Budgeting and Resource Allocation

Policy Statement

The College must be a going concern and remain financially sound to be able to respond to the needs of learners, employers and the local community and thus drive forward the objectives in the strategic plan. Effective budgeting is key to fulfilling this aim.

Halesowen College aims to deliver a surplus budget with positive cash generated from operating activities to ensure the continuous investment in learning. The budget should be realistic and aim to achieve the predetermined financial targets approved by the corporation which are currently reflective of outstanding financial health (as defined by the Education and Skills Funding Council (ESFA)). The budget shall resource the curriculum to deliver the activities specified and agreed in the costed curriculum plan and provide funds for business support services in accordance with the needs of the College.

The budget setting process must include robust sensitivity analysis and scenario planning. External drivers such as the political agenda, social, demographic, educational and economic factors the assumptions may change within the budgetary period. As such, regular (at least termly) budget review shall be conducted.

The budgeting policy shall be in accordance with the overarching financial regulations and support the financial strategy of Halesowen College.

Budgeting and Resource Allocation Policy

Purpose

Effective budgeting is an essential part of the framework to ensure the successful financial management of Halesowen College. The aim of this policy is to ensure that the financial plan reflects the planned learning activities and supports the strategic objectives of Halesowen College. The model must recognise affordability and the discharge of targets for liquidity, profitability and gearing thus creating an agile basis for investment whilst retaining financial resilience.

This policy defines:

- the overall approach and methodology for budgeting,
- resource allocation and financial planning
- glossary of terminology
- procedures and principles used to set individual budget lines.
- timeline and business cycle (Appendix B and C)

It is important to understand how the College generates income and how resources are expended. A curriculum costing and resource deployment system is an extension to the budgetary process and contributes to the open and transparent financial management. This is covered in this policy as it is essential to establish the level of contribution generated by each course and divisional area to inform the overall College budget.

The budget provides a forecast of sources of income and expenditure, therefore constructing a model of how the College will perform financially based on a set of assumptions and the projections in the course file. The budget must be set in advance of the start of the year to which it relates, and the model is then used to measure the actual financial performance of the College against the forecast.

The budgeting policy shall be in accordance with the overarching financial regulations (Appendix A).

Rationale

The rationale for preparation and monitoring of budgets is as follows:

- aid the planning of annual operations and contributes to the annual plan
- co-ordinate activities of the College in pursuance of the strategic objectives
- communicate financial plans
- motivate budget holders
- control financial activities
- evaluate financial performance
- allocate resources for the purpose that they were intended
- promote value for money and ensure all activities make the required contribution
- satisfy external demands to ensure going concern/financial health

Detailed budgets will be produced in accordance with Budgeting Procedures. As stated above where there is uncertainty regarding sources of income and/or levels of expenditure detailed sensitivity analysis must be conducted with the various scenarios explained in the associated commentary. Appendix E provides a RAG rated assessment of each budget heading.

Approval

As stated in financial regulations the budget will be approved by the Corporation (on the recommendation of the Finance and Resources Committee) in advance of the year to which it relates. This budget will be reviewed and considered by the Committee, with all changes recommended to the corporation for approval, on at least a termly basis.

Review

This policy will be reviewed annually and approved by the Finance and Resources Committee.

Review

Reviewed/Approved	By	Date
Updated by	Andrew Woodford	29.02.2024
Reviewed by	CLT	06.03.2024
Approved by	F&R	13.03.2024
Website	Yes / No	Yes
Date of Next Review		01.03.2025

Appendix A

Financial Regulations

Financial Regulations states that in order that the College exercises adequate financial control over its resources; the Principal will prepare annual estimates of income and expenditure to be approved by the Corporation.

Such budgets will be:

- in accordance with the strategic plan/overarching aims and objectives of the College;
- be prepared within the limits of available funds;
- include contingency sums determined by the Corporation;
- mirror year one of the financial plan submitted annually to the funding agency;
- appropriately authorised prior to the financial year to which they relate (also that all subsequent revisions are approved);
- take account of key risks facing the College and their potential impact.

The Principal as Chief Accounting Officer is responsible for the preparation of reports, forecasts and estimates relating to all resources both revenue and capital.

Appendix B

Budget Setting and Curriculum Resource Timetable 2024–2025

1 March 2024	Course hours and study programme composition to be agreed by College Leadership Team
w/c 4 March and 11 March 2024	CLT and Finance and Resources Committee to consider the budgeting policy and procedures, the budget framework for 2024/25 and resource allocation.
w/c 4 March 2024	Course file proformas completed with study programmes, adult skills, apprenticeships, HE and EHE provision.
w/c 18 March 2024	Course file to be completed by Heads of Division (HOD)
w/c 8 April 2024	Course file loaded into 4CAST and provision reviewed by HODs, Chief Information Officer, Chief Finance Officer and Deputy Principal
w/c 22 April 2024	Course file finalised and associated staffing budgets drafted. CLT to consider student number profile and combination rates.
w/c 28 April 2023	Initial meetings with key staff to consider and agree parameters for budget setting including establishing resource allocations for planned new provision and priorities for 2024/25. Indicative values for curriculum capital and RPE to be included based on Spring DPR meetings and then prioritised in June meetings in accordance with curriculum plans/course file.
3 May 2024	Meetings with budget holders complete
10 May 2024	First draft of budget completed with contribution rates calculated
14 May 2024	CLT to discuss draft budget, contributions and financial plan
28 May 2024	Second draft of budget/financial plan completed
25 June 2024	Draft budget to be considered by Finance and General Purposes Committee
4 July 2024	Present budget to Corporation for approval
w/c 8 July 2024	2023/24 budgets to budget holders alongside training
1 August 2024	Close down period 12 subsidiary ledgers in Open Accounts

