

Guidance on Preparation & Submission of 2008-09 Budget

- **Introduction**

You will have been provided with a statement of your provisional Budget Share for the forthcoming financial year. On the basis of this, and other relevant funding and budgeting information supplied by the LA, the Governing Body must consider the school's spending requirements for financial year 2008-09 and prepare a draft budget. A statement of your actual budget share will be provided by 15 March and the Governing Body is required to approve its budget for 2008-09 by the 31 March. In doing so you must take account of your expected underspend or overspend to be carried forward as at 31 March 2008.

There are no changes to the budgeting and accounting arrangements for 2008/09 but schools should be aware of changes to grants –

ICT – the E-learning Credits grant has finished and included in the new Harnessing Technology grant. This grant should be coded to Standards Fund revenue income code of I05. It can be used to support purchases of ICT infrastructure and equipment or upgrades. Where it is used for purchases that meet the definition of capital expenditure, there should be Direct Revenue Financing to ensure that the expenditure is recorded in the capital part of the accounts.

Devolved Formula Capital - the formula for determining allocations to schools has been revised by the DCSF to take account of whether a school has been modernised. Some schools are accordingly funded at a lower rate and schools are recommended to check their allocations and ensure their financial and asset management plans are in line with the new allocations.

- **Format of Annual Budget**

The budget must be submitted in the format "School Budget Financial Year 2008-09 Form DP11". The DP11 is available as an E-Form from the Schools Accountancy Section and can also be found on the Finance & Funding Website on the Barnet Grid for Learning. The format of the DP11 is consistent with the Council's coding structure for schools and is unchanged from last year.

Method of Submission

Once the Budget has been approved by the Governing Body, the DP11 E-Form should be sent to the Schools Accountancy Section by email at

schools.accountancy@barnet.gov.uk

after approval and no later than 1 May 2008

The Local Authority also requires a paper version of the DP11 budget signed by the Headteacher and Chair of Governors – which should be sent via the post or the Council's courier service to:-

Schools Accountancy Section

Building 4, North London Business Park,
Oakleigh Road South,
London N11 1NP

- **Preparing the Annual Budget**

The school budget is a key part of the Annual Financial Planning Cycle and is the means by which the school translates its strategic objectives into financial terms by providing a statement of intention. The School Development/Improvement Plan - which sets out the strategic objectives - should be used as the basis for compiling the annual budget. It is important that the annual budget is complete, and schools should refer to LBB's School Code List for guidance on the specific areas of income and expenditure that should be included against each CFR code. This also acts as a checklist for ensuring no area of income or expenditure is omitted.

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The following are areas of change in recent years or potential misunderstanding -

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Coding Changes introduced April 2007

From April 2007, the Coding list was amended to embrace the following three national CFR framework headings: -

- I02: Funding for 6th Form Students - *funding from the Budget Share and Standards Fund that specifically relates to 6th Form Students*
- I03: SEN Funding – *funding from the Budget Share and Standards Fund that specifically relates to pupils with special educational needs*
- I04: Funding for Minority Ethnic Pupils - *funding from the Budget Share and Standards Fund that relates specifically to pupils with English as an additional language or Ethnic Minority Achievement*

Funding for these areas was previously included under codes I01 and I05 but from April 07 were separately identifiable in the accounts in order to conform to the national CFR framework. Any part of the Budget Share and SF Revenue Allocation that is not specific to any of these three areas should be coded to I01 (Funds Delegated by LA) or I05 (Standards Fund) as appropriate.

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- **Budgeting for Extended School Activity**

There are two distinct types of Extended School Activity: that which is deemed 'Pupil Focussed' and that which is deemed 'Community Focussed'. Distinguishing between the type of Extended School Activity is important as each requires particular budgeting & accounting treatment as shown below.

- Pupil Focussed

Activity which serves to benefit the pupils, e.g. Breakfast Clubs, Reading & Study Clubs and which is provided outside of the normal school day. The budgeting and accounting treatment for such activity is as follows

- All expenditure incurred in operating Pupil Focussed Activity should be budgeted for / coded to the appropriate CFR code.

