

3.0 REVENUE BUDGETS**3.1 Introduction**

3.1.1 Since the introduction of the Local Management of Schools (LMS) in April 1990, the expectations of schools with regard to budgets and long term financial forecasts have increased dramatically.

In the early days of LMS, it was sufficient to prepare a one year budget that showed a surplus at the end of the year.

The expectation now from the Local Authority, OfSTED, and the DfE is that schools have budgets and long term forecasts covering **at least three years**.

These budgets and long term forecasts should be regularly reviewed and monitored and should demonstrate:-

- clear links with the School Development Plan;
- that the principles of Best Value have been followed including the use of financial benchmarking information; and
- that regard has been given to changing situations i.e. falling rolls, legislative changes, curriculum changes etc.

3.1.2 As the expectations on schools have increased the support available has also increased. Examples of support include:-

- advice and support and/or bursar services from the Financial Management Services to Schools (FMS) Team
- web based software to assist with the preparation of budgets and forecasts
- national and local financial benchmarking information
- local guidance materials including:-
 - LMS Scheme of Delegation
 - School Finance Manual
 - LMS Contract and Procedure Rules
- national guidance materials available from the DfE and the National College for School Leadership including:-
 - the School Financial Value Standard (SFVS)
 - income and expenditure checklists

3.1.3 Once prepared budgets and forecasts should be updated and reviewed on a regular basis and the Authority requests that information be formally submitted twice per annum as follows:-

By the 20th May each year: the start budget for the financial year plus a forecast for the following two financial years

By the end of the Autumn Term each year: an updated budget and forecast taking account of changes that have occurred since the Start Budget was prepared i.e. pupil number changes, staff turnover etc

3.2 Budget and Forecast Preparation

3.2.1 Preparation of the annual budget and long term financial forecast is an exercise which enables careful examination of the expected income and expenditure levels of the school and is an essential activity which enables a school to see whether or not they have enough funds to pay for the activities that are believed necessary to carry out the School Development Plan. The aim of the budget setting process is to ensure that resource allocations match school priorities. Poor financial planning or unplanned

spending can cause under or over spending – either being signs of weak financial management which can deflect schools from previously agreed spending priorities and this can impede the achievement of the School Development Plan.

- 3.2.2 To assist schools with the initial preparation and presentation of their budget and long term financial forecast plans, the FMS Team has worked with a software developer to develop and support a bespoke web based Financial Planning Software solution. The software assists with the calculation of forecast resource allocation levels, which will vary as pupil numbers rise or fall, the calculation of staffing costs, including incremental advancement, and to plan other income and expenditure streams. Budgets and financial forecasts are presented in Consistent Financial Reporting (CFR) format. The production of information in CFR format is a statutory requirement which requires all schools to produce information in a standard way under a number of summary income and expenditure headings.
- 3.2.3 The annual budget and the long term financial forecast should be derived from the School Development Plan and other underlying long term strategic plans i.e. asset management plan, premises development plan, staff development plan etc. The budget should **NOT** be a simple continuation of the provisions (staffing levels, learning resource levels etc) in the existing budget. It is strongly recommended that a summary of the key assumptions made in formulating the budget and long term forecast are added as addendum notes.
- 3.2.4 The DfE has some useful guidance which schools may wish to consult in terms of budget planning:
- [Integrated curriculum and financial planning \(ICFP\) - GOV.UK \(www.gov.uk\)](http://www.gov.uk)
 - [School resource management: checklist - GOV.UK \(www.gov.uk\)](http://www.gov.uk)
 - [School resource management: top 10 planning checks for governors - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

3.3 Adherence to Best Value Principles

- 3.3.1 In preparing its budget and long term financial plan and throughout all its financial processes, a school needs to demonstrate that it is complying with the principles of Best Value. Best Value is a set of principles designed to secure continuous improvement by comparing performance and challenging the economy, efficiency and effectiveness of services. Best Value is often referred to as the four “C”s – the four main principles of Best Value which are:-
- Compare
 - performance with that of schools of similar size and type
 - performance within the school – are all subjects and classes performing consistently well?
 - expenditure per pupil and staffing levels with schools of a similar size and type
 - Challenge
 - does the school have a School Development Plan with costed objectives and clear links to the budget?
 - what, why and by whom services are provided?
 - could we do something in a different way (or even not do it at all)?
 - how will the school deal with future pupil roll variations?
 - Consult
 - seek the views of stakeholders (i.e. pupils, parents, governors, staff etc) about the services provided
 - do staff and governors generally understand the school’s priorities and how it plans to achieve them?
 - are pupils and parents consulted on and informed of developments in school?

- Compete
 - does the school have written down proper financial administration procedures i.e. a Budget Management Policy with approved Schemes of Delegation?
 - is all purchasing on a fair and open basis?
 - are decisions on the purchase of support services regularly reviewed and discussed with Governors?

3.4 Financial Benchmarking (Comparative Statistics)

3.4.1 There is an expectation that schools should undertake some financial benchmarking and that the results of this work is discussed in relation to future decisions about resource usage. The general principle of the process is that a school can compare its own figures with schools of similar size or type and thereby make direct comparisons with their own practices.

