



Budget Setting Guidance for School Governors

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Background

School governors play a crucial strategic role in setting and overseeing a school's budget. The process is not just about balancing numbers — it is about making sure resources genuinely support the school's priorities, pupils' needs, and long-term sustainability.

Key areas governors should consider.

Guidance for School Governors When Setting a Budget

1. Start With the School's Strategic Priorities

A strong budget begins with clarity about what the school is trying to achieve. Governors must be confident that financial decisions directly support improvement priorities, statutory responsibilities, and long-term educational aims. Without this link, a budget risks becoming reactive rather than strategic.

Governors should ensure the budget aligns with:

- The school improvement plan.
- Long-term educational goals.
- Statutory responsibilities (e.g., safeguarding, SEND provision).

2. Understand Funding Streams

To make informed decisions, governors need a clear understanding of where the school's income comes from and the restrictions that apply. This ensures that resources are used correctly and that the school does not rely on inaccurate or unrealistic assumptions.

Governors must understand how the school's core funding is calculated, as this forms the majority of the budget and directly influences long-term financial planning. Core funding is primarily driven by pupil numbers, pupil characteristics, and allocations made through the National Funding Formula (NFF). Governors should be confident that the school has used accurate pupil projections, applied the correct funding rates, and understood the full build-up of the budget based on the NFF factors.

Governors should be confident about:

- Core funding (e.g., per-pupil funding).
- Additional grants (Pupil Premium, PE & Sport Premium, High Needs funding, Universal Infant Free School Meals (UIFSM) and, Early Years funding).

Governors must understand the conditions attached to each grant and ensure the budget reflects these requirements accurately. Each grant has specific purposes, reporting obligations, and spending deadlines, and funding must only be used for eligible activity. Misuse or underspend can result in clawback, compliance issues, or adverse audit findings. Governors should therefore seek assurance that:

- the school knows the conditions of each grant,
- planned expenditure aligns with those conditions,
- grant funding is not overstated or duplicated, and;
- any ring-fenced or time-limited requirements are factored into the budget.

- All local authority allocations.
- Carry forwards of budget share and grants, as this will form part of the current year budget including a clear understanding of the carry forward rules and limits.

This helps ensure funding is used appropriately and opportunities aren't missed.

3. Scrutinise Staffing Costs

Staffing is the single largest area of expenditure for most schools, typically accounting for 70–80% of the total budget. Because of this, governors must take a particularly rigorous approach when reviewing staffing plans during budget setting. Effective scrutiny helps ensure that staffing structures are affordable, sustainable, and aligned with the school's curriculum model and pupil numbers.

Governors should understand not only the current staffing establishment but also the medium-term implications of decisions such as pay progression, pension contribution changes, and contractual commitments. A staffing plan that is unaffordable or not aligned with projected pupil numbers can very quickly lead to deficits, restructuring costs, and educational disruption.

Strong governance requires governors to question assumptions, review alternative options, and seek assurance that the school is balancing high-quality educational delivery with sound financial stewardship.

Governors should consider:

- Whether staffing levels match pupil numbers and curriculum needs.
- The sustainability of pay progression and pension/NI increases.
- Use of supply staff and strategies to reduce reliance on them.
- Leadership structure and value for money.

Staffing decisions are often the biggest drivers of financial stability.

4. Review Pupil Numbers and Forecasts

Pupil numbers are one of the most significant drivers of school funding, making accurate forecasting essential during the budget-setting process. Governors must understand both the current number on roll and realistic projections for future years, as even small changes in pupil numbers can lead to substantial shifts in funding and staffing requirements. This is especially important in areas experiencing demographic change, housing developments, or local competition from other schools.

An over-optimistic projection can create unsustainable budgets, while failing to anticipate a decline in numbers can result in sudden deficits and difficult staffing decisions later in the year. Governors therefore need assurance that forecasts are based on robust evidence, local intelligence, and realistic assumptions rather than optimism or historic patterns alone. Effective scrutiny of pupil forecasts helps protect the school's long-term financial stability and ensures that budgets remain viable across multiple years.

Future pupil numbers directly affect future funding. Governors should:

- Examine demographic trends.
- Consider local competition from other schools.

- Review admissions patterns.

A budget that looks healthy today can become volatile if pupil numbers fall unexpectedly.