- Funding to enable Pupil Focussed Activity comes from the School Standards Grant (SSG). The amount of SSG that the school wishes to use to support Pupil Focussed Activity should be coded to I14
- Any other grant funding received specifically for Pupil Focussed activity should be coded to I15
- Any income from fees & charges levied for the provision of the Pupil Focussed Activity should be budgeted for / coded to I08
- It is permissible for the cost of providing Pupil Focussed Activity to be subsidised by the delegated budget i.e. total attributable costs charged to E24 can exceed funding & income coded to I08, I14 and I15
- Community Focussed

Services provided by the school to the wider community (not to pupils). Community Focussed Extended School Activity **can not** be funded from the school's delegated budget and schools have to ensure that associated costs do not exceed income from grants and charges. All income and expenditure associated with Community Focussed Activity is separately identifiable within the CFR coding structure.

Community Focussed Activity may be confused with the letting of school premises – which is not classified as Community Services Extended School Activity. There are two clear ways to make this distinction. Firstly if the facility is tutored / facilitated by a person employed or contracted by the school, then this would be deemed Community Focussed Extended School Activity. Secondly, where the individuals participating in the activity make their payment to the school, as opposed to a third party, then the activity would be deemed Community Focussed Extended School Activity.

The budgeting and accounting treatment for Community Focussed Extended School Activity is as follows: -

- If the school wishes to use part or all of the SSG to support Community Focussed Activity it must be coded to I16
- Any other grant received specifically to enable Community Focussed Activity should be coded to I16
- Income from charges levied for Community Focussed Activity should be coded to I17
- All staff who work wholly or mainly on Community Focussed Extended School activity should be charged to E31. Where a member of staff does work on a Community Focussed activity e.g. an Admin. Officer taking bookings for a fitness club, along with general school duties, then a judgement needs to be made as to whether this is significant or marginal. If the value is significant then an estimate of the cost of the time spent will be required for inclusion in the budget. A quarterly recharge of that person's time would be required in the accounts e.g. to credit E05 Admin / Clerical and to charge E31
- All other directly attributable costs should be charged to E32. With regard to indirect expenditure, schools are not expected to apportion the cost of areas such as energy, maintenance or cleaning where, after analysis, only minor sums would be attributable. However if the activity is a significant contributory factor to such costs, then expenditure should be apportioned to E32 on a reasonable basis e.g. on time, space occupied, sample meter readings over a

typical period etc. For any services setting up Community Focussed facilities with sports pitches/premises it is advisable that separate meters be incorporated to enable monitoring and charging of energy costs.

As the operation of Extended School Community Focussed Activity can not be subsidised by the Delegated Budget, the LA will not accept the school's budget if planned expenditure on E31 & E32 exceeds anticipated income on I16 & I17, unless this is covered by a Brought forward balance recorded on the year-end CFR form under B06.

Further guidance on determining if a particular type of extended activity should be considered pupil or community focussed is attached at the end of this document as an Annexe

- **Capital**

Capital expenditure, for schools purposes, comprises: -

- the cost of acquiring land & buildings
- the cost of new construction
- the cost of conversions forming a new structure or use
- the cost of extensions to existing buildings
- the enhancement* of buildings
- Acquisition of vehicles plant equipment or machinery
- A single purchase of ICT Hardware, software or infrastructure costing over £5,000

Enhancement involves either a substantial increase in the asset's value OR a substantial lengthening of its useful life. It excludes repairs and maintenance, e.g. re-roofing a building would normally counts as capital expenditure, whereas replacing missing tiles would not.*

Any acquisition or work on the above areas costing **below £5,000** is not classified as capital and therefore must be treated as revenue expenditure. However where a capital project includes building work and furnishings and equipment which are an integral part of the project, e.g. carpets and shelving in a new library, then such items can be treated as capital expenditure as setting up costs. The cost of professional fees associated with specific building work (e.g. architects) can also be treated as capital expenditure.

Schools are provided with devolved capital funds that they must use to implement capital priority works as identified in their Asset Management Plan.