3.4.2 The purpose behind benchmarking is not to encourage schools to spend at the “average” but to provide data so that Heads and Governors can question their own practises with a view to improving the effectiveness of the school.

3.4.3 There are three sets of financial benchmarking available to schools:-

- VMFI -

View my financial insights (VMFI) is an online tool which helps schools view and improve their financial performance. It enables local authorities to see all their schools in one place and provides users with an automated assessment of their data based on similar schools. This assessment identifies areas with the greatest variance, providing users with a helpful starting point to investigate, potentially leading to improved resource management.

VMFI compares the financial performance of each school in a local authority against the 30 most statistically similar schools across a range of cost categories.

You must have a registered DfE Sign In (DSI) or IDAMS account and been assigned a VMFI permission in order for you to log in and have data showing for your school

Through access to a broader range of data and insights, VMFI supports school finance teams in 3 ways:

- 1) Increasing efficiency by reducing the need for desk-based research regarding financial insights and data
- 2) Providing up-to-date and customisable data insights to help identify areas for further investigation.
- 3) Offering access to commercial resources including government contracts, frameworks, and guidance.

- National Benchmarking Website

The national website can be found at:

<https://schools-financial-benchmarking.service.gov.uk/>

The website contains data for all schools and uses the annual CFR returns submitted by schools as its main source. The majority of data is expressed in terms of income/expenditure

per pupil. The output from the website is mainly in the form of bar charts and graphs and provides the opportunity for schools to:-

- compare their actual income and expenditure with schools Regionally
- compare their actual income and expenditure with schools of a similar type and size nationally. These can be chosen from a number of selection criteria including:-
 - o pupil numbers
 - o type of establishment (community, voluntary aided etc)
 - o percentage of pupils eligible for free school meals
 - o percentage of pupils on SEN register
 - o school phase/type (nursery, infant, middle deemed secondary etc)
 - o specialist status
 - o examine their own trends of expenditure over time
- Local Benchmarking Statistics

The FMS Team also produces local interactive benchmarking data which is distributed to schools early in the Autumn Term each year and complements the information available on the national website. . Schools can compare their own school data against schools of a similar size in terms of pupil numbers, for example the primary schools have been categorised as extremely small (0-50 pupils), very small (51-100 pupils), small (101-175 pupils), medium (176-385 pupils) and large (386+ pupils). The information available includes:-

- the spend on staffing, premises, utilities and teaching resources as a percentage of the total revenue income
- teaching staff and leadership metrics
- support staff metrics
- pupil ratios such as pupil to teacher ratios, pupil to education support staff ratios, pupil to adult ratios
- per pupil metrics for premises costs, catering costs and learning resources costs

3.5 The Budget Cycle

3.5.1 The Budget Cycle is an ongoing process and the budget and long term forecast should be reviewed on a regular basis and especially when any of the key drivers change i.e. forecast pupil numbers, staffing levels, staffing changes etc. However, there are key times of the year when information needs to be produced and submitted to the Authority. These are:-

- by the 20th May each year a copy of the start budget for the financial year plus forecasts for the following two financial years need to be submitted, and;
- during the autumn Term each year when the Authority should receive an updated budget and forecast taking account of the changes that have occurred since the Start Budget was prepared i.e. pupil number changes, staff turnover etc. For the current year this submission can take the form of a “revised budget” or an “expected outturn” for the year.

3.6 Budget Monitoring

3.6.1 Once a budget has been approved by Governors, it will be necessary to monitor actual expenditure against it throughout the financial year. Such an exercise will:-

- (a) identify those budget heads where overspends or underspends (expenditure) or under-recoveries or over recoveries (income) are likely;
- (b) indicate where action has to be taken to identify the reason for the variation between budget and actual;
- (c) provide a basis for further management action which may require an adjustment to the school's improvement plan, and consequent estimates within year;
- (d) assist in ensuring that the school's priorities are implemented as effectively as possible

3.6.2 In its most basic form, monitoring can be undertaken by expressing expenditure to date as a percentage of the budget and comparing this with the proportion of the year that has elapsed. However, it is felt that this is far too simplistic and can lead to major errors. The main reason for this is that very little expenditure is evenly spread throughout the year.

3.6.3 It is considered that the most effective way to monitor is to look at:-

- what has been spent to date, and;
- what is expected to be spent for the remainder of the year

These totals then need to be compared with the annual budget in order to identify any variances.

3.6.4 The web based Financial Planning Software supported by the FMS Team will help with this approach to monitoring as:-

- expenditure to date and commitment data is electronically transferred from RM Finance (the transaction recording system) into the software, and;
- profiles of staffing expenditure for the remainder of the financial year are generated from within the web based software. The profiles will take account of such things as pay awards, increment dates etc.

The quality of the report is very dependent on the person preparing the report being fully informed about future spending and using their skill and knowledge in completing the expected remainder column of the monitoring report.

3.6.5 There are tools and advice available from the Department for Education to help schools with planning their finances and in allocating their resources.

<https://www.gov.uk/guidance/school-resource-management-checklist>

<https://www.gov.uk/government/collections/schools-financial-health-and-efficiency>