Appendix C

Business and Finance Budget Cycle

August	Initial outturn for previous year	CLT; Corporation/ F&R
September	Management accounts as at 31 July Initial projection of income 2025/26 External Audit for HCE	CLT; Corporation/ F&R Corporation External Audit
October	DPRs to discuss current year resources and emerging issues External Audit for College	CLT; Assistant Principals, HoDs External Audit
November	Budget Revision 1 Annual Members Report and Financial Statements Performance against financial targets (final 2023/24) External Audit Finding Report	CLT; Corporation/F&R CLT; Audit Committee; F&R; Corporation External Audit
December	Submission of Annual Members Report and associated documents to funding agency and Companies House Submission of Finance Record to ESFA	Chief Finance Officer & Vice Principal; External Audit
January	Second allocation to curriculum budgets based on adjusted student numbers DPR discussion and contribution rates	CLT; Assistant Principals, HoDs
February	Budget Setting Policy review including course costing model	CLT; Corporation/F&R
March	DPR to discuss current year and levels of resource for next academic year Budget Revision 2	CLT; Assistant Principals, HoDs CLT; Corporation/F&R
April	Audit Planning meeting	Chief Finance Officer & Vice Principal; Head of Finance and Payroll; External Audit
May	Initial drafts of budgets	CLT
June	DPR to finalise resource requests for forthcoming year Financial Plan and Commentary; Budget (revenue and capital) and Budget Revision 3 TPA Audit	CLT; Assistant Principals, HoDs CLT; Corporation/F&R CLT; Corporation/F&R External Audit
July	Budget for year ahead approved.	Corporation

Appendix D

Glossary

Budget	Financial plan of current activities that encompass both estimated income and expenditure for a specific period, normally a financial year.
Financial Year	The period between 1 August and 31 July.
Financial Regulations	Document which details financial objectives and targets together with responsibilities, protocols and regulations to be followed ensuring sound financial management and regularity.
Finance and Resources Committee	A Committee of the corporation with a remit for overseeing financial management and performance
Sensitivity Analysis	A technique used to determine how different values of a variable, eg level of agency funding impact on the overall financial position given a set of assumptions.
Budget Holder	A named individual who has delegated authority to expend resources on certain items.
Funding Agency	Education Funding Agency, Skills Funding Agency, West Midlands Combined Authority or Office for Students who provide funding based on varying methodologies linked to student numbers.
Top Down Budgeting	A budgeting method where once the income profile has been established, reflective amounts are allocated to individual functions to create a detailed expenditure budget.
Bottom Up Budgeting	A budgeting method where budgets prepared by individual budget holders are combined to derive the expenditure profile.
Treasury Year	The period between 1 April and 31 March.
CAR	Curriculum Area Review meeting where the Senior Team meet with Heads of Division to discuss quality, teaching and learning alongside finance and resource allocation
Contingency	Resources set aside to cover unexpected costs.
Incremental Budgeting	A budget prepared using the budget or performance.
Zero Based Budgeting	A method of budgeting in which every source of income and expenditure are re-evaluated for the forthcoming period.

Appendix C

Risk RAG Rating on Budget Headings

Aspect	RAG	Comments
Income		
16-18 Income (element one)		The number of students enrolled in the current year will provide a stable income base through the lagged model. For 2024/25 the growth from the previous year is consolidated although should the College exceed contractual levels there is no guarantee of any in year growth. Any shortfall against the T level allocation will lead to in-year clawback.
16-18 Income (element two)		The College has consolidated element 2 numbers at 155. However, with the rise in cost of support for students with additional needs, the College could still be underfunded. This element of 16-18 funding has not been uplifted at all for inflation. On the plus side, this is paid as part of the lag and the College has negotiated a contribution towards learners who do not meet the threshold but still require additional support with Dudley LA.
16-18 Income (element three)		This is provided by the Local Authorities and work has been done to strengthen relationships and ensure funding is provided. Good relationships are in place with Dudley MBC. A move to a matrix may provide greater certainty of income paid in a timely fashion. The college is leading a group through colleges West Midlands to raise issues with the method of resource allocation regionally and nationally
Tuition Fee Catch up Funding		This income stream will cease from 2023/24.
19+ (AEB excl apprenticeships)		Local flexibilities with WMCA created opportunity but also raises concern. The WMCA funding methodology is more fluid and a larger element that ever before is linked to positive destinations, which are not always easy to track. In-year growth is possible but requires a business case to be submitted and is not guaranteed.
Free Courses for Jobs (FCFJ)		The College has performed well against FCFJ this year and there is no reason to suggest that this will be any different going forward. There is a an ongoing risk around what the WMCA define on the FCFJ list.
Apprenticeship		A strive to increase quality post-Ofsted has meant that Apprenticeship numbers are at a low level. The desire to build this level is against a backdrop of significantly lower desire in the wider economy for Apprentices than there has been in a while.
Office for Students		HE student number return is again on a lagged model. The College's current OFS funded HE provision is lower than it has been historically.
Student Loans		Risk of bad debt is a significant threat to income profile. The loan book is set at an absolute figure and can only be extended following the November review which can make planning difficult for January starts. Local flexibilities with the WMCA and FCFJ may impact loans.