THE TREATMENT OF CAPITAL INCOME & EXPENDITURE IN THE ACCOUNTS DEPENDS OF THE LEGAL STATUS OF THE SCHOOL, AS DESCRIBED BELOW

- **Budgeting for Capital – VA Schools**

The land & buildings are owned by the Governors who, in the form of Devolved Formula Capital, receive funding direct from the DCSF for premises and ICT capital expenditure. Therefore, for VA schools: -

- DFC must not be paid into the school's budget share account, but into a bank account in the name of the Governors (or diocese)
- VA schools can not contract or pay directly for any capital work to the schools premises

Therefore VA schools are not normally expected to show capital income and expenditure budgets on their annual budget plan. However: -

- VA schools are able to use any surplus revenue resources as a contribution towards a capital project that has been contracted for by the Governors or Diocese. In this event Direct Revenue Financing budgets should be shown on codes E30 & CI04 together with a capital expenditure budget on CE01 – CE04. On receipt of an invoice or letter of request from Governors / diocese the contribution from the budget share can then be paid from CE01-CE04.
- VA schools can contract for **ICT** capital expenditure provided the funding for the purchase is from a source other than the DFC, e.g. the budget share or donations. In this event Direct Revenue Financing Budgets should be shown on codes E30 & CI04 together with an expenditure budget on CE04. Any acquisition of ICT equipment contracted and paid for from the delegated budget becomes the property of the school / LA, and not the Governors.

- **Budgeting for Capital - Community & Foundation Schools**

Community & Foundation schools receive their Devolved Formula Capital allocation direct to their Budget Share Account from the LA and must use it to implement priority capital works identified in their Asset Management Plan. The DFC should be shown under CI01 and it can also be used to purchase ICT equipment costing over £5,000 providing it conforms to the DCSF publication "Transforming Teaching and Learning through ICT in Schools".

Any advance of future years DFC that the school anticipates to receive under the Council's Loan Scheme should also be shown under CI01.

Schools are also allowed to use their revenue resources towards the cost of capital expenditure. Any contribution from revenue resources should be shown on the DP11 under code E30 with the same amount shown on CI04.

Any private or voluntary income that has been collected for a specific capital project should be shown against CI03.

Schools should plan capital programmes over a longer period than the annual budget and three or five years is suggested. The budget should relate to that part of the School Improvement Plan relating to Asset Management or Premises Plan.

Taking into account any b/fwd capital balance, the total capital resources available as shown under CI01, CI03 and CI04 must equal budgeted capital expenditure that is planned for that financial year and future years. Note that any sum planned to be

spent in a future financial year should be shown on the Budget Plan under the heading 'Capital Resources for Future Years'.

Budgeting for Contingencies

Due to the inherent uncertainty of financial projections it is prudent and good practice to include a contingency in the budget. Experience and review of past performance should assist in deciding on the level of contingency and provision may be made on account of the following factors

- Possible inaccuracy of expenditure estimates contained in the annual budget, e.g. re fuel price changes
- Funding adjustments following the loss of High Band Statemented Pupils
- Funding reductions following Excluded Pupils
- To act as a provisional underspend to be carried forward to the next financial year

However, schools are not expected to hold contingencies or balances without specific reason. Other sources of risk can be managed by insurance cover or other arrangements e.g. pooling scheme for long-term sickness and maternity leave.

Funds for specific projects or developments in future years should be budgeted under the Heading 'Revenue Projects Future Years' and not against Contingency.

Schools are expected to plan the use of anticipated revenue income and expenditure over 3 to 5 years.

• Common Budgeting Errors

Common errors & omissions that often need correcting before the budget can be accepted by the LA are shown below. Schools should pay particular attention to these areas to ensure the accuracy of the budget and to avoid its rejection by the LA.

- B/fwd Balance – the estimate of under or overspend to be brought forward should be as accurate as possible. Estimates which are significantly inaccurate can undermine the basis on which the budget was approved by Governors – leading to the LA requiring the school to re-consider and re-submit the budget before it can be accepted
- I05 Standards Funds – whilst the School Standards Grant (SSG) is technically a standards fund allocation it should be coded to I14 or I16 and not to I05
- I09 Income from Catering – schools in the Corporate Catering Contract must include a budget for the (often significant) income that is collected from pupils and staff for the provision of meals.
- I12 Income from Contributions and I13 Donations/Voluntary Funds - some schools that have received significant income from these sources in previous years often show zero estimates for the forthcoming year. All income (and the

related expenditure it funds) which is reasonable to anticipate must be included in the budget. For example where precise details of school trips are not certain, appropriate estimates of income and expenditure based on previous years activities should be included so that virements are only required for significant variations.

