

# Financial Planning Policy

## Document Control

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## Related policies and documents

- Reserves Policy
- Fixed Asset Policy
- ICT Strategy

## Definitions

- Where the word 'Trust' is used in this document it refers to The Elliot Foundation Academies Trust.
- Where the word 'Governing Body' is used it refers to the Local Governing Body of an individual academy within the Trust.
- Where appropriate the Local Governing Bodies of individual academies will publish details of the procedures and practices to implement Trust policies.

## Elliot Foundation Academies Trust Vision and Values

### Vision

The Elliot Foundation was created as a safe place for children and teachers where all are nurtured to achieve beyond even their own expectations. Our motto, "Where children believe they can because teachers know they can" reflects our conviction that raising expectations for all children and teachers is at the heart of a successful and inclusive society.

### Values

#### For children

We help children to discover themselves and aspire beyond any limitations that their context might appear to place upon them. We help them understand that they can be, 'Heroes of their own lives' building the foundations for healthy and successful lives.

#### For schools

In addition to the essential functional skills of reading, writing and mathematics, children need to learn how to learn and to believe that they can continue to do so. They must also possess the critical thinking skills to sift fact from fiction to be able to think for themselves, freely and creatively.

#### For success

To thrive, whatever their chosen path, children need confidence, curiosity and commitment. We will nurture these attitudes across all their learning experiences

#### For communities

Children at Elliot schools will be raised with an awareness of the world around them and their role in shaping a better future through volunteering and contributing in their communities.

## **1. Policy statement and objectives**

- 1.1. This policy sets out the expectation of the Elliot Foundation Academies Trust for each academy to carry out suitably robust financial planning to minimise the risk of deficits and to anticipate future financial pressures.

## **2. Scope and principles**

- 2.1. This policy is approved by the Finance Committee on behalf of the Trust Board. It applies to all employees.
- 2.2. The general principle is that academies should be able to plan at least three years ahead in high level terms to see possible problems, even though government policy changes will necessarily impact on planning assumptions.

## **3. Annual Budgeting**

- 3.1. Where academies are funded on a lagged basis then their funding will be dependent on the October census figures. Academies should consider this when considering applications to join or leave around this period.
- 3.2. October census figures should be shared with TEFAT finance staff so that the impact of changes in roll can be assessed prior to formal funding letters being received.
- 3.3. Annual funding letters from the ESFA should be received by the end of March in the previous financial year. By that stage it is expected that academies will have already started detailed planning on the timetable for the following year and the resource needs for that year.
- 3.4. The deadline for submission of agreed budgets to the ESFA is currently the end of July. Academies should therefore ensure that budgets are discussed at local governing bodies and recommended for approval by the last TEFAT Finance Committee of the year. Dates for this will be circulated in advance.
- 3.5. First draft budgets should be shared with TEFAT finance by the start of May, in order to allow time for suitable discussion and challenge. If there are likely to be pressures on the budget these should be flagged up to the FD and governors as soon as they are recognised and not wait for the budget submission.

- 3.6. Budgeting should be done by reference to the academy improvement plan. All assessments and plans within the academy should be robustly costed with the budget an integral part of the planning process. Budgeting should be done from scratch each year rather than taking a last year plus a bit approach, which is all too common in organisations, and leads to inefficient operations.
- 3.7. Where the budget assumes any funding or direct service from TEFAT this should be clarified in writing before including those assumptions in the budget.
- 3.8. The annual budget should make prudent assumptions on income and expenditure each year, but should not be so conservative or optimistic as to be unrealistic. Contingencies should be included in the budget to mitigate the risk of in year shocks, but should not be excessive. It is also important that funds are not fully allocated at the start of the year without any form of contingency, so as to leave the academy vulnerable to even small financial pressures. It is good practice to allocate only a portion of the 'capitation' budget to budget holders at the start of the year and leave a portion as a challenge fund for budget holders to bid for in year if they cannot manage (and have shown suitable financial prudence) on the initial allocation. This encourages good management of departmental budgets and improved value for money. Contingencies can be released in year, but this should be done only after consideration of the academy's reserve target (see TEFAT Reserves Policy).
- 3.9. Academies should do all they can to discourage any perception that a year end 'spend up' by any budget holder will have a positive effect on their next budget.
- 3.10. Any budget must also consider the cashflow movements over the year as well as the overall position, to ensure on-going liquidity.
- 3.11. Budgets must also take into account longer-term issues, such as ICT and capital replacement needs (see below).

#### **4. Medium to long term budgeting**

- 4.1. Although government funding is only allocated on a year by year basis, it is imperative that academies try to look at their budget trends over a longer time frame, ideally between 3 and 5 years. This should be in sufficient detail to flag up any likely future financial pressures that we should be trying to plan for now. It is now also a requirement that we submit updated three year plans annually to the ESFA in July.

- 4.2. 3 year plans are especially important for new academies, which may receive start up grants that will decrease rapidly over time, placing greater pressure on budgets (although compensated for by increased pupil numbers). Academies need to plan for this drop off.
- 4.3. Some aspects of running an academy, such as capital replacement, need to be looked at over a longer period and planned for. Each academy should draw up an ICT replacement strategy. Many academies have got themselves into financial difficulty by opening with large numbers of highly specced IT devices which then needs replacing in large swathes in 3 to 5 years time. It is vital that this is planned for and funds put aside to meet the need. It is also worth trying to phase the replacement over a number of years to ensure that in future the peaks in expenditure are spread as much as possible. Academies also need to be mindful of changing technologies and not assume a like for like replacement. See also the TEFAT ICT Strategy.
- 4.4. Every academy should have an asset management plan for every permanent building on their site. This will detail the likely replacement costs each year of plant, machinery and building fabric and the on-going upkeep needs. Academies should refer to this document as part of their annual planning and ensure that sufficient funds are put aside to meet needs as they arise. The plans are only indicative, so should be treated as a conservative guide to the times and costs of the building.
- 4.5. Even in a period of public sector pay limited rises, staff costs will still increase ahead of the headline rate of inflation due to annual increment rises. Given that salary costs comprise the vast majority of expenditure the 'incremental drift' caused by these annual awards needs to be factored into longer term plans. It is however reasonable to assume a certain level of turnover on staff with some savings as less experienced staff replace some of the more experienced to offset some of this drift.

## 5. Deficits

- 5.1. No academy should set a budget that shows a deficit. This would only be acceptable where the deficit is solely caused by utilising start up grants unused from previous years in line with the plan for their expenditure, or where a capital or other projects that will be funded from existing reserves is to be undertaken. Any deficit budget needs the express agreement of the TEFAT Board, and prior to this needs to be signed off by the TEFAT FD and relevant Regional Director. The RD must agree that any further cuts will adversely impact on teaching and learning.

- 5.2. No academy should set a budget that has a cumulative deficit (i.e. that exceeds cumulative reserves) without the express agreement of the TEFAT Board. Where a cumulative deficit is agreed (a 'licensed deficit') this will only be on the basis that detailed and agreed plans are in place to recover the position over no more than two years.