SOUTH BANK ACADEMY TRUST

South Bank Multi Academy Trust

BUDGET MONITORING PROCESS

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Approved by Trust Board on:	11 JULY 2017
Review Date:	FEB 2018

1 WHY DOES THE MAT NEED A FORMAL BUDGET MONITORING PROCESS?

1.1 The MAT has an annual budget of c£8m and for 2016/17 is forecasting an in-year deficit of (£210k). 90% of the MAT's income is received from the GAG which is set by the EFA and will not change during the year. The majority of other sources of income (e.g. other government grants) are similarly out of the MAT's control and are dependent on the pupils currently on role. Consequently there is very little scope to change income during the year. The budget setting process must therefore include a definite staffing structure and accurate estimates of non-staffing expenditure which should, ideally, result in a surplus carry-forward balance for the school and help the MAT to achieve its c.4% reserves target. Each MAT school currently has financial autonomy to set and monitor its own budget.

1.2 It is essential to monitor expenditure closely, as even a small overspend or minor staffing change can negatively impact the school's financial outturn and may have knock-on impacts for the rest of the MAT schools. Negative budget variances need to be identified early in order that overspends do not continue for longer than necessary, and so that plans to reduce the overspend can be implemented in a timely manner.

1.3 This budget monitoring process is designed to ensure that overspends and income shortfalls are identified and dealt with in a timely manner by the Headteacher, that the Trust are aware of them, and that they do not result in negative impacts on the MAT's reserves which, in turn, impact the other MAT schools. If there is considered to be a material risk to the MAT's reserves as a result of ineffective budget management in one of the schools, a process needs to be in place by which the Trust Board can remove the school's financial autonomy. In summary it will act as an 'early warning system' and should provoke action early, well before removal of financial autonomy is considered.

2 PROPOSED BUDGET MANAGEMENT PROCESS

2.1 Budget Setting

The start budget is approved by the Trust Board in July, with particular consideration given if a school wishes to set a budget with a deficit carry forward balance which will impact the overall MAT reserves. A deficit budget may still be appropriate in some instances. The budgeted year end reserves balance as a percentage of total income will be calculated for each school and used a basis for budget monitoring.

The revised budget is approved by the Trust Board in April and will replace the start budget as the monitored budget for April-August.

2.2 Monthly Monitoring

2.2.1 The SBM/Finance Manager produces a monthly monitoring report from PSF on WD8 showing % variance to current budget and forecast outturn for every nominal code (actual to date + budget for remainder of year = forecast outturn for the year) (See appendix 1)

2.2.2 The SBM/Finance Manager reviews the report, provides commentary for variances and includes adjustments for pre-approved variances to budget (see 2.7) and virements (see 2.3.2) which will affect the forecast.

2.2.3 The Headteacher, CFO and SBM meet on WD10/11 to review the completed monitoring report.

2.2.4 LGBs will review the monitoring reports periodically (at least once per term) and be informed of any actions that have taken place from 2.3 or 2.4 below.

2.3 Actions following Monthly Monitoring – Detailed Level

Negative YTD variances are identified on individual nominal codes. If variances are:

Income/Staffing Costs:

>5% of nominal budget YTD (see appendix 2)

Non-staffing:

>2% of total budgeted non-staff costs YTD (see appendix 3)

2.3.1 They must be explained by the Headteacher and a plan put in place to reduce the variance

OR

2.3.2 A virement should be implemented for the value of the forecast overspend (i.e. 'swap' budget from another area of the budget to subsidise the area of the overspend). The Headteacher should approve virements up to 2% of total expenditure and the LGB should approve virements >2% of total expenditure.

2.4 Actions following Monthly Monitoring – High Level

The forecast year end reserves balance as a percentage of total income will be calculated:

forecast year end reserves /forecast full year income

(based on YTD actuals + budget for remainder of year +/- known timing adjustments)

If this variance to budget is >-0.5% then the reserves position is classified as green

If the variance to budget is <-0.5%, the following actions will be taken:

Reserves variance	Duration of variance	Action
Between -1.0% and -0.5% (min variance -£10k)	1 month	
	2 months	
	3 months	
	More than timeframe agreed in action 2	
Between -1.5% and -1.0% (min variance -£20k)	1 month	
	2 months	
	More than timeframe agreed in action 2	
Greater than -1.5% (min variance -£30k)	1 month	
	2 months	

2.4.1 Amber Action

The CFO will make the Finance & Audit Committee aware within a week of WD10 (via email) with the Headteacher's explanations and actions/virements to be put in place.