- E12 Staff related Insurance – several Community and Foundation schools have previously failed to make provision for this mandatory insurance area.
- E20 ICT Learning Resources – many schools incorrectly include ICT capital related items on this code.
- E25 Catering Supplies – many schools in the Corporate Catering Contract only accounted for the cost of free school meals – ignoring the fact that they will be invoiced for the cost of all meals provided.
- E30 & CI04 Direct Revenue Financing – the budgets shown on these two codes must be equal.
- Total Planned Revenue Expenditure exceeding Total Revenue Resources Available. Deficit budgets are only allowed in exceptional cases with the approval of the Chief Finance and Chief Education Officers – in which event the school is bound by the terms & conditions of the Licensed Deficit procedure (as laid out in Section 4.9 of the Scheme for Financing Schools)

Balance Variations

Given that the Annual Budget has to be approved by the 31 March, schools have to estimate their brought forward balances as final actual balances are not normally known until the end of April.

Therefore it is usual that there will be some difference between the estimated balances and the actual balances. Where these are considered by the LA to be minor differences, the LA will make the following amendments to the schools Annual Budget Plan: -

- Revenue: The difference is added to (or taken from) Contingency. However, where the school overestimated the balance by an amount which can not be covered by Contingency, the LA will return the budget to the school for re-evaluation
- Capital: The difference is added to (or taken from) Capital Resources Held for Future Years. Where no budget has been set on this area, the LA will contact the school to establish which particular capital expenditure budget (CE01 – CE04) is to be adjusted.

Amendments to Annual Budget

Each school should have its own individual policies & practices of approving virements and inputting the effect of these onto their local accounting system.

