



Budget Setting for Schools - Best Practice

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Background

Effective budget setting is essential for ensuring that schools operate sustainably, meet statutory requirements, and deliver high-quality education. This guidance outlines the key principles and recommended processes that support schools in developing budgets that are accurate, realistic, and governed effectively. By adopting these approaches, schools can make informed financial decisions that protect educational standards, promote long-term stability, and ensure that resources are used to maximise outcomes for pupils.

Budget Setting Best Practice

1. Core Principles of Effective Budget Setting

- **Realistic and evidence-based**
Budgets should use actual data, reliable forecasts, and clearly documented assumptions.
- **Aligned to strategic priorities**
Financial planning must support the school's improvement plan and long-term vision.
- **Transparent and accountable**
Clear documentation, appropriate approval processes, and strong governance are essential.
- **Sustainable over multiple years**
Schools should plan beyond the immediate financial year to maintain financial health. Lincolnshire schools are required to complete and submit a five-year finance plan.

2. Roles and Responsibilities

Effective budget setting relies on a shared understanding of the distinct roles and responsibilities within a school's leadership and governance structure. Each group contributes differently to the process, from strategic direction to operational preparation and detailed financial management. Clearly defining these responsibilities ensures that the budget is developed collaboratively, aligns with school priorities, and maintains strong financial accountability'

- **Governing Body** – strategic oversight, challenge, and approval.
- **Headteacher / Executive Leadership** – strategic planning and resource allocation.
- **School Business Manager / Finance Officer** – detailed budget preparation and monitoring.
- **Finance Committee (where applicable)** – review and scrutiny prior to approval. Clearly defined responsibilities avoid duplication and ensure accountability.

3. Create a Timetable

A well-structured timetable is essential for effective budget setting. It ensures that all stages of the process from data gathering, forecasting, review, and approval are completed in a timely and coordinated manner. Establishing a clear schedule helps schools meet the statutory submission deadline of 31st May, ensures key stakeholders understand their responsibilities, and reduces the risk of last-minute errors or omissions. A published timetable also supports transparency and enables staff and governors to plan their contributions effectively.

Create a structured timetable that includes:

- Receipt of funding allocations.
- Staffing establishment review.
- Forecasting of income and expenditure.
- Draft budget production.
- Internal review.
- Final approval and submission deadlines.
- A published timetable helps ensure all parties understand expectations and statutory timelines.
- The timetable must be planned to ensure approval and submission meets the deadline of 31st May.

4. Gather Accurate Baseline Information

A robust budget must be built on reliable and up-to-date baseline information. Before drafting the budget, schools should ensure that all core data, commitments, and funding details are accurate and verified. High-quality baseline information reduces the risk of errors, prevents double-counting of funding, and enables realistic financial planning for both the coming year and future forecasts. This stage forms the foundation of the entire budget, so it is essential that schools take time to check assumptions and confirm that figures reflect the most current information available.

Before drafting the budget, ensure you have up to date:

- Pupil numbers (including realistic future year projections). The current financial year pupil numbers must agree to the previous October census.
- Where there is an increase/decrease in pupil numbers from one financial year to another, schools need to consider changing other pupil-led funding.
- Staffing establishment data (including any known future changes in staffing).
- Contracted commitments.
- Premises costs and utilities projections.
- Funding notifications (e.g., Budget Share, SEND data, Grants).
- Ensure no funding is duplicated e.g. NI Grant, SBSG Grant and the AWPU Deduction transfer to High Needs block for 2026/27 will all be part of the National Funding Formula (NFF) in 2026/27 and therefore not included as separate funding.
- Carry forwards for all funding streams.
- Benchmarking data (where available).

5. Pupil-Related Funding

Pupil-led funding is the largest driver of a school's income, so it is essential that pupil numbers and associated needs are projected as accurately as possible at the budget-setting stage. Schools should use reliable data, reflect known changes, and avoid overstating future funding by applying cautious and evidence-based assumptions. Accurate pupil information supports realistic income forecasts, ensures SEND related funding is correctly planned, and prevents financial pressures later in the year.

- Use the most reliable and realistic pupil number projections available. Schools that buy into the service can access pupil projection data on Perspective Lite.

