

Budget Principles and Funding Model

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Purpose and scope

- 1.1. To safeguard the overall financial health of the Trust so that its strategic and business objectives can be met.
- 1.2. To support maximum delegation to academies and full accountability for managing their own financial affairs, whilst ensuring a clear and fair process is in place for allocating and managing resources across the Trust.
- 1.3. To establish transparent arrangements for setting budgets, monitoring financial performance, and managing balances that focus on the needs of learners and maximising their outcomes.
- 1.4. To promote compliance with best practice, meeting DfE requirements and the Articles and terms of the Trust.

Relevant additional policies, law and guidance

This policy should be used in conjunction with the following additional documents:

- LCT Memorandum of Understanding and Articles of Association (July 2017)
- DfE Academy Trust Handbook
- DfE Funding Agreement (Annual)
- LCT Scheme of Delegation
- LCT Committee Terms of Reference
- LCT Risk Management Policy
- LCT Investment Policy
- LCT Whistleblowing Policy – Speak Up
- LCT Financial Procedures Manual/Guide
- LCT Reserves Policy

Forward Planning

The Trust will compile a high level three-year financial plan and sensitivity analysis which demonstrates how its strategic plan will be achieved and how overall resources will be deployed to achieve key priorities. Whilst this type of modelling will not be precise, it will use current year or most recently available finances and realistic assumptions about funding, pupil numbers, curriculum change, staffing needs and other costs, including capital investment to model the most likely scenarios.

Information will be used to inform timely decision making and prioritisation within a framework that remains flexible enough to respond to change.

Budget Setting

The Trust will determine a budget and reporting calendar and timetable for each financial year.

The Trust finance team will work closely with the Principal/Headteacher of each academy to produce a balanced budget for the year commencing 1st September that is realistic and reflects previous years outturn, new/agreed developments and anticipated pupil numbers.

Separate capital budgets will be prepared for each academy covering assets over £1,000 in value and typically with an expected life of more than 3 years.

The Trust will prepare a capital funding budget for School Condition Allocation grant income which will prioritise school estate Health & Safety requirements, condition-based projects identified through condition surveys and estate projects to improve teaching and learning.

The Trust will provide centrally derived baseline budget information that reflects local needs and agreed priorities. Detailed budgets will be compiled with reference to:

- Confirmed core grant income, plus realistic assumptions for growth/contraction impacting on forthcoming year.
- Confirmed specific grants.
- Trust fees and charges policy and rates.
- Employee establishment (as per payroll records) and approved changes, including full cost of anticipated progression and pay awards, sufficient contingency for unfunded cover and 'vacancy allowance' for unplanned changes.
- Agreed or planned efficiency savings.
- Existing and new non-pay costs, including capitation, contractual commitments, PFI and inflation.
- Agreed recharges within the Trust.

The following will be estimated centrally. These are largely non-cash items:

- Depreciation, including on grant funded assets and those transferred on conversion.
- Pension adjustments arising from the annual valuation of the Local Government scheme.

Budgets should be balanced and in line with the Reserves Policy. This may result in the draw down of unspent funds brought forward from previous years, or the build-up of funds to carry forward to future years.

The Principal/Headteacher will provide the Local Governing Body with a copy of the budget for their comments and feedback.

The consolidated Trust wide budget will be accompanied by a balance sheet and summary cashflow forecast, together with a commentary outlining key assumptions, major developments from the current year and key risks.

The consolidated Trust wide budget will be approved by the Trust Board prior to submission to the DfE in their standard form by the given deadline in late July.

Trust Wide Management and Services: Funding Model

The CEO and core team provide Trust wide services. Centralising these services underpins quality improvement, secures reliable management information, and delivers better value for money. Essential central costs will be met by the Trust from core grant income before it is distributed to academies.

Subject to specific requirements of the Trust (e.g. PFI, DfE stipulations and legacy demands), it will aim to distribute 95% of core grant income received through the National Funding Formula directly to **academies** in the first full year of operation. This percentage will be reviewed annually and agreed with the Resources Committee.

In Special **Academy** settings, the Trust will aim to distribute 95% of SEN Special Needs Block income received through the National Funding Formula and from the Local Authority directly to **academies**. This percentage will be reviewed annually and agreed with the Resources Committee.

Academies not qualifying for full delegation will receive a lower proportion of core grant income for a limited period, including SEN Special Needs Block income for Special **Academies**. This arrangement will be underpinned by an agreed programme of additional intervention and support.

Specific grants received through the funding mechanism such as Pupil Premium, catch up funding, free school meals and sports grants will be distributed to schools in full. Spending decisions, their timing and wider implications, including contribution to central costs where applicable must be agreed in advance with the CEO (and Trust Board as appropriate).

LGBs have a right of appeal if they believe they have been treated unfairly in the processes for distributing core grant income, or other aspects of the budget setting process. Such appeals must be made in writing, giving clear grounds and quantifying the impact. In the first instance, appeals will be to the defined Committee of the Trust (Resources), with the opportunity for a final appeal to full Board if necessary.

Capital Funding

School Condition Allocation (SCA) will be allocated to estate projects on a Health and Safety and condition rating generated from condition surveys and H&S audits as a priority.

Projects that enhance teaching and learning will be considered and agreed with the Principal/Headteacher and LCT CEO/COO. Income and expenditure will be recorded in the Management Accounts Reports.