5. Assess Risks and Build Contingencies

Every school budget is built on assumptions, and all assumptions carry a degree of uncertainty. Governors play a key role in ensuring these assumptions are realistic and in understanding how potential risks could impact the school's financial position. This requires looking carefully at variables such as pupil numbers, energy costs, inflation, staffing changes, and dependency on specific grants or income streams. A budget that does not take account of risk can appear balanced on paper but become unsustainable as soon as circumstances change.

Governors must therefore ensure that the school has identified the key risks for the coming year, assessed their likelihood and impact, and planned appropriate mitigating actions. Including a reasonable contingency, within permitted limits as per the Carry Forward Policy, helps protect the school from unforeseen pressures and avoids the need for reactive or short-term decisions during the year. A budget that incorporates risk awareness is far more resilient, transparent, and strategically sound.

Governors should ask:

- What are the financial risks this year?
- What assumptions have been made (e.g., inflation, energy costs)?
- Is there a contingency or reserve?

A risk-aware budget is more resilient.

6. Ensure Compliance with Statutory Duties

Schools must meet a range of statutory responsibilities, and governors have a legal duty to ensure the budget provides sufficient resources to fulfil them. These core obligations, cannot be compromised or deprioritised during budget setting. Governors must therefore scrutinise the budget to ensure that essential functions are adequately funded and that no financial decisions undermine the school's ability to meet legal requirements.

Failure to resource statutory duties appropriately can lead to serious consequences, including safeguarding failures, unlawful SEND practices, compliance issues, or intervention from external bodies. It may also create significant reputational and financial risks for the school. A well-planned budget demonstrates that governors understand these obligations and have ensured that the school is fully compliant in both its financial planning and operational delivery.

Budgets must support:

- Safeguarding.
- SEND provision.
- Health and safety.
- Curriculum requirements.

Cutting corners in these areas creates legal and ethical problems.

7. Evaluate Value for Money

Governors have a duty to ensure that the school delivers the best possible outcomes using the resources available. As custodians of public funds, they must be confident that every expenditure decision represents value for money, is aligned with strategic priorities, and contributes meaningfully to pupil progress and school improvement. Evaluating value for money is not simply about choosing the cheapest option; it requires governors to consider effectiveness, efficiency, and impact.

This includes challenging leadership to justify spending decisions, benchmarking costs and outcomes with similar schools, and ensuring the school has explored alternative options where appropriate. Strong financial governance means understanding not just *what* the school is spending, but *why*, and what the intended benefit will be. When value for money is rigorously assessed, schools can direct resources to where they will have the greatest positive effect on pupils and avoid waste, duplication, or ineffective investment.

Governors should challenge leaders to demonstrate:

- Cost-effectiveness of contracts and services.
- Evidence of impact for funded interventions.
- Benchmarking against similar schools.

Good governance means asking, “Is this the best use of our limited resources?”

8. Monitor In-Year Performance

Setting the budget is only the beginning of the financial management cycle. Governors have an ongoing responsibility to monitor the school’s financial performance throughout the year to ensure the budget remains on track and continues to support strategic priorities. Even a well-constructed budget can quickly become unrealistic if circumstances change, for example, unexpected staffing costs, shifts in pupil numbers, or increases in utilities or contract prices.

Regular in-year monitoring gives governors the opportunity to identify emerging pressures early, challenge variances, and ensure appropriate corrective action is taken before issues escalate. This proactive oversight helps the school maintain financial stability, avoid deficits, and ensure that resources continue to be used efficiently and transparently. Effective in-year monitoring is therefore a critical part of strong financial governance and ensures the school remains financially resilient all year round.

Governors should ensure:

- They receive regular, timely financial monitoring reports – See section 11 for more information.
- They review and challenge the updated in-year forecast - Governors should consider whether projected outturn remains realistic, understand the assumptions used, and request updates when circumstances change.

- Clear explanations are provided for all material variances - Where budget lines differ significantly from plan, governors should probe the reasons, assess potential implications, and seek assurance that appropriate actions are being taken.
- Prompt and effective corrective action is taken when overspends or pressures emerge - This includes requesting appropriate scenario plans to address the overspends, monitoring progress against actions, and ensuring decisions align with the school's priorities and statutory responsibilities.

Effective oversight prevents small issues developing into major financial challenges.

