

Budget Principles and Funding Model

Approved by: Business & Personnel Committee **Date:** February 2018

Last reviewed on: February 2021

Next review due by: February 2022

Related Documents:

LCT Memorandum of Understanding and Articles of Association (July 2017)
ESFA Academies Financial Handbook (2020)
ESFA Funding Agreement (Annual)
LCT Scheme of Delegation
LCT Committee Terms of Reference
LCT Risk Management Policy
LCT Investment Policy
LCT Whistleblowing Policy – Speak Up
LCT Financial Procedures Manual/Guide

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 academies 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. The Trust finance team will work closely with the Principal/Headteacher of each academy to produce a balanced budget for the year commencing 1st September that is realistic and reflects previous years outturn, new/agreed developments and anticipated pupil numbers. The Principal/Headteacher will obtain approval from the Local Governing Body.

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.

The Trust will provide centrally derived baseline budget information that reflects 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 academy covering assets over £1,000 in value and typically with an expected life of more than 3 years
- Separate capital funding for School Condition Allocation grant which will prioritise school estate Health & Safety requirements, condition based projects identified through condition surveys and estate projects to improve teaching and learning
- 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 CEO 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 academies.

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 and agreed with the Business & Personnel Committee.

Academies 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.

Specific grants received through the funding mechanism such as Pupil Premium, catch up funding, free school meals and sports 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 CEO (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.

School Condition Allocation (SCA) will be allocated to estate projects on a Health and Safety and condition rating generated from condition surveys and H&S audits as a priority. Projects that enhance teaching and learning will be considered and agreed with the Principal/Headteacher and LCT CEO/COO. Income and expenditure will be recorded in the Management Account Reports.

Devolved Formula Capital (DFC) will be pooled to support ICT refresh projects within all academies. Individual academy DFC income and expenditure will be recorded within the monthly Management Accounts reports.

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 academy or team. However, on occasions, particularly where the level of input is significant and prolonged and existing posts/duties must be covered then academies will be reimbursed. This will be at an agreed rate based on actual costs as determined by the CEO.

Budget Monitoring and Reporting

The Management Account report will detail the approved budgets for each academy and detailed information of income and expenditure and a yearend forecast. Reports will be presented to the Principal/Headteacher and budget holders each month for comment and verification that will include follow up action taken. A consolidated management accounts report will be presented to the CEO each month with supporting commentaries that will then be presented and received by the Business & Personnel Committee on a monthly basis. The consolidated management accounts report will then be distributed to Trustees each month. Individual academy detail will be issued to Principals and Headteachers to present to their LGB's at least 4 times per annum.

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. Academies 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 through the central finance team.

Reserves and Balances

The explicit aim is that no academy should be in operating deficit. However, if that academies cannot set a balanced budget, or the situation worsens mid-year, then the CEO 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 academy 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 an academy, the LGB shall produce a plan for the managed spend and investment of that surplus in the interests of the academy and the Trust. The Trust will expect the LGB to have full regard to the interest of the whole Trust and demonstrate due consideration to supporting all academies. The Trust will determine the availability of surplus funds, the timing of release and % available to the specific academy.

The effective management of operating surpluses is key to the financial health and further development of individual academies 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; Firstly, to its defined Committee, then a final appeal to the Trust Board.

Contingencies

Academies will be encouraged to spend available resources for the benefit of learners in the year in which they are received. However, academies 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 academies 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	30 days
	Current ratio (current assets: liabilities)	2:1
	Capital investment as % of turnover (SCA/DFC)	At least 1.2%
Efficiency	Employee costs as % of turnover	70%
	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
	<u>Audit recommendations</u>	Implemented in full:
	High Priority Actions	Within 5 days
	Medium Priority	Within 90 days
	Low Priority	As agreed with CEO

Appendix 1 – Outline Budget and Reporting Calendar

January-February	Current year budgets reviewed. Mid-year update prepared and issued to LGBs and Business & Personnel committee.
January	Spring pupil number census to ESFA
February -March	Main funding allocations confirmed, draft budget prepared for the following academic year.
February-March	Curriculum plans reviewed, new intake and changes in pupil numbers identified. Staffing needs to be confirmed with the Headteacher, including ongoing proposals linked to school improvement plans.
March	Admission arrangements for following academic year confirmed
April	Proposed new posts, restructuring and possible redundancies confirmed. Consultation and safeguards under Trust's Employment Protection Scheme may apply. LGB approval as required
May	Detailed budgets compiled
May	Summer pupil number census to ESFA
May	Budget forecast return outturn to B&P Committee and ESFA (position at 31 March)
May	Review draft budgets, including early consultation with CEO and Chief Operating Officer. Processes for clarification, adjustment and appeal
June- July	LGB and Trust approval (and 3 year financial plan if available)
July	Budget forecast return to ESFA
October	Autumn pupil number census to ESFA
November-December	Audited financial statements approved by Trust Board and submitted to ESFA (to Companies House)