- Consider known local demographic trends.
- Reflect any confirmed SEND top-ups, SEND funding, or high needs placements.
Note: Where the school are aware of changes in SEND Pupil data which varies from the published data, this information should be reflected within your funding and be included in reports to the Governing Body.
- Ensure SEND funding is only included for the period a pupil would be with the school e.g. 5 months funding in the financial year the pupil leaves.
- Ensure that future year NFF factors such as Free School Meals are accurately recalculated to reflect projected pupil numbers. This prevents over and understating future funding and ensures assumptions remain evidence based.

6. Grants and Other Income

Grants and other income streams form an important part of a school's overall funding and must be approached with care during the budget-setting process. Schools should ensure that all projected income is based on accurate, up-to-date information and aligned with confirmed funding rates or well-established patterns. Overestimation of income can create significant in-year financial pressures, while incorrect treatment of grants may lead to clawback or non-compliance with funding conditions. Budget assumptions should therefore be realistic, evidence-based, and fully reflective of known changes for the relevant financial year.

- Include only confirmed grants or those routinely received.
- Ensure funding rates are updated in line with confirmed funding rates e.g. Pupil Premium funding rates for 2026/27 have been published. Early years funding rates have changed and should be reflected for 2026/27 onwards.
- Avoid speculative income unless there is documented evidence.
- Review historical income trends (e.g., lettings, catering, donations).
- Consider income generation opportunities such as lettings.
- Ensure grants are fully utilised across all financial years.

At the budget-setting stage, schools must plan expenditure so that grants are fully allocated to eligible activity within the timeframe specified by the funding provider. This is essential because:

- many grants cannot be carried forward,
- some have strict spending deadlines, and
- unspent amounts can be clawed back if not used as intended.

Budget plans should therefore clearly show how each grant will be spent within the allowed period to avoid future financial pressures or loss of funding.

7. Staffing Costs

Staffing represents the largest area of expenditure for most schools, typically 70–80% of the total budget—so careful planning at the budget-setting stage is essential. Schools must ensure that staffing decisions are affordable, sustainable, and aligned with projected pupil numbers, curriculum needs, and strategic priorities. A well-constructed staffing plan supports both educational delivery and long-term financial stability, while avoiding unplanned cost pressures later in the year.

Best practice includes:

- Reviewing the staffing structure annually to ensure it is aligned with pupil numbers, this should include reviewing number of classes and support staff required.
- Using system-generated payroll information.
- Including on-costs, increments, pay awards, and pension changes.
- Ensuring planned staffing aligns to curriculum and pupil numbers.
- Review PPA provision / non-contact time for Teaching and Leadership.
- Consider how to resource vacancies that arise. Temporary/permanent staff and experience required.

8. Non-Staffing Costs

Non-staffing expenditure represents a significant proportion of a school's running costs and must be planned carefully during the budget setting process. Schools should base these forecasts on accurate information, realistic assumptions, and confirmed commitments to avoid under- or over-estimating future expenditure.

Include:

- Contract renewals and service-level agreements including inflation assumptions. All contracts should be reviewed and not just automatically renewed. Consideration should be given to which contracts are mandatory, which are recommended and when contracts are ending to allow for a review of alternative options.
- Where the school purchases external consultancy, specialist advice, or additional professional services, schools should consider the necessity, quality, and value for money of this support. Schools should also assess whether comparable or better-value support is available through the Lead Teaching School Hub (TSH), Curriculum Hubs, or other system partners before committing to external expenditure.
- Premises costs (with inflation assumptions).
- Budget plans should reflect the cost of delivering the curriculum and maintaining core school operations (e.g., ICT, learning materials, examination costs) based on historical spending and future need.
- Utility forecasts (using supplier information or trends).
- Planned maintenance, not just reactive repairs.
- Insurance costs.
- Align expenditure to the School Development Plan.
- Consider expenditure where income is expected to be received from parents to cover the costs and ensure these are charged and received.

9. Inflation and Contingencies

When setting the budget, schools must ensure that their financial plans reflect the real cost of delivering education in the coming years. This includes applying appropriate inflationary assumptions and building in a sensible contingency to manage unforeseen pressures. Inflation continues to affect utilities, contracts, resources, and staffing-related costs, so using up-to-date and evidence-based assumptions is essential for producing a realistic and sustainable budget. A well-planned contingency also protects the school from unexpected cost increases, reducing the risk of in-year budget deficits.

