

Budget Principles and Funding Model

Objectives

1. To safeguard the overall financial health of the Trust so that its strategic and business objectives can be met.
2. To support maximum delegation to schools and full accountability for managing their own financial affairs, whilst ensuring a clear and fair process is in place for allocating and managing resources across the Trust.
3. To establish transparent arrangements for setting budgets, monitoring financial performance and managing balances that focus on the needs of learners and maximising their outcomes.
4. To promote compliance with best practice, meeting ESFA requirements and the Articles and terms of the Trust.

Forward Planning

The Trust will compile a high level three year financial plan and sensitivity analysis which demonstrates how its strategic plan will be achieved and how overall resources will be deployed to achieve key priorities. Whilst this type of modelling will not be precise, it will use current year or most recently available finances and realistic assumptions about funding, pupil numbers, curriculum change, staffing needs and other costs, including capital investment to model the most likely scenarios.

Information will be used to inform timely decision making and prioritisation within a framework that remains flexible enough to respond to change.

Budget Setting

The Trust will set a balanced budget which can draw on unspent funds brought forward from previous years.

The Trust will determine a budget and reporting calendar and timetable for each financial year. Once the Trust confirms overall funding allocations, the Local Governing Body (LGB) will compile a proposed budget for the year commencing 1 September for submission to the Trust for approval.

Revenue and capital budgets will be set using the standard chart of accounts, and all lines will have a named budget holder.

The Trust wide budget will be accompanied by a balance sheet and summary cashflow forecast, together with a commentary outlining key assumptions, major developments from the current year and key risks. The consolidated budget will be approved by the Trust Board prior to submission to the ESFA in their standard form by the given deadline in late July.

Although not prescriptive, and not precluding work at other times, the budget and reporting calendar will follow the broad cycle as attached. The Trust will provide centrally derived baseline budget information, and the remaining work will be led by school Principals, Business Managers and their teams to ensure that they reflect local needs and agreed priorities.

Detailed budgets will be compiled with reference to:

- Confirmed core grant income, plus realistic assumptions for growth/contraction impacting on forthcoming year
- Confirmed specific grants
- Trust fees and charges policy and rates
- Staffing establishment (as per payroll records) and approved changes. Include full cost of anticipated progression and pay awards, sufficient contingency for unfunded cover and 'vacancy allowance' for unplanned changes
- Agreed or planned efficiency savings
- Existing and new non-pay costs, including capitation, contractual commitments, PFI and inflation
- Separate capital budget for each school covering assets over £1,000 in value and typically with an expected life of more than 3 years
- Agreed recharges within the Trust

The following will be estimated centrally. These are largely non-cash items:

- Depreciation, including on grant funded assets and those transferred on conversion
- Pension adjustments arising from the annual valuation of the Local Government scheme

Trust Wide Management and Services: Funding Model

The Executive Principal and core team provide Trust wide services. Centralising these services underpins quality improvement, secures reliable management information, and delivers better value for money. Essential central costs will be met by the Trust from core grant income before it is distributed to schools.

Subject to specific requirements on the Trust (e.g. PFI, ESFA/DfE stipulations and legacy demands), it will aim to distribute 96% of core grant income received through the National Funding Formula directly to schools in the first full year of operation. This percentage will be reviewed annually in the expectation that it will reduce over time as the Trust grows and firm foundations are established.

Schools not qualifying for full delegation will receive a lower proportion of core grant income for a limited period. This arrangement will be underpinned by an agreed programme of additional intervention and support.

Improvement Grants, Devolved Capital Funding and other specific grants will be distributed to schools in full. Spending decisions, their timing and wider implications, including contribution to central costs where applicable must be agreed in advance with the Executive Principal (and Trust Board as appropriate).

LGBs have a right of appeal if they believe they have been treated unfairly in the processes for distributing core grant income, or other aspects of the budget setting process. Such appeals must be made in writing, giving clear grounds and quantifying the impact. In the first instance, appeals will be

to the defined Committee of the Trust (Business and Personnel), with the opportunity for a final appeal to full Board if necessary.

Recharges within the Trust

As a general rule, the direct costs associated with improvement actions, joint working, sharing good practice and oversight will remain with the originating school or team. However, on occasions, particularly where the level of input is significant and prolonged and existing posts/duties must be covered then schools will be reimbursed. This will be at an agreed rate based on actual costs as determined by the Chief Operating Officer.

Budget Monitoring and Reporting

Approved budgets will be profiled to reflect anticipated pattern of income and expenditure and month end accounting arrangements. School budget reports will be presented to the Principal and budget holders each month and follow up action taken. Consolidated management reports will be presented to the Executive Principal each month and discussed with schools on a regular basis. Summary reports and supporting commentaries will be presented to LGBs and the Trust Board on a termly basis.