Aspect	RAG	Comments
Income		
Tuition Fees		The risk of bad debt affects this income stream given the College's approach to offering instalments. There is opportunity to develop economic work in the evenings and increase the scope of 19+ curriculum. Some of this may be best placed via HCE Ltd. There is political pressure to reinstate some type of Individual Learning Account to promote lifelong learning. If introduced this would impact on this source of income.
Deferred Capital Grants		All grants are in place and profiled to match level of depreciation.
Economic Income		Budgets are set at a prudent level based on planned activities.
Grant Income		The College must maximise opportunities to access grant funding.
Investment Income		Rates remain relatively high and budgets are set accordingly.
Pay		
Basic Pay		Establishment is well controlled with any pay award/dividend considered by the Corporation based on affordability. Establishment management processes are embedded. Sessional pay is a risk which can be increased by operating a devolved model. Should the College again have a growth budget model then the cost of direct teaching staff may exceed budget. The greatest risk in the register is recruitment and retention of staff. As higher salaries may have to be offered. Moreover, the increase in the National Minimum wage and recalibration of the pay scale to preserve differentials is driving up the pay bill.
Pensions - TPA		Significant increases from April 2019 resulted in £0.5m additional costs per annum. There is a guarantee that this will be funded again in 2024/25.
- LGPS		Levels of pension contributions increased from 18.9% to 21.5% in April 2023 following triennial valuation but will be fixed for three years. Although a non-cash element FRS102 places pressure on reserves. Steps are being taken to mitigate this through a proactive approach to the setting of the discount rate with the actuary.
National Insurance		No increases for businesses are planned at the time of writing this report.
National Living Wage		The NLW will increase to £11.44 per hour from 1 April 2023, this represents a 28% increase in the NMW over the past 3 years. There is also pressure on the College to pay the Foundation Living Wage. This will continue to impact on the pay scale as the College must maintain a skills deferential alongside increasing hourly rates to the new statutory minimum.
Apprenticeship Levy		This will be expended on the ongoing development of staff and the apprenticeship scheme. Certain politicians are suggesting reform to the levy and the impact of this

Aspect	RAG	Comments
Income		
		may increase costs; potentially from 0.5% to 1% of payroll costs.
Non-Pay		
Licences		Large firms such as Microsoft often increase prices in line with inflation. As there is no alternative, the College has to budget for higher tariffs. JISC costs and the costs associated with OfS, QAA and HESA have placed pressures on the budget model.
Premises		Despite excellent value for money in procurement and specialist procurement for utilities, the College, like the UK as a whole, is facing a significant increase in the cost of gas, electricity and other services. There must continue to be a thorough programme of routine maintenance which may be costly to ensure that the campuses are safe and motivational places to work and learn. This is exacerbated by an ageing estate.
Agency and Professional Fees		Tendering process and 3-5 year contracts ensure a stable position. However, staffing shortages can realise high levels of agency costs.
Consultancy		The College has used consultancy to address priorities and provide support during periods of change. This approach also adds rigor to curriculum and faculty review
Curriculum Resources		The curriculum is well resourced and overall each facility operates within budgetary levels. However, curriculum development and/or growth will require investment.
Digital		Excellent procurement methods ensure best value. Digital strategy is being constantly developed to embrace digital advantage and fully support the teaching and learning strategy. Again, ongoing investment is required to meet student expectations. Inflation is particularly acute in this area. From a capital perspective considerable investment is required across the next three/four years to update all hardware to accommodate Windows 11.
Exams		Changing qualifications and curriculum may cause cost pressures given increased external assessment and high costs of end point assessment for apprentices.
Student Transport		A significant aspect of the non-pay budget which was conducted deviates funds from elsewhere. A tender is due in 2023 and the contract is meticulously managed. Despite this a more mixed economy with Centro bus passes may realise savings. The future approach to student transport is pivotal for the College business model.
Employment Costs		Costs of DBS checks will increase given the higher levels of rigour in the revised policy for safer recruitment
Publicity and Promotion		Increased competition and a more commercial approach may require a greater investment.
Depreciation		Depreciation is linked to the approved capital programme.
Interest Payable		Low rates of interest and SONIA ensure a stable cost of serving loans. New borrowing planned to support the costs of Trinity Point could not be realised due to ONS

Aspect	RAG	Comments
Income		
		reclassification. A loan under the government scheme may be an option in the future.