- Apply appropriate inflationary uplifts linked to national or local guidance. Information is provided on utility inflation in the Budget Preparation document.
- Include a contingency for unforeseeable costs.

10. Collaboration and Federation Considerations

For schools operating within a collaboration, partnership, or federation, budget setting must take account of shared arrangements and cross-school responsibilities. Clear financial planning ensures that joint initiatives remain sustainable, costs are allocated fairly, and leadership structures are financially viable across all participating schools. Transparent agreements and accurate modelling are essential to avoid future disputes, unplanned pressures, or inconsistencies in how budgets are presented and approved.

Where Applicable:

- Shared staffing models should be budgeted accurately across schools.
- Recharge arrangements must be transparent and documented.
- The impact of leadership changes across a federation should be modelled.
- Costs must be allocated fairly and transparently, based on the real cost of provision, not artificially adjusted to balance budgets across schools.

11. Five-Year Forecasting

Schools should model financial plans over five years to:

- Identify rising costs and financial pressures.
- Assess sustainability of staffing structures.
- Understand the impact of falling or rising rolls.
- Plan for long-term commitments and investment.

12. Scenario Planning

Scenario planning is an essential part of prudent budget setting. It helps schools understand how changes in key assumptions, such as pupil numbers, staffing requirements, or cost pressures, could affect financial stability over the coming years. By modelling a range of realistic alternatives, leadership teams and governors can assess potential risks early, evaluate the financial impact of different decisions, and ensure that the school remains resilient even if circumstances change. Effective scenario planning supports informed decision-making and strengthens long-term financial sustainability.

Every scenario plan should be accompanied by a clear narrative that outlines both the advantages and disadvantages of each option from a financial and curriculum perspective.

Develop alternative scenarios based on:

- Different pupil number assumptions.
- Potential staffing changes.
- Increases or reductions in energy or contracted costs
- Removal or introduction of grant funding

Scenario planning helps leadership understand financial risks and options.

If scenario planning indicates that a school may need to make a post (or posts) redundant, the school must follow the Managing Change Policy:

[Managing change – Professional resources](#)

This will require the school to:

- Contact the Education Reorganisation Officer and attend a staffing reduction panel meeting.
- Submit scenarios and evidence to support redundancies.
- Include a provision within the budget for the school's contribution to the redundancy cost
 - For primary schools, the contribution will be: the first £5,000 of the total cost of any redundancy or interests of efficiency; or 50% of the total cost of any redundancy or interests of efficiency; whichever is the greater, subject to a maximum of 2.5% of the school's budget share for that financial year, with the County Council funding the balance.
 - All other schools must budget for: the full cost of redundancy plus any pension strain.

13. Linking Budgets to Strategic Plans or Reductions

Ensuring that the budget supports the school's strategic direction is a fundamental principle of effective financial planning. At the budget setting stage, schools must demonstrate how financial decisions enable the delivery of key priorities, maintain statutory responsibilities, and support pupil outcomes. This ensures that resources are deployed purposefully rather than simply rolled forward based on historic patterns.

Budget decisions should be clearly aligned to:

- School Improvement Plan (SIP)
Budget decisions should directly support the improvement priorities identified in the SIP. This includes funding for targeted interventions, curriculum development, leadership capacity, and identified areas of teaching and learning that require investment.
- Curriculum delivery model
Staffing structures, class configurations, and resource allocations must be consistent with the school's chosen curriculum model. The budget should demonstrate how the curriculum can be delivered sustainably within available resources and reflect any planned changes for the year ahead.
- SEND strategy
Financial planning should account for the cost of delivering SEND provision, including reasonable adjustments, specialist staffing, training, and resources. Any known changes in pupil need, funding levels, or statutory requirements should be incorporated at the planning stage.
- Workforce development plans
Staffing is the largest area of expenditure, so workforce planning and budget setting must align. This includes decisions around CPD, leadership development,

recruitment, retention, succession planning, and any planned changes to staffing structures.

14. Value for Money

Achieving value for money (VfM) is a core expectation of all publicly funded bodies, including schools. During the budget setting process, schools must ensure that planned expenditure represents the best possible use of limited resources and supports the delivery of educational priorities. Effective VfM planning helps maintain financial sustainability, avoids unnecessary cost pressures, and demonstrates responsible stewardship of public funds.