9. Plan for the Medium Term

A financially healthy school does not plan for just one year at a time. Medium-term financial planning is essential for governors to understand the longer-term implications of current decisions and to ensure ongoing financial sustainability. Many of the school's biggest cost drivers such as staffing changes, pupil numbers, pay awards, contract renewals, and premises commitments develop over several years rather than within a single financial cycle.

By looking ahead over a five-year period, governors can identify emerging pressures early, plan for structural changes in a controlled way, and avoid sudden or reactive decisions. Medium-term planning enables governors to test whether the budget is sustainable, assess the impact of projected deficits or savings, and ensure the school can afford long-term commitments such as staffing structures or curriculum plans. Without this forward view, the school risks short-term budgeting that masks future problems and makes strategic leadership significantly harder.

A Medium Term Finance Plan (MTFP) helps governors:

- Spot future deficits early.
- Plan staffing changes gradually.
- Understand long-term commitments (e.g., leases, contracts).

Short-term budgeting alone is risky.

10. Ensure Transparency and Good Governance

Strong financial governance is built on openness, integrity, and clear decision-making. Governors are collectively responsible for ensuring that the school's financial processes are transparent, well-documented, and compliant with all statutory and regulatory requirements. Good governance is not simply administrative, it protects public money, builds trust with stakeholders, and provides assurance that decisions are being made in the best interests of pupils.

Transparency also helps prevent misunderstandings, reduces the risk of financial mismanagement, and ensures that governors are fully accountable for the financial decisions they approve. This includes keeping accurate records, declaring and managing conflicts of interest, and ensuring that policies and procedures are up to date and consistently followed. When governance is open and robust, it strengthens confidence in the school's leadership and supports a culture of responsible financial stewardship.

Governors should:

- Record decisions clearly.
- Declare conflicts of interest.
- Ensure financial policies are up to date.
- Engage with audits and/or external reviews.
- Ensure compliance with the Schools Accountability Framework - understanding the principles and verifying that the school's governance and financial management arrangements align with its expectations.

Transparency builds trust and accountability.

11. What Governors should receive to assist with budget setting

To make informed and strategic financial decisions, governors must receive clear, comprehensive, and timely written reports during the budget-setting process. Verbal updates alone are not sufficient. Written documentation ensures there is a transparent audit trail, supports consistent scrutiny, and enables governors to review information in advance of meetings and refer back to it when making decisions.

Schools must provide governors with written documents and reports that support both the construction of the budget and the wider strategic oversight of financial sustainability

This should include:

- **Medium Term Finance Plan Funding Checklist**

A completed MTFP checklist, from the MTFP Funding document that confirms the school has accurately considered and applied all relevant funding streams when setting the budget. This should also provide assurance to governors that the base information underpinning the budget is correct and complete. This includes:

- accurate pupil numbers and realistic projections
- the confirmed carry-forward balance and any commitments
- inflation assumptions and price increases
- known and anticipated staffing changes
- pay awards, on-costs and incremental progression
- changes to grants or funding allocations
- benchmarking against similar schools where appropriate

The checklist helps governors verify that the proposed budget has been built using reliable information, that financial risks have been considered, and that the medium-term impact of decisions has been fully understood.

- **Budget Comparison Reports**

A report providing a clear comparison between the latest 2025/26 budget and the draft 2026/27 budget. For schools using the Schools Business Services (SBS) Financial Planner the Budget Comparison report will provide this. This comparison helps governors identify significant budget movements, such as 20% or more. Large shifts should always be explained so governors can understand whether they arise from staffing changes, funding adjustments, curriculum decisions, or operational cost pressures.

- **Narrative Explanation of Variances**

A clear written commentary explaining all material differences between the current financial year's budget and the previous year must be provided. This commentary should:

- explain all material changes in both income and expenditure,
- set out the reasons for these differences (e.g., staffing restructures, changes in pupil numbers, inflation, contract renewals, curriculum choices), and
- highlight any risks or pressures that governors need to be aware of.

- **Previous Year Carry Forward Position**

Governors should be shown:

- the final surplus or deficit carried forward into the new financial year, and
- any agreed commitments or earmarked amounts linked to that balance.

Understanding the carry-forward position, alongside the carry forward policy, is a key part of assessing affordability and ensuring that any ring-fenced commitments are respected.