The Trust's Financial Regulations and Scheme of Financial Delegation provides further detailed guidance on budget management, reporting and approval processes, including virement.

Cashflow Management

The Trust will aim to retain sufficient funds in reserves to cover its day to day working capital requirements. Funds above this level will be held in interest bearing deposit accounts.

ESFA and other funding, and patterns of expenditure follow a unique and uneven profile. As a result, the Trust will prepare a rolling monthly cashflow forecast that takes full account of the latest budgets and known commitments. Schools will work with the Chief Operating Officer to ensure that, where necessary, debts are chased promptly, and expenditure is deferred if required to do so.

Reserves and Balances

The explicit aim is that no school should be in operating deficit. However, if that schools cannot set a balanced budget, or the situation worsens mid-year, then the Executive Principal must be informed immediately and the forecast deficit must be approved by the LGB and Trust Board at the earliest opportunity. This process will be supported by a clear financial recovery plan which will outline how the school will move back into balance and how it will 'repay' accumulated deficits within two years. The Trust reserves the right to restrict or remove delegation until any deficit situation is resolved.

Where a planned operating surplus (balance/reserves) has been accumulated by a school, the LGB shall produce a plan for the managed spend and investment of that surplus in the interests of the school and the Trust within two years. The Trust will expect the LGB to have full regard to the interest of the whole Trust and schools and demonstrate due consideration to supporting all schools. The Trust will determine the availability of surplus funds, the timing of release and % available to the specific school.

The effective management of operating surpluses is key to the financial health and further development of individual schools and the whole organisation, and the Trust will aim to ensure that related decisions are fair and fully transparent. It will have an appeals process, following the two stages outlined above. Firstly, to its defined Committee, then a final appeal to the Trust Board.

Contingencies

Schools will be encouraged to spend available resources for the benefit of learners in the year in which they are received. However, schools are also responsible for their own financial risks, and so will need to budget prudently and establish their own contingencies.

It is possible that major unforeseen events will have a material impact on the financial health and operation of the Trust as a whole. Whilst the Trust aims to minimise such risks and will insure against many of them, it will access and utilise reserves in the interests of the whole organisation and learners where necessary to do so.

Financial Performance Indicators

The Trust will aim to benchmark school finances within the organisation and with similar schools and Trusts when comparable data is available.

For the Trust as a whole, its initial targets will be (*):

Financial Health	Annual operating surplus before depreciation, year end pension adjustments and tax as % of turnover	2%
	Cash days in hand	45 days
	Current ratio (current assets: liabilities)	2:1
	Capital investment as % of turnover	At least 2%
Efficiency	Employee costs as % of turnover	68%
	Teaching staff utilisation	Methodology tbc
	Value for money	Evidence of planned reviews leading to savings
	Creditor payments	30 days
Risk	Financial risks	Mitigation actions fit for purpose and effective
	Audit recommendations	Implemented in full within 90 days

* To be reviewed in the light of first draft budgets and confirmation of brought forward balances.

Appendix

Outline Budget and Reporting Calendar 2018

January-February	Current year budgets 2017-18 reviewed. Mid-year update for 7 months to 31 August prepared and approved by LGBs and Trust. Submit summary to ESFA within 6 weeks of opening
January	Spring pupil number census to ESFA
February	Main funding allocations for 2018-19 confirmed
February	Curriculum plans for 2018-19 reviewed, new intake and changes in pupil numbers identified
February-March	Staffing needs for 2018-19 confirmed, including ongoing proposals linked to school improvement plans
February-March	Admission arrangements for 2019-20 confirmed
February-April	Proposed new posts, restructuring and possible redundancies confirmed. Consultation and safeguards under Trust's Employment Protection Scheme may apply. LGB approval as required
March	Management reports, including forecast outturn 2017-18 to LGBs and Trust Board
April-May	Detailed budgets 2018-19 compiled
May	Summer pupil number census to ESFA
18 May	Budget forecast return outturn 2017-18 to B&P Committee and ESFA (position at 31 March)
Late May	Review draft budgets 2018-19, including early consultation with Executive Principal and Chief Operating Officer. Processes for clarification, adjustment and appeal
June- July	LGB and Trust approval for 2018-19 (and 3 year financial plan if available)
27 July	Budget forecast return 2017-18 and 2018-19 to ESFA
October	Management reports 2018-19 (and outturn 2017-18) to LGBs and Trust Board
October	Autumn pupil number census to ESFA
November-December	Building Condition Improvement Fund 2019-20 bid
November-December	Audited financial statements 2017-18 approved by Trust Board and submitted to ESFA (to Companies House by May 19)