Schools should demonstrate:

- Efficient use of resources.
- Consideration of alternative options.
- Effective procurement practices.
- Regular review of contracts and services.
- Benchmark all income and expenditure using the Department for Education (DfE) benchmarking website.

[Home - Financial Benchmarking and Insights Tool - GOV.UK](#)

15. Internal Review

Before the budget is submitted for approval, it is essential that a thorough internal review is carried out. This final check ensures that the financial plan is accurate, complete, and based on sound assumptions. A strong internal review process helps identify any inconsistencies, omissions, or unrealistic forecasts, and provides assurance that all funding streams have been fully and correctly incorporated. Taking time at this stage reduces the risk of errors, strengthens financial governance, and supports a smoother approval.

Before submission, budgets should be reviewed for:

- Accuracy and completeness including full utilisation of all funding streams.
- Reasonableness of assumptions.
- Consistency across years.
- Evidence for major changes.
- A comparison with the previous year's budget to assess completeness and reasonableness, checking that nothing has been missed and that changes in income or expenditure are appropriate and properly explained.

16. Governing Body / Finance Committee Challenge

During the budget setting process, the Governing Body or Finance Committee has a statutory responsibility to provide effective oversight, scrutiny, and challenge. This ensures that the proposed budget is realistic, sustainable, and aligned with the school's strategic priorities. Robust challenge at this stage helps identify financial risks early, tests the assumptions underpinning the plan, and ensures that decision makers understand the long-term implications of the financial choices they are approving.

Governors should refer to the 'Budget Setting Guidance for Governors' document for further detailed guidance. The headteacher and school finance staff should also thoroughly read this document as it clearly sets out the documentation and evidence that must be presented to the Governing Body during the budget-setting process.

The approval body should receive a clear summary covering:

- Key assumptions.
- Risks and mitigating actions.
- Forecasted balances.
- Scenario analysis.
- Challenge is a key element of strong financial governance.

17. Approval Process

The final stage of budget setting is formal approval. This ensures that the Governing Body takes collective responsibility for the financial plan and confirms that it is sustainable, compliant, and aligned with the school's strategic priorities. The approval process must be transparent, well-documented, and carried out in accordance with the school's governance structure.

Ensure:

- The budget is considered by the Finance Committee (if applicable).
- The full Governing Body approves it formally.
- Approval is minuted clearly.
- Approval and submission by 31st May.

18. Setting a Deficit Budget

The 'Scheme for Financing Schools' documents the action a school are required to take where setting a deficit budget is unavoidable. It is recommended this document is referenced if this applies.

Considerations prior to setting a deficit budget:

- Do you purchase published assessments (PUMA/PIRA/NFER) and if so, are these needed? Ensure your curriculum is well planned and sequenced and that key performance milestones are identified so that assessment supports progress through your curriculum rather than potentially assessing knowledge that has not been taught.
- Do you use published schemes of work which require purchasing pupil workbooks (e.g. Maths workbooks). Review cost versus quality of education and review alternative schemes which do not carry these additional costs.
- Have you reviewed the use of and effectiveness of photocopying worksheets and sticking in exercise books. Does this practice promote pupil progress and independence? If this is required, is colour copying necessary?
- Are curriculum subscriptions necessary and value for money? Review how these support/complement your curriculum and implementation and the extent to which they are used by all staff and lead to enhanced outcomes.
- If you purchase school uniform, consider the cost of this and value for money for the school and parents. Take into consideration the staff time (and associated cost) taken

to order and maintain stock as well as the time needed for transactions with parents.

In summary:

- School must seek prior approval from the Local Authority.
- Provide the reason(s) for setting a deficit budget.
- Provide evidence of how the school will recover in future years from setting a deficit budget.
- Agree to provide regular progress updates.

19. Carry Forward Policy

The 'Scheme for Financing Schools' documents the maximum carry forward a school are permitted to carry forward into the following financial year.

Where a school underspend above the permitted limit they will be sent a carry forward proforma. The proforma should be documented with capital from revenue expenditure that is costed and time-bound within the following financial year.

The Scheme for Financing Schools is available via the link below:

[Scheme For Financing Schools September 2025](#)