



LCC Schools Finance Handbook

Section H:

Budget Preparation

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SECTION H1: Introduction to Budget Preparation

H1.1 The Purpose of Budget Preparation

The School Standards and Framework Act 1998 requires the County Council to calculate a budget share for its primary, secondary and special schools. The budget share represents the financial resources available to the school for the financial year. The Act also requires the County Council to prepare a scheme which provides for “the delegation by the authority of the management of a school’s budget share for any year to the governing body of the school”.

An annual budget therefore needs to be prepared to enable the governing body to fulfil its responsibilities for the management of its school’s budget share. The County Council’s Scheme for Financing Schools approved by the Secretary of State recognises this. The Scheme states that the governors of each school will be required to approve a set of estimates, in a format and within a timescale determined by the County Council, showing how they intend to allocate the school’s budget share to major budget headings. Schools are required to complete a summary budget return each year after its approval by the governing body.

A budget can be defined as “a representation in financial terms of an organisation’s plans for a given period of time at a given price base”. In other words, it is a plan showing how the financial resources made available to the schools for the financial year will be used. It should therefore form an integral part of the management process. It is a means of planning and allocating resources and should be set to reflect the governing body’s objectives and plans for the school. It also forms a basis for subsequent management control providing a means by which the achievement of plans can be monitored and reported and modified if necessary.

The roles of the County Council, headteachers and governing bodies in budget preparation are described below.

H1.2 The role of the County Council

The role of the County Council in budget preparation is:-

- a) to calculate school budget shares, to inform schools of their budget share and to publish information on their method of calculation;
- b) to notify schools of allocations of Devolved Capital;

- c) to provide headteachers with projections of costs to enable them to prepare base budgets and to cost policy options;
- d) to provide headteachers with training advice, such as this handbook and other advice on principles and methods of budget preparation;
- e) to provide school governors with training in relation to financial management;
- f) to ensure that schools return the information required on their budgets in the format and within the timescale determined;
- g) to ensure that all schools prepare budgets which appear realistic.

H1.3 The role of the Headteacher

The role of the headteacher and the senior staff is:-

- a) to prepare a base budget (described in section I1.5);
- b) to cost policy options;
- c) to draft a report making recommendations to the governing body;
- d) to submit a summary budget return to the County Council in the format and within the timescale determined by the County Council.

H1.4 The role of the Governing Body

The role of the Governing Body is:-

- a) to determine, by special resolution of the governing body, the extent to which budget preparation should be delegated to a Committee established by the governors, or to the headteacher;
- b) to consider the level of detail at which the budget should be presented to the governing body;
- c) to determine whether budget recommendations are consistent with its objectives and plans for the school as set out in the School Development Plan;
- d) to satisfy themselves that the budget is reasonable and realistic, and equals the budget share available to the school;
- e) to approve the budget.

H1.5 Principles of Budget Preparation

a) The budget total

The County Council will notify schools of their budget share allocations for the coming financial year. The budget approved by the governing body must total the budget share but should also take into account allocations for Other Government Grants. The County Council's approved Scheme for Financing Schools requires governors "to take all reasonable steps to ensure that their expenditure in any one financial year does not exceed their budget for that year". The budget should be set realistically to ensure this and to provide a sound plan and basis for subsequent management control.

The school must ensure appropriate pay increases are included for each financial year on the finance plan.

The budget can take into account income likely to be received during the year e.g. from lettings, sales, etc. Gross planned expenditure can therefore exceed the budget share available where it is realistic to expect the income to be received so that expenditure net of income equals the school's budget share.

The budget can also take into account anticipated additional income to the schools budget share which will be allocated through a reallocation journal.

Any underspend (or overspend) of the schools budget will be carried forward to the following financial year. The final carry forward figure will not be finalised until the County Council's accounts for the year have closed.

Schools can only carry forward balances in line with LCC's Scheme for Financing Schools. The policy states Primary and Special schools may retain for any purpose, up to 8% of the school's budget share or £30,000, whichever is the greater. Nursery schools may retain for any purpose, up to 10% of the school's budget share or £30,000, whichever is the greater. Secondary schools may retain for any purpose, up to 5% of the school budget share or £30,000, whichever is the greater. Additional sums can only be retained for specific, time limited, costed, capital projects that are consistent with the priorities set out in the School's Asset Management Plan and have to be detailed on the carry forward pro-forma which is sent to schools each financial year.