2.4.2 Red Action

The Headteacher presents an action plan and timeframe for approval by the Finance & Audit Committee to reduce variance to >-0.5%. The Chair can call a meeting if s/he deems it necessary to do so prior to the next scheduled meeting. The CFO will monitor this plan.

2.4.3 Black Action

The Finance & Audit Committee will meet to review reasons for the budget variance and consider the future financial autonomy of the school. The Committee will consider:

- The three year budget set by the school and whether this is in surplus or deficit
- The financial performance of the school compared to budget over the last 12 months
- The reasons that the action plan set in 2.4.2 above was not met
- The likelihood that the financial management of the school will improve without assistance from the MAT.

The Finance & Audit Committee will then recommend to the Trust Board whether financial autonomy should remain with the school or if there is sufficient financial risk for this to be removed.

2.5 If the Finance & Audit Committee's review results in the loss of financial autonomy, the Trust Principal and CFO will take over management of the school's budget with additional support as required from the Finance & Audit Committee, Central Finance Team and appropriate third parties. A target financial position will be agreed, and support and training will be given to the school to enable them to improve budget management in the future.

2.6 Where financial autonomy has been removed, this will be reviewed by the Finance & Audit Committee on a termly basis and will be returned to the school when the target set in 2.5 has been achieved and the Finance & Audit Committee are confident that budget management capability within the school can maintain this level.

2.7 When preparing the revised budget and at the end of the year the Finance & Audit Committee will review all under and overspends against the budget. They will review the materiality of these in conjunction with the revised budget and following year budget and consider whether they are achievable and realistic.

2.7 Pre-approved Budget Variances

If a Headteacher is aware of an impending overspend which is unavoidable (e.g. the employment of an additional TA to support a new SEN child), this can be pre-approved by:

- the Chair of the LGB and Chair of the LGB Finance Committee or a designated governor if the overspend is <1.0% of budgeted outturn
- the Chair of the LGB, Chair of the Trust Finance & Audit Committee and the Trust Principal if the overspend is >1.0% of budgeted outturn

The approval of the overspend should be minuted and the value deducted prior to monthly review (see 2.2.2)

3 PROPOSAL

3.1 It is proposed that the Finance & Audit Committee consider the above process for reasonableness and practicality.

3.2 The agreed process could be implemented on 1 September 2017 to coincide with the start of a new budget monitoring period. The process could then be reviewed after 6 months and one year for effectiveness and practicality.

Appendix 1

Monthly monitoring report at nominal code level (ref 2.2.1)

	MAT - South Bank Multi Academy Trust						
	YTD TOTALS				FULL YEAR		SPENT
	Actual	Budget	Variance	% Variance to Budget	Budget	Forecast	(%)
MAT5135 - IT Support Services	*5,000*	*8,000*	*3,000*	*63%*	*9,000*	*6,000*	55.56 %
MAT5140 - Professional Services	*15,000*	*10,000*	*(5,000)*	*150%*	*25,000*	*30,000*	60.00 %
MAT5141 - Other Services	*50*	*1,000*	*950*	*5%*	*1,000*	*50*	5.00 %

Appendix 2

If a theoretical school has the following budget:

Income	£2,000,000
Staff Costs	£1,600,000
Non-staff Costs	£500,000
Approved deficit	(£100,000)

The school may budget to spend £1m on teaching staff salaries, equally phased throughout the year. After 3 months the budget would be £250k. In that month, if the YTD actual teaching staff exceeds budget by £12.5k (5% of budgeted YTD costs) this would trigger points 2.3.1 or 2.3.2.

Appendix 3

The school may budget to spend £8k on stationery, equally phased throughout the year. After 9 months the budget would be £6k. If the budgeted YTD non-staff costs were £375k and the actual costs exceed budget by £7.5k (2% of total budgeted non-staff costs YTD) this would trigger points 2.3.1 or 2.3.2.

Appendix 4

If the school's forecast position after 6 months was:

	Budget	**Forecast**
B/f reserves	£60,000	£60,000
Income	£1,000,000	£950,000
Staff Costs	£800,000	£790,000
Non-staff Costs	£250,000	£250,000
Year end reserves(£)	£10,000	(£30,000)
Year end reserves(%)	1%	(3.2%)

The forecast year end reserves have a variance to budget of >1.5% **and** >£30k so an amber action is triggered.