UNIVERSITY OF CAMBRIDGE

FPM 2: Budgetary Planning and Control

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NB: This chapter of the Financial Procedures Manual will see significant changes when the new finance system is brought in through the Financial Transformation Programme.

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Overview

As the new finance system is brought in through the Financial Transformation Programme, this chapter of the Financial Procedures Manual will see significant changes. However, this is the current guidance for Budgetary Planning and Control. It