Although the exact amount may not be known at the time when the governing body approves the budget, an estimated figure should be included when calculating the budget and shown on a separate line on the budget return.

b) The level at which budgets should be prepared

It is for the governing body to decide the level of detail at which it wishes to see and approve the budget. The minimum level of detail is required to be returned to the

County Council. This shows the approved budget in summary form over a limited number of broad Consistent Financial Reporting (CFR) headings such as teaching staff, non-teaching staff, premises, etc. The other extreme would be to set and present budgets at fine levels of detail e.g. a budget for postage stamps, a budget for pencils, etc. This approach would add considerably to the work involved in budget preparation and would make subsequent monitoring and control of actual expenditure against the budget both more time consuming and more difficult.

An approach in between these extremes will be sufficient to produce a realistic budget and is likely to be more acceptable to the governing body. Schools should set budgets at account code level.

The County Council will provide a Medium Term Finance Plan (MTFP) template for the schools to use for budget preparation each year. This can be found on Perspective Lite.

c) The base budget - Introduction

The base budget provides the starting point for the governing body's consideration of budget proposals. It should show the projected cost of maintaining existing levels of provision. For example, it should show the projected costs of the existing complement of permanent teaching staff, likely premises and other running costs.

There are a variety of means of preparing budget estimates. The main methods are to prepare budgets on the basis of:-

- i) staff costs
- ii) estimated annual charges
- iii) past expenditure or income
- iv) individual costings.

Each of these methods is described below.

The method selected will be the one most appropriate in each case.

d) Staff Costs

The pay of permanent teaching staff is likely to be the largest item in the school budget. It is therefore appropriate to build up this budget in a detailed and accurate way.

The County Council will provide a blank MTFP with tabs for Teaching Staff (4a) and Support Staff (5a).

The Schools Finance Team will provide advice in respect of the calculation to be used for staff pay increases.

A Schools Establishment report or a similar report should be used as the basis to identify the permanent members of staff and their contractual hours. This report should be checked to ensure the accuracy of the staff numbers and their hours.

e) Annual charges

Some budgets are established to meet charges which are set on an annual basis. For example, local authority rates are provided to schools by the District Council and sickness insurance premiums are notified to schools. These types of expenditure should be budgeted for accordingly.

f) Estimates based on past expenditure

There are several areas where past levels of spending are likely to provide the best and simplest method of estimating future costs, particularly where expenditure comprises a number of individual transactions. Schools can run reports on the finance system to obtain details of past expenditure. These estimates could be adjusted where circumstances are known to have changed since the previous year. For example where expenditure to date in the current year plus expenditure due for the remainder of the current year differs significantly from actual expenditure in the previous year, and the position is likely to continue.

For example:-

Estimate based on previous year's expenditure	£10,000
Expenditure to the end of February in the current year as per the monthly printouts	£6,000
Further expenditure committed but not included in expenditure to the end of February	£1,000
Expenditure to be incurred in March	£2,000
Known changes in next year	£0
Budget	£9,000

Some forms of income can be estimated in a similar way.

g) Individual costings

In some areas budgets need to be set on methods unique to the particular budget heading. These include the supply teaching budget and other budgets prone to annual changes.

H1.6 Budget Preparation Methods

Budget preparation methods are described in the appropriate sections below.

a) Permanent teaching staff

Method of budget preparation: Complete tab 4a of the MTFP.

The total basic salary costs from this tab will automatically link to the Expenditure tab (tab 6) of the MTFP.

This budget should cover permanent teachers' salaries, including employer's national insurance and pension contributions.

Refer to annual MTFP guidance document which is issued each year.

b) Sickness insurance premium

Method of budget preparation: Annual charges.

Schools which opt to join the County Council's sickness insurance scheme can set this budget by taking the annual premium per head of staff notified by the Schools Finance Team multiplied by the number of full time equivalent staff to be covered under the scheme.

Schools which insure under other schemes will need to obtain details of the likely charge from their insurers.

c) Supply teachers

Method of budget preparation: Individual costing.

This budget should provide for the costs of supply teachers, including those covering for the absence of permanent teaching staff on sickness leave, maternity leave, and leave of absence, for example, for justices of the peace and senior officials of teacher associations.

This budget is impossible to set with accuracy and requires a considerable degree of judgement. An estimate of the number of days of supply cover can be made by multiplying the number of teachers in the school by the average number of days in the year when a teacher might be absent and a supply teacher obtained (this is usually the number of days excess selected for the sickness insurance premium). The total of days can then be multiplied by the likely cost per day for supply cover.