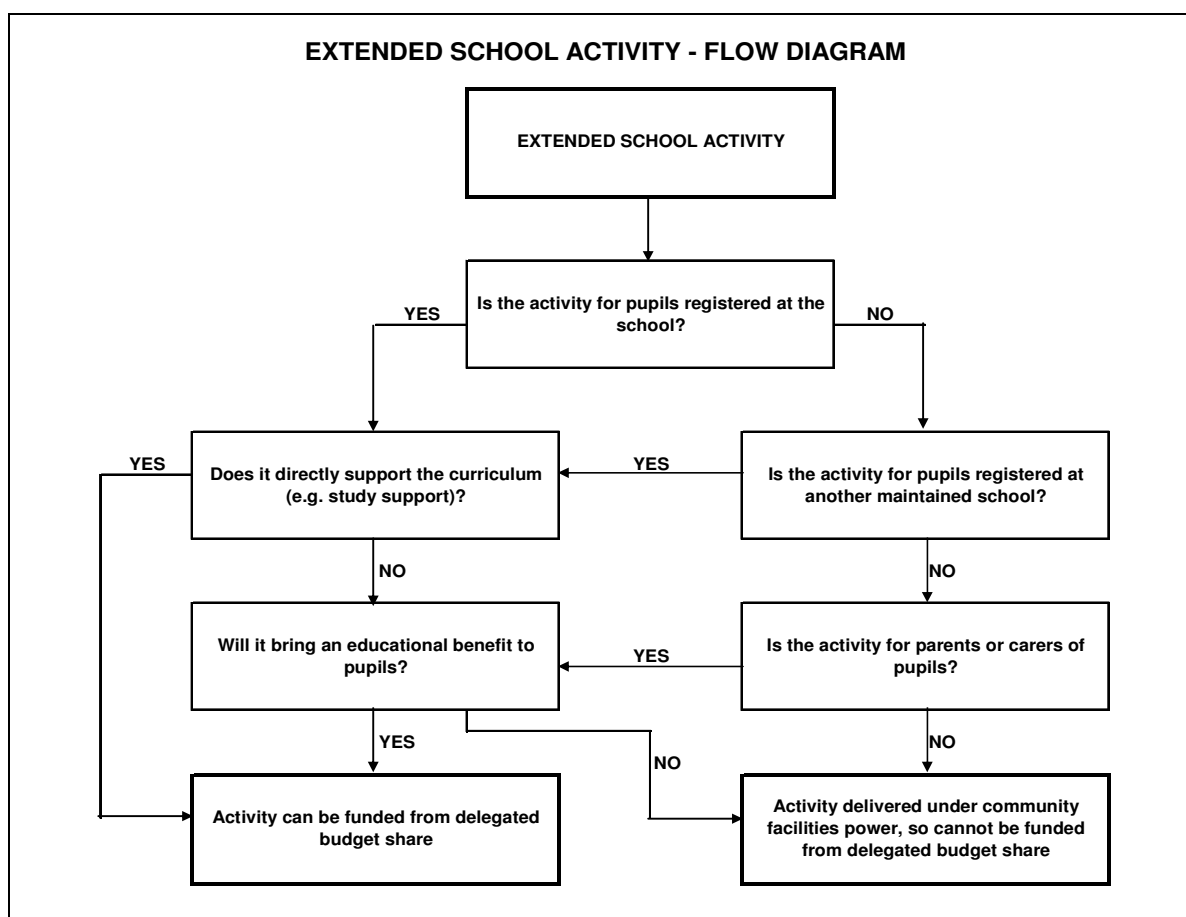
However schools should not submit these virements to the LA. Instead, all virements should be authorized consistent with the school's delegation of powers / Financial Management Policy and retained for reporting to governors and inspection by auditors. This will have the effect of enabling school managers and governors to monitor their income & expenditure against an up to date budget. School budgets held on the LA's formal accounting system (SAP) will be updated twice yearly based on the information provided by schools on their Year-End forecasts. [*NB: exceptions to this may apply to those schools that give financial cause for concern - where with the agreement of the Chief Finance Officer, material alterations to the school's budget will be accepted in between the original Budget Plan and two Year-end Forecasts*].

Contact Points

- Fair Funding Team (020 8359 7636 / 7816) for all queries over funding allocations e.g. Budget Share, 6th Form Funding, Standards Fund and SSG
- Schools Accountancy Section (020 8359 7225 / 7203) for all other queries regarding the preparation of the annual budget

Annexe - Further Advice on Extended School Activity

A school's delegated budget, or 'budget share', is the funding it receives from the local authority for the 'purposes of the school'. The meaning of the term, 'purposes of the school', is not spelt out fully in legislation, but is understood to cover all the activities that the school is required to deliver in respect of the teaching and learning of the pupils registered at the school. The legislation does set out certain activities that are *not* 'purposes of the school, and which cannot therefore be funded from a school's delegated budget, and these include the provision of community facilities. (At present the only exception to this is for maintained nursery schools, which may fund community facilities from their delegated budget.) It would ultimately be for the courts to decide; but the Department for Children, Schools and Families' view is that the term 'purposes of the school' may be taken to include all activities that bring an educational benefit to the pupils registered at the school or at other maintained schools.



Having asked itself these questions a school might conclude, for example, that a parenting class is eligible for funding from the delegated budget because it helps pupils' parents to support their learning; but that an adult fitness class is not eligible for funding from the delegated budget because, whilst it would improve the health of adults from the local community, it would not bring any educational benefit to pupils. The school might also conclude that a breakfast club for pupils held during term time is eligible for funding from the delegated budget because it helped to ensure that pupils are in class on time and ready to learn; but that a play scheme during school holidays is not eligible for funding from the delegated budget where its purpose is childcare, and is therefore a community facility.

The distinction between extended activities that are eligible for funding from the delegated budget, and those that are not, is important because it will govern the way schools report their spending on various activities under Consistent Financial Reporting. A school may conclude that a certain activity is eligible to be funded from the delegated budget, but decide in the particular circumstances to fund the activity from other sources, or to support it only in part from the delegated budget. In those circumstances, the expenditure should still be reported as an activity that can be funded from the delegated budget.

