

## HUB

### INTRODUCTION TO FINANCIAL FORECASTING - OVERVIEW

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#### UNDERSTANDING FINANCIAL FORECASTING

##### SETTING A BUDGET

Budget forecasts are often known as quantified action plans which bridges the gap between strategy and day to day operations.

- Strategic long term planning tends to cover periods longer than a year and often involves the creation, evaluation and monitoring of long term financial objectives
- Budgetary short term planning involves detailed planning of the organisations, activities and functions, working within the framework of the strategic plan, and converting the plan into action
- Operation planning is a type of planning undertaken on a day to day basis, and functions, working within the framework of the budgetary plan, and converting the plan into action
- When setting the budget most organisation use a hybrid approach of incremental budgeting and zero based budgeting.



##### INCREMENTAL BUDGET

Incremental budget is the traditional approach that many organisations use to predict future costs. Some of the pros and cons include:

- Easy to prepare
  - Appropriate method if costs don't really fluctuate
  - Previous poor practices can be continued
  - Does not force leaders to question expenditure

##### ZERO BASED BUDGET

Zero based budgeting sets all costs to zero allowing organisations to ensure each activity is reviewed as if the activity was being undertaken for the first.

Some of the pros and cons include:

- Start at zero each year
- Forces leaders to avoid wasteful expenditure
- Responds to a changing environment
- Forces decisions to be made whilst setting the budget
- Does not force leaders to question expenditure



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***There are benefits of using elements of each budgeting approach to support your organisations financial forecasting.***

***It is also important that robust assumptions are made in the preparation of budgets utilising the latest available information.***



# FINANCIAL FORECASTING

## BUDGET ASSUMPTIONS

Budget assumptions could include:

- Funding changes, for example the National Funding Formula
- Pupil numbers
- Staffing structures
- National insurance contributions
- Pension contributions
- Cost of living
- Pay awards
- Increase in non-staffing costs, such as energy

By adopting an integrated curriculum financial planning (ICFP) approach to your organisation's financial forecasting can help you to determine how your organisation is spending its money and whether too little or too much is being spent on staffing.

If you would like to learn more about integrated curriculum financial planning, please take a look at our ICFP factsheet.

## BUDGET QUESTIONS



As an organisation you should ask yourself a number of questions to determine if your budget is realistic and whether you are deploying your resources effectively. Questions could include but are not limited to:

- What assumptions are behind your budget?
- What is your staffing %?
- What is your leadership % ?
- What is your pupil to teacher ratio?
- What is your average teacher salary?
- What is your teacher contact ratio?
- What is non staffing expenditure?
- How do all of the above compare to other schools?
- Does the budget link to the school development plan?

The top 10 planning checks for governors is an extremely useful document to enable senior leaders and governors the tools to interrogate their budgets.



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