The budget produced by this method should be a useful guide but may need to be adjusted, for example to reflect a member of staff expecting to take maternity leave.

d) Administrative, Teaching Assistant and Technical staff

Method of budget preparation: Complete tab 5a of the MTFP.

The total basic salary costs from this tab will automatically link to the Expenditure tab (tab 6) of the MTFP.

This budget should cover the salaries plus employer's national insurance and pension contributions for the school secretary, clerk to governors, and any technical or teaching assistant staff employed at the school.

Refer to annual MTFP guidance document which is issued each year.

e) Caretaking staff

Method of budget preparation: Complete tab 5a of the MTFP.

The total basic salary costs from this tab will automatically link to the Expenditure tab (tab 6) of the MTFP.

This budget should cover pay, employers national insurance and pension contributions.

Overtime, including overtime payments relating to lettings, need to be added. Past expenditure might be taken as a guide to likely overtime payments.

Refer to annual MTFP guidance document which is issued each year.

f) Midday supervision staff

Method of budget preparation: Complete tab 5a of the MTFP.

The total basic salary costs from this tab will automatically link to the Expenditure tab (tab 6) of the MTFP.

This budget should cover pay, employers national insurance and pension contributions.

Refer to annual MTFP guidance document which is issued each year.

g) Other employee expenses

Method of budget preparation: Past expenditure.

This budget should cover the costs of advertising for staff, candidates' expenses and training expenses.

Expenditure will depend upon the turnover of staff and other factors, and the estimate based upon past expenditure may need to be modified.

The budget may also need to allow for the costs of any meals provided to teachers with midday supervision responsibilities, or cash paid in lieu of a free meal.

h) Premises costs

Budget Heading	Method of Budget Preparation
Repairs and maintenance costing	Past expenditure/Individual
Upkeep of Grounds	Annual charge
Electricity	Past expenditure * *
Gas	Past expenditure
Other fuel	Past expenditure
Rent payments	Annual charge
Rates	Annual charge
Water services	Past expenditure
Cleaning	Annual charge
Other premises costs	Past expenditure

*Refer to annual budget preparation guidance document which is issued each year.

i) Examination fees

Method of budget preparation: Individual costing.

The budget can be set by multiplying the current fee per examination by the estimated number of examinations to be taken.

j) Various supplies and services

Method of budget preparation: Past expenditure.

This budget covers a variety of items including books, materials, printing, telephones and postage.

k) Buyback Charges

Method of budget preparation: Annual charge.

Schools may choose to purchase from the County Council the services which are delegated (repairs and maintenance, finance, HR / payroll, insurance etc). The annual charge will be notified by the relevant department of the County Council.

Schools which purchase delegated services from other providers will need to obtain details of the likely charge.

l) Free school meals

Method of preparation: Past expenditure.

Schools should provide for the cost of free school meals provided by the schools meals contractor.

m) Other income

Method of budget preparation: Individual costing.

This budget may include income from a variety of sources including income from sales, lettings, contributions e.g. from school funds or PTA's, etc. Information on past levels of income will be provided. However, a judgement will be required on whether this level of income is likely to be achieved in the following year. It may also be helpful to consider levels of income received in the current financial year. It is prudent to err on the side of caution in setting this estimate where there is a significant degree of doubt.

n) Funding Income

Funding income adjustments that take place throughout the financial year will be paid via a recharge journal or monthly bank deposit depending on the school.

o) Policy options

The base budget will not include new developments. These should be costed and identified separately in the budget proposals presented to the governing body. Any potential new savings should also be identified separately. It is unlikely that the budget share available will be sufficient to accommodate the base budget and all proposed new developments. The governing body must therefore decide which new developments can be afforded within the budget share available, i.e.

Base budget	
plus	new developments
less	new savings
less	anticipated carry forward
less	anticipated additional income

must equal budget share available.

SECTION H2: Deficit Budgets

H2.1 Deficit Budgets

Schools are not permitted to overspend. Where this is unavoidable, schools must seek prior written approval from Lincolnshire County Council.

When obtaining approval, schools should submit a MTFP to the Schools Finance Team which details the steps which the school is planning in order to bring the budget back into a surplus position.

All deficit balances will be carried forward to the following financial year and interest charged as per the methodology detailed in the Scheme for Financial Management of Schools.