

### **Expenditure on capital items B14**

#### **Capital Expenditure**

- 1** Capital expenditure is expenditure on items costing more than £10,000 that will provide benefit to the school for more than one year. Such items include expenditure on land, construction work, high value equipment, and vehicles.
- 2** The governing body must formally approve any proposal to incur capital expenditure having first been presented with a detailed report of the proposal, which clearly states all the one-off and on-going financial implications of the proposal, method of financing such costs and any associated risks. The report should also relate the proposal to the objectives and action plan contained within the School Improvement Plan. The governing body must approve any additions to or changes from the original proposal before any commitment is entered into.
- 3** The Financial Regulations and Standing Orders regarding quotations and tendering must be observed (refer to Section D Purchasing).



- 4 Governing bodies may make proposals to spend any surplus, or uncommitted part of a school's budget share remaining after revenue commitments have been met, on capital purposes.
- 5 Schools should notify in their expenditure returns any spending from a schools' budget share of a capital nature. Any such proposals with an estimated cost of more than £10,000 shall be referred to the Assistant Director – Schools Planning & Resources to ensure compliance with the government's capital spending controls, the Council's financial regulations, and with the legal requirements relating to accounting for capital.

#### **B15 KEY AUDIT RECOMMENDATIONS**

1. Budget Approval – The School budget should be ratified by the full Governing Body. The Finance committee may discuss the budget, but this must be signed-off at full GB. Ensure that the minutes reflect the approval e.g. "The Governors ratified the budget for 20xx/xx".