Devolved Formula Capital (DFC) will be pooled to support ICT refresh projects within all academies. Individual academy DFC income and expenditure will be recorded within the monthly Management Accounts reports.

Please refer to the Capital Allocation Policy for further information.

Recharges within the Trust

Generally, the direct costs associated with improvement actions, joint working, sharing good practice and oversight will remain with the originating academy or team. However, on occasions, particularly where the level of input is significant and prolonged and existing posts/duties must be covered then academies will be reimbursed. This will be at an agreed rate based on actual costs as determined by the CEO.

Budget Monitoring and Reporting

Monthly Management Accounts will be prepared to include details of the approved budgets for each academy alongside year-to-date income and expenditure as well as a year-end forecast.

Management accounts and Budget Reports will be shared with Principals/Headteachers and budget holders monthly.

Consolidated management accounts will be presented to the CEO monthly alongside supporting commentary.

Consolidated and academy management accounts will be presented and received by the Resources Committee on a half termly basis as well as shared with the Trustees monthly.

The Trust's Financial Regulations and Scheme of Financial Delegation provides further detailed guidance on budget management, reporting and approval processes, including virement.

Cashflow Management

DfE and other funding, and patterns of expenditure follow a unique and uneven profile. As a result, the Trust will ensure cashflow is managed that takes full account of the latest budgets and known commitments.

Academies will work with the CFO to ensure that, where necessary, debts are chased promptly, and expenditure is deferred if required to do so through the central finance team.

The Trust will aim to retain sufficient funds in reserves to cover its day to day working capital requirements. Funds above this level will be held in interest bearing deposit accounts.

Please refer to the Investment Policy for further details.

Reserves and Balances

The explicit aim is that no academy should be in operating deficit. However, if an academy cannot set a balanced budget, or the situation worsens mid-year, then the CEO must be informed immediately, and the forecast deficit must be approved by the Trust Board at the earliest opportunity.

This process will be supported by a clear financial recovery plan which will outline how the academy will move back into balance and how it will 'repay' accumulated deficits within two years.

The Trust reserves the right to restrict or remove delegation until any deficit situation is resolved.

Where a planned operating surplus (balance/reserves) has been accumulated by an academy, the LGB shall produce a plan for the managed spend and investment of that surplus in the interests of the academy and the Trust.

The Trust will expect the LGB to have full regard to the interest of the whole Trust and demonstrate due consideration to supporting all academies. The Trust will determine the availability of surplus funds, the timing of release and % available to the specific academy.

The effective management of operating surpluses is key to the financial health and further development of individual academies and the whole organisation, and the Trust will aim to ensure that related decisions are fair and fully transparent.

It will have an appeals process, following the two stages: firstly, to its defined Committee, then a final appeal to the Trust Board.

Please refer to the Reserves Policy for further details.

Contingencies

Academies will be encouraged to spend available resources for the benefit of learners in the year in which they are received. However, academies are also responsible for their own financial risks, and so will need to budget prudently and establish their own contingencies.

It is possible that major unforeseen events will have a material impact on the financial health and operation of the Trust as a whole. Whilst the Trust aims to minimise such risks and will insure against many of them, it will access and utilise reserves in the interests of the whole organisation and learners where necessary to do so.

Financial Performance Indicators

The Trust will aim to benchmark academy finances within the organisation and with similar academies and Trusts when comparable data is available.

For the Trust as a whole, its initial targets will be:

Financial Health	Annual operating surplus before depreciation, year-end pension adjustments and tax as % of turnover	6% - 8%
	Cash days in hand	30 days
	Current ratio (current assets: liabilities)	2:1
Efficiency	Employee costs as % of turnover	<80%
	Teaching staff utilisation	Methodology tbc
	Value for money	Evidence of planned reviews leading to savings
	Creditor payments	30 days
Risk	Financial risks	Mitigation actions fit for purpose and effective
	<u>Audit recommendations</u>	Implemented in full:
	High Priority Actions	Within 5 days
	Medium Priority	Within 90 days
	Low Priority	As agreed with CEO

Monitoring and review

The trust's Finance lead will monitor the implementation of this policy, including making sure that it is updated to reflect the needs and circumstances of the trust and the academies.

Appendix 1: Outline Budget and Reporting Calendar

January-February	Current year budgets reviewed. Mid-year update prepared and issued to LGBs and Business & Personnel committee.
January	Spring pupil number census to DfE
February -March	Main funding allocations confirmed, draft budget prepared for the following academic year.
February-March	Curriculum plans reviewed, new intake and changes in pupil numbers identified. Staffing needs to be confirmed with the Headteacher, including ongoing proposals linked to school improvement plans.
March	Admission arrangements for following academic year confirmed.
April	Proposed new posts, restructuring and possible redundancies confirmed. Consultation and safeguards under Trust's Employment Protection Scheme may apply. LGB approval as required.
May	Detailed budgets prepared.
May	Summer pupil number census to DfE.
May	Review draft budgets, including early consultation with CEO and COO. Processes for clarification, adjustment, and appeal.
June- July	LGB and Trust approval of budgets (and 3-year financial plan if available)
July	Budget forecast return to DfE.
October	Autumn pupil number census to DfE.
November-December	Audited financial statements approved by Trust Board and submitted to DfE (to Companies House).