Halesowen College

Budgeting and Resource Deployment Procedures

The objective of these procedures is to define roles and responsibilities for budgeting and to document the procedure for the estimation of income and allocation of resources within the remit of the delegated scheme of responsibility.

Planning

Major planning decisions are made as part of the strategic planning process, which incorporates the financial plan. Year one of the forecast will form the budget for the year ahead. The fixed assets section of the financial plan must accurately reflect the additions and disposals approved in the capital programme and incorporate estimated levels of depreciation. The capital programme is informed by the Estates Strategy, Digital Plan and the needs of the curriculum in respect of learning resources and accommodation.

Financial planning will incorporate the agency's funding methodology, any assumptions forwarded by the funding agency such as the predicted level of pay and non-pay inflation, government initiatives such as national living wage, plus those assumptions local to the College.

Any new ventures will be incorporated into the budget model once they are approved. The budget model is an important source of information to inform such decision-making processes. Whilst any strategic opportunities are being considered, a financial forecast of potential impact will be maintained.

A significant proportion of College income is from the funding agency; Education and Skills Funding Agency (ESFA). For 2024/25 the funding methodology and rates for classroom based provision have been uplifted by 1.9% to £4,843; the disadvantage block 2 rate has been increased from £504 to £570. The High Value Course Premium will remain at £600. T level funding ranges from £5,541 per full time learner to £7,665. The College target for the year ahead is 58 learners. For 2024/25 the 16-19 tuition fund which was put in place to assist learners whose education was impacted Covid-19 has been removed, this amounted to £465k in 2023/24. All of these complex factors must be accounted for in the projections of income for 2024/25 and beyond. 16-18 model will provide an amount of funding per student based on the size of their study programme. This is a lagged learner model based on 2023/24 levels of activity. This rate will continue be discounted for 18 year old students by 17.5%. ESFA funding is split into three elements; element one is the core funding for each study programme; element two is to support students with a higher level of need and is £6,000 per contracted place; element three is paid via the relevant Local Authority to cover costs of student support in excess of £10,000. The College also receives funding for disadvantage and to support the delivery of English and maths. In addition, the College receives a 16-18 bursary to support students in financial hardship and, which for 2024/25 again incorporates funding to provide eligible students with free meals. Different courses attract varying cost weighting factors, and this is reflected in the approach to the costs curriculum plan.

The adult education budget is controlled by the West Midlands Combined Authority (WMCA) for all residents of the mayoral area. As such the College will receive a small allocation from the ESFA to fund adult education for non-WMCA residents. The main allocation will be provided by WMCA based on historic levels of delivery although in year there may be opportunities for growth and bids for innovation funding. There is also opportunity to secure local flexibilities for high priority delivery and bid for growth in line with the objectives outlined in the Local Skills Improvement Plan and local industrial strategy.

Free Courses for Jobs – this is allocated by the WMCA and is a fund to provide free first level 3 courses (from a prescribed list) to adult learners.

Apprenticeship income is based on the Apprenticeship Levy. Companies with a pay bill in excess of £3m contribute a 0.5% levy payment which they can use to procure apprenticeship training. Small companies receive ESFA contribution to training. Non-levy funding is non-cash limited and there are increased flexibilities with the introduction of the transfer of funds from levy to non-levy employers. The WMCA have also developed a less prescribed model to support apprenticeship levy transfer. Failure to be reaccredited to the Register of Apprenticeship/Training Providers is a risk to the income profile and budget model.

The funding agency has communicated indicative timescales for the 2024/25 allocation process. Final allocations should be confirmed by March 2024.

The College must be aware of the target student profile and associated income early in the budget setting process and should not be working with historic or provisional values. In order to understand the components of income and expenditure the budget setting process must consider the curriculum offer and associated projections of student numbers. This is referred to as the costed curriculum plan. The following information is required to manage resource:

- income generated by each division and its contribution to overhead rate
- potential income per course using projections for student numbers, study programme hours, class size, progression, retention and achievement
- impact of provider factors
- the number of guided learning hours required to deliver each course
- funding band
- teaching staff deployment and hourly paid lecturers' time/costs
- non-pay costs (excluding overheads)

Any changes to funding and fluctuations in student numbers are a major factor impacting on the College and the budgeting process. Indeed, the College recognises adverse financial impact due to changes in the funding methodology/resource allocations as the most significant risk on the register and one that falls outside the risk appetite.

Further details are contained in the relevant sections of Appendix A; Guidance on Budget Preparation.

Co-ordination and Responsibilities

The curriculum plan will be prepared by considering the current offer and level of expected progression. Heads of Department (HoDs) will include new curriculum offer linking with the priorities outlined by the WMCA, Dudley MBC and those documented in the LSIP (Local Skills Improvement Plan) and, then forecast levels of students based on admission/application data. The hours for each course/ component of the study programme will be agreed by The College Leadership Team to inform the timetable and ensure the most advantageous approach to funding.

Budgets will be prepared on a 'top-down' approach looking at the College as a whole and a 'bottom-up' approach where individual budget holders input into the process at an operational level.