- **Detailed Budget Breakdown Reports**

Detailed reports showing how the budget is allocated across the full five year financial forecast. Multi-year visibility is essential for assessing long-term affordability, identifying future pressures, and ensuring the school remains financially sustainable. These reports provide the depth of transparency required for effective scrutiny and strong financial governance. They should include:

- Breakdown by account code – This level ensures full visibility of specific expenditure and income lines such as teacher's pay, teacher's national insurance, supply costs, electricity costs, refuse collection etc. This level of detail is crucial for Governors to have a full understanding of the budget and enables them to:
 - understand the real cost drivers within the budget
 - identify changes or pressures that may require further challenge or explanation
 - ensure the budget reflects accurate staffing, utilities, and operational costs
 - ask informed questions about cost trends, efficiencies, and value for money
- By cost centre, department or funding stream – This level is particularly important. It enables governors to:
 - confirm that all grants have been fully and correctly budgeted for
 - ensure that plans are in place to maximise the legitimate use of grant funding
 - verify that expenditure aligns with the specific conditions of each grant
 - avoid the risk of clawback where funding is unspent or incorrectly applied
 - ensure transparency over how restricted income is deployed

Clear visibility of each grant-funded area (e.g., Pupil Premium, PE & Sport Premium etc.) allows governors to challenge assumptions, ensure compliance with funding conditions, and confirm that resources are being used effectively to support the intended pupils or activities.

This level of detailed reporting ensures governors have a complete and accurate understanding of how resources are being deployed across the school. It supports robust financial challenge, enables informed decision-making, and strengthens overall financial governance.

- **Class Structure (Primary School)**

The Class Structure information contained within the MTFP Funding document. This section is a critical part of budget setting, as it shows how the school's curriculum, staffing levels, and pupil numbers align over a three year period.

The Class Structure tab typically includes:

- a breakdown of each class
- projected pupil numbers
- teacher deployment and class allocations
- staff-to-pupil ratios
- support staff allocation across classes
- planned changes to structure over the three year period

This information gives governors a clear understanding of the curriculum-led financial planning approach, allowing them to see:

- whether staffing levels are appropriate for the number of pupils
- whether the class structure is affordable in both the short and long term
- whether future changes (e.g., planned reductions in class numbers due to falling rolls) have been incorporated
- the financial implications of structure decisions, including staffing on costs and resource needs
- whether ratios and class sizes align with educational standards and school priorities

Including this information strengthens financial governance by ensuring the proposed budget is fully aligned with educational delivery, staffing requirements, and projected pupil numbers.

- **Staffing Establishment Report (Anonymised)**

Governors should not receive individual salaries or personally identifiable pay information unless they are on a specific committee (e.g., Pay Committee) with a legitimate need. For normal budget-setting and financial oversight, information must be anonymised and presented at post/role level, not individual level.

Governors should be provided with the current staffing establishment report generated directly from the school's finance system. This ensures they are reviewing the most up-to-date and formally agreed staffing structure, rather than an outdated or manually adjusted version.

However, in line with data protection requirements and best governance practice, the report must be provided in an anonymised format, without individual names or personal salary information.

The establishment report should set out (by post/role, not by named individual):

- all current posts within the school
- contracted hours and FTE for each post
- grade, spinal point, and pay scale applicable to the post
- contract types (permanent, fixed-term, temporary)

This allows governors to understand the structure and cost base without accessing personal data that is not required for their role.

Providing the anonymised system-generated establishment report allows governors to:

- verify the current, approved staffing structure
- clearly identify differences between the existing establishment and the proposed structure in the budget
- understand the staffing cost base that underpins the first year of the financial plan
- see how staffing changes (e.g., reductions, increases, restructures) feed into the five-year forecast
- question significant changes in FTE, roles, or cost
- ensure staffing decisions align with the curriculum model, pupil numbers, and wider priorities

When governors compare the current establishment to the planned future years shown in the five-year forecast (via the MTFP and class structure tab), governors can:

- see whether proposed reductions or changes are realistic
- understand the impact of pay progression at a structural level, not individual level
- check that known contractual changes are accurately reflected
- assess long-term staffing affordability and sustainability

Using an anonymised, system-generated establishment report gives governors a reliable baseline for scrutiny while ensuring compliance with confidentiality and data-protection requirements. It strengthens financial governance by providing transparency at the right level, without exposing unnecessary personal data.