Refinement of the top-down model and the constraint of affordability shall reconcile to the bottom-up model. This avoids fragmentation and ensures overall financial health and viability. This approach may be challenging when demand for resources exceeds predicted income. The College has quantified the level of pay establishment and non-pay baseline required to meet the financial targets which will ensure viability and financial stability in the medium term. The Corporation must consider the balance between sustained outstanding financial health and the need to invest.

Such constraints of affordability can be variable throughout the financial year and as such the forecast outturn against revenue budget is subject to at least a termly review. As there can still be some uncertainties when budgets are approved the comprehensive autumn review is crucial. Moreover, if the College pursued any new venture, merger or similar the budget would require comprehensive review. Also, levels of contingency may be incorporated into the initial budget as appropriate to reflect key risk factors and sensitivities within the model. Uncertainties within the budget model must be clearly outlined in the narrative with the financial impact of various scenarios fully incorporated.

The College has developed a culture where all budget holders strive to achieve best value. The concepts of economy, efficiency and effectiveness are key to financial management.

Communication and Responsibilities

The Corporation are asked to determine by resolution the approval of the annual revenue and capital budgets. This task shall not be delegated.

- Once the Corporation has approved the annual budget, the Principal is authorised to incur expenditure in accordance with the Financial Regulations.
- The Principal may delegate the management of a budget to permit the performance of a defined range of activities. This delegation must be in writing and be accompanied by a clear definition of:
  - the amount of the budget
  - the purpose of each budget heading
  - individual responsibilities
  - authority to exercise virement

Hence from the top level of the organisation to individual budget holder level, all stakeholders are appropriately informed. All budget holders receive an annual finance pack electronically at the start of the financial year which notifies in detail the annual budget together which other key financial information. Issue of budgets in a timely manner enable resources to be prioritised and essential items necessary for term one to be ordered efficiently avoiding disruption. Prior to this, global budgets are reported to the College Leadership Team (CLT), considered by the Finance and Resources Committee and approved by the Corporation. The financial plan is reported to the governing body alongside the annual budget.

Motivate

Student number targets in the curriculum plan and associated budgets can be a useful tool to motivate budget holders to achieve College goals. All curriculum plans contain income targets in addition to expenditure lines. Curriculum areas are required to make a 50% on average contribution to overheads after accounting for direct income, pay and non-pay items. The budget provides a standard and encourages effectiveness, economy and efficiency. For the curriculum budgets, resource is directly linked to student numbers in order to strengthen the relationship between activity and cost. The College has in place value for money indices to improve accountability and the decision making process, which ties in with best value objectives. Teaching pay budgets are devolved to HoDs operating at a divisional level. Management of the whole cost base for their areas of responsibility creates transparency and clear accountability.

Control

A budget aids in financially managing and controlling the activities for which a budget holder is accountable. By comparing the actual results with the budgeted amounts for different categories of both income and expenditure, it can be ascertained which budgets do not conform to the plan. This process enables the development of variance analysis and reporting by exception in order that early action can be taken to remedy the situation. Budget holders have access to real time budget reports which have a drill down function to source documents so that they can clearly see the financial position at all times. Monthly reports to CLT show the level of contribution by division and faculty. Termly revisions to the forecast against revenue budget is also reported to budget holders as appropriate and variance analysis conducted against revised budgets. At each meeting of the Finance and Resources Committee, the members will consider the management accounts in detail and consider the risk factors associated with the budget model.

Evaluation

Budgets provide a benchmark by which to evaluate financial performance although accurate evaluation is dependent upon robust monitoring.

- The Principal shall be accountable to the Corporation for effective budgetary control within all approved capital and revenue budgets.
- Regular reports, as specified in the Cycle of Business, shall be submitted to the Finance and Resources Committee and Corporation outlining actual income/expenditure in comparison to estimate, to highlight and explain significant variances. Again it is also important to monitor associated activity especially regarding key contracts as the College is reliant upon grant income. Public sector funding constraints and impact of changes to funding methodologies may affect the degree of risk exposure in terms of likelihood and materiality. As stated above a movement in student numbers impacts significantly on agency income.
- The Chief Finance Officer and Vice Principal shall monitor delegated budgets to ensure that financial control is maintained and, that the Corporation's plans and policies ensure that individual officers do not exceed the budgetary limits set for them and, make the required level of contribution.
- The overall budget performance shall be formally reviewed at least termly.
- Designated budget holders are ultimately responsible for the control of expenditure from the budgets delegated to them. They are responsible for the day-to-day management of budgets and will have the following responsibilities:

  - the authorisation of any expenditure against the delegated budget; (budget holders may nominate other staff to spend against the budget, but this does not waive the budget holder's responsibility).
  - monitoring expenditure and income, and commitment of expenditure against budget throughout the financial year
  - ensuring that any likely overspend or reduction of income which cannot be met by virement is reported to the Chief Finance Officer and Vice Principal immediately
  - ensuring that the amount delegated is not used in whole or in part for any purpose other than that specifically authorised, subject to the rules of virement.

- HoDs are responsible for making the required average 50% contribution from activities and the viability of their curriculum plan.

Preparation of Budget

- A detailed budget is prepared for a period of one year (August-July) with the annual budget being divided into twelve monthly periods.
- College wide financial targets should reflect the level of revenue and capital budget and their impact on the consolidated income statement and balance sheet.
- Whilst the College budget year runs August to July, the funding agency operates on a treasury year. Hence the College must be mindful of any contractual targets as at 31 March each year. For the future the College financial year may be changed to 31 March.
- Budgeting is a continuous process and in order to constantly look ahead and review future plans the revenue budget shall be subject to review at least termly, hence establishing a method of rolling budgeting.
- The original budget and subsequent revisions shall be considered and approved by the governing body in accordance with Financial Regulations. All changes shall be notified and discussed with individual budget holders as appropriate.

- Annual initial budget setting is governed by a budget setting timetable (see Budget Setting and Resource allocation Policy). There are several phases to the process which are summarised below:
  - Chief Finance Officer and Vice Principal prepares and communicates a timetable to reflect important milestones, for example, dates of Corporation meetings and to coincide with the determination of curriculum resources through the faculty structure.
  - Identify principal risks and uncertainties and report to Corporation via the Finance and Resources Committee.
  - Determine a key set of assumptions which are discussed in initial meetings with the CLT.
  - Finalisation of curriculum plans by HoDs and co-ordinated by the Deputy Principal.
  - Preparation of the College income budget by Chief Finance Officer and Vice Principal based on agreed assumptions, known factors and the requirements of the College to pursue strategic objectives and achieve the annual plan.
  - Initial preparation of individual budgets by Chief Finance Officer and Vice Principal based on meeting with budget holders and senior staff.
  - Consolidation of budget by Chief Finance Officer and Vice Principal to determine College position and full analysis of key changes year on year by Head of Finance and Payroll.
  - Evaluation of level of contribution.
  - Preparation of financial plan and associated commentary by Chief Finance Officer and Vice Principal and its reconciliation to the revenue budget.
  - Consideration of budgets by CLT before approval by Corporation.

Determination of Budget

- There is no single way in which an appropriate value for a particular budget item is determined. However, before the annual budget is prepared, a base should be determined from which the process will begin.
- For some ongoing activities (income generating and expenditure) the current levels are considered initially and adjusted for known/assumed changes which are expected to occur during the new financial year. This approach is incremental budgeting and is mainly concerned with the increment in operations or expenditure which will occur during the budget period. The main disadvantage is that this method may perpetuate past inefficiencies and/or inaccuracies. However, this method is appropriate for certain categories of budget, for example, when tied in contractually to a certain service such the price and volume is established across a three or five year period, then the budget should be adjusted for inflationary increases. Examples include banking services and insurance where value for money is secured via a formal tender process.
- Many elements of the College budget are associated directly and indirectly with student enrolment. The income levels will be calculated based on the funding statements issued by the funding agency and assumed activity levels for other sources of activity linked funding, for example, Higher Education.
- It is appropriate to prepare certain budget lines on a zero based budgeting approach with projections for existing programmes starting from a zero base with the budget compiled as if the programmes were launched for the first time. This establishes a questioning attitude rather than one which assumes that current practice represents value for money.

Appendix A details guidance on budget preparation for key headings.

Budget Virement

- The Principal may vary individual budgets within the limit of the overall budget, subject to any specifically earmarked items by the Corporation, provided:
  - the action does not involve the College in any overall unauthorised additional financial commitment in any subsequent year;
  - the amount involved does not exceed a figure equating to 1% of the total budget in relation to any one proposal or related series of proposals;
  - it does not affect the estimated surplus or deficit approved by the Corporation.

- Virement in excess of the limit granted to the Principal, or involving additional financial commitments in respect of subsequent years, shall be subject to the approval of the Corporation.
- Expenditure, for which no provision has been made in an approved budget, shall only be incurred after authorisation by the Principal in consultation with the Chair of the Corporation.

Treatment of a Deficit

The College would not usually plan for a deficit unless there were exceptional circumstances and a robust recovery plan.

In the event of a budget deficit, the Principal will report to the Corporation. This report must contain:

- the factors resulting in a deficit position;
- corrective action necessary;
- procedures to be introduced to prevent the situation occurring again in the future.

Review

Budgeting is a key process and as such the Budgeting Policy and these associated procedures are to be reviewed annually and the policy approved by the Finance and Resources Committee.

Key Budget Headings
Guidance on Budget Preparation

16-18 Study Programmes (ESFA Funding)

The ESFA 16-18 model provides funding for education of learners aged up to 19 and for those up to the age of 25 with a learning difficulty and/or disability. This funding covers the College's Elected Home Education (EHE) programme.

The College is allocated a rate of funding for each student's study programme adjusted for planned hours and weighted for necessary course costs, retention and with additional funding for those students at a disadvantage; this includes funding for students based on socioeconomic indices linked to postcode, and funding to enable the pursuance of GCSE English and Maths for students who have yet to attain this qualification. The allocation is based on the principle of lagged learner numbers for all learners except those on a T level for which there is in-year clawback if contractual targets are not met. The level of funding for 2024/25 will be based on student number data relating to 2023/24 submitted in data return R04 and R06. For colleges this is then extrapolated to a full year estimate using historic data. ESFA timescales were that FE colleges were informed about allocations by the end of March 2024. The changes to the funding methodology announced by the agency will be fully incorporated into allocations.

For 2024/25 the study of GCSE Maths and English for all learners aged 16-18 remains a condition of funding.

For learners aged 19+ who are continuing in 2024/25, a programme which they began aged 16-18, they remain eligible for funding at 16-18 rates and their funding is generated through the 16-18 route.

The 16-18 model aims to consolidate movement in participation year on year, ie if the College exceeds its contractual targets through over-recruitment this additional participation should automatically be incorporated into the next year's allocation provided sufficient funding is available – this is referred to as consolidated growth. Conversely failure to meet funding targets will result in a decline in funding in the subsequent year. In year growth is only possible if the College recruits more than the ESFA threshold for students in excess of contracted levels (note this rule is adjusted by the agency annually).

In the methodology any student aged 16 or 17 following a programme of 580 hours or more will be deemed full time. Students aged 18+ are funded at a lower rate (17.5% lower) and are deemed full time at 485 hours. A study programme of fewer hours will attract lower levels of funding.

For budgeting purposes, it is prudent to base allocations on levels communicated by the ESFA. As stated above, the allocation is due to be finalised by March 2024. Levels of funding for 16-18 students with element three high needs are through the Local Authority. Therefore, in terms of the budget model, funding for 16-18 should be based on the lagged learner number revised methodology.

19+ Model (classroom based)
For residents in the WMCA mayoral area, the adult education budget is allocated by the WMCA and based on historic delivery plus any growth that supports the priorities in the LSIP and focuses on building skills for employment including level 2 English and maths for learners who still require these basic skills.

The skills system must be one that has rigour with employer ownership and enterprise at the core. ESFA will still fund 19+ learners outside of the WMCA area.

Increasing importance is placed on job outcomes and training for the unemployed which realises sustainable employment.

For budgeting the level of income should be that stated in the funding statements issued by the ESFA and WMCA for adult education. This includes the contracts for Free Courses for Jobs. The loan fund element should be included at the forecast level of loans should this be less than the maximum facility value. Bids for growth should only be included once they are approved. There will need to be recalibration of income between AEB grant/FCFJ and advanced learner loans with the introduction of the Lifetime Skills Guarantee which provides a first full level 3 for learners studying a qualification in a priority area.

Academic entitlement remains for students aged 19-23 but co-funding for a second level three remains with a 19+ learning loan. Note academic entitlement is not universal and only applies to certain courses. Academic entitlement remains for Level 2 courses. The College actively promotes full funding for learners on low income in accordance with the ESFA funding methodology. Funding for level 2 courses is not available for those with academic entitlement unless the course is deemed a full level 2.

Supplementary Contracts (funding agency)
Supplementary contracts are usually a one-off source of funding for a specific purpose and must never be determined incrementally, but instead based on anticipated funding streams. Corresponding expenditure budgets must also be set for such resources as appropriate.

Apprenticeships
Halesowen College is again aiming to increase apprenticeship numbers. As defined in the grant agreement for capital resources through the LEP, there is a focus on STEM and business related subjects.

Proactive employer engagement will allow the College to trade with levy paying organisations. The budgets should be set based on the apprenticeship plan with appropriate expenditure budgets for infrastructure development.

The delivery of standards must be costed for budgeting purposes in accordance with published tariffs. A financial assumption also needs to be made as the value of the final assessment. There is some uncertainty in this budget line given the commercial approach to delivery with all employers. Income budgets should be prudent.

14-16 Partnerships with Schools
14-16 work with schools continues and schools are charged an agreed rate per pupil hour in accordance with the tuition fee policy. The budget should be set based on forecast student numbers.

Other Grants
It is important to ascertain what income streams are anticipated with reference to approved projects, and to set corresponding expenditure budgets. Where match funding is required this must be identified and incorporated into the budget. Project submissions which have not yet been approved should not be included in the budget. All budgets associated with grants must be set in accordance with the zero based model and ensure compliance with all terms and conditions of grant funding.

Deferred Capital Grants
To be determined for the period based upon
i) Continuation of release of grants previously received ensuring that when grants are fully utilised they drop out of the annual model.
ii) Incorporation of known new grants

With the introduction of FRS102 the College adopted the accruals model to continue to amortise the grant over the useful life of the asset.

HE
Based on any contractual learner numbers funded by Office for Students (OfS) (based on the HEFES return) plus income from partner universities calculated in accordance with that organisation's methodology. Care must be taken to observe all the constraints of the terms and conditions issued by partner universities, for example minimum group size when calculating likely levels of income. Halesowen College runs a range of HNC/HND programmes and income should be estimated based on forecast numbers contained in curriculum plans and the approved tuition fees.

Registration and Tuition
To be determined based on learner profile as defined in curriculum plans combined with established fee policy. The fee policy in 2024/25 includes 19+ learning loans and fees for College courses alongside the Free Courses for Jobs alongside WMCA flexibilities. For adult learners studying at Level 2 or lower or a full first Level 3 in certain subjects may be fully funded and entitled to fee remission whilst co-funded students pay fees. The tuition fee assumption is 50% contribution. Foundation learning can also be fully funded for 19-24 if this leads to a first level 2/3 qualification for the learner. For learners aged 19-23 doing a second or unfunded Level 3 or higher level qualification a learner loan may be available. Also, students aged 16-18 or adults on certain income based benefits and seeking employment receive a remission for funded courses (up to and including Level 2). Levels of income must be based on the tuition fee policy, fees matrix and estimated enrolments based on curriculum plans. Student debt is an increased risk and the bad debt provision is now calculated on a monthly basis in accordance with the methodology approved by external audit. This must be incorporated into the budget model.

Economic and Miscellaneous Income
There are many diverse sources of income; all of which should be zero based in accordance with business plans or based upon known/planned activity (similar method for schools and other educational contracts).

Should there be a major review/change of any economic income function it would be appropriate to adopt this zero-based approach. All for profit activities are accounted for through Halesowen College Enterprises Limited and should not be incorporated into the College model.

Company Recharge and Covenant

Level of income based on Halesowen College Enterprises Ltd business plan which is set annually. Note the company directors may decide not to covenant funds and indeed there may not be a level of profit. Hence, the covenant should be set to nil until a decision is made.

Investment Income

Revised annually based on anticipated average cash surplus and the average across the previous twelve months interest rate, adjusted to reflect the economic climate.

PAY

Pay for the year ahead must not be calculated incrementally, but budgets set against the following model:

- Agreed establishment for 2024/25 needed to deliver curriculum plan as defined in the course file.
- Effects of any proposed pay award on existing staff base (pay awards are agreed by the College Corporation and the budget model does not recommend such awards).
- Add on incremental drift;
- Account for any volume changes and new curriculum developments;
- Varying rates of employers National Insurance and Superannuation contributions;
- Apprenticeship levy at 0.5%;
- Restructuring;
- Sessional lecturer and learning support rates to be based upon an assumed level of curriculum activity to meet strategic targets multiplied by the appropriate rate(s);
- FRS102 costs are based on the most up to date information from the actuary and use the Consumer Price Index (CPI);
- Divisional average contribution of 50% on average.

Teaching pay budgets will be devolved at faculty level and with each HoD delivering their curriculum within an agreed establishment.

NON-PAY

The allocation of curriculum budgets for capital and revenue is based on student numbers in the curriculum plan and the priorities identified by the HoD as part of the budget setting and curriculum area review processes, within the overall resources available. Budgets will be allocated to fund repairing or replacing broken/lost equipment, new specifications and developing provision. Revenue budgets are partly based upon student numbers. This element is designed to cover all consumables and general operating costs. The resource needs of each curriculum area will be recognised. Certain subject areas are more resource intensive. The budget holder identifies any individual requirements for the year ahead. The resource implications are a key factor when evaluating new provision. Budget provision must be made for all new courses/cohorts. Resources are allocated to new courses based upon calculation of set-up costs and anticipated student numbers.

Certain cross College budgets have to be determined annually based upon assumed volumes of activity and price. For example, the cost of examinations should be reflective of the overall number of students and structure of assessments, and hence exam entries and the prices quoted by the examination boards.

Premises and property related costs should be prepared in liaison with the Head of Estates and Facilities and consider/support the property strategy and the ten-year maintenance programme. Utilities should be based upon agreed contractual prices with the assumed levels of consumption for the year head accounting for accommodation changes, capital developments and environmental targets. Elements of this budget will be based upon prices determined by competitive tender such as grounds maintenance and refuse collection. Contracts are often negotiated for a two/three year period. Other parts of the budget such as business rates have fixed non-negotiable prices.

Employee related costs should be prepared in liaison with the HR Director and reflect the plans for staff development and recruitment which feed into the strategic planning process and development plan. The mandatory DBS check for student work placement must be considered.

Agency and professional fees budget should reflect the contractual costs of services provided with new charges of a mandatory nature fully incorporated into the model.

Both financing costs and depreciation budgets shall be established by the Head of Finance and Payroll and Chief Finance Officer & Vice Principal to incorporate the costs of planned and existing borrowing and depreciation pattern of existing assets and planned future purchases.

Any costs of impairment (accelerated depreciation) must be calculated based on floor area of the asset to be disposed, and the net book value. Costs of impairment do not contribute to the operating surplus which is used to calculate financial performance ratios.

Capital costs should not be incorporated into the income and expenditure model but allocated to the fixed asset section of the balance sheet as appropriate. The only exception is the cost of any demolition which is charged to income and expenditure and must be incorporated as necessary into the budget.

Other non-pay costs shall be discussed with the appropriate individual budget holders.

The concept of value for money must be incorporated throughout the budget process with efficiency, effectiveness and economy pivotal. The budget model must be realistic and achievable yet reflect the required savings to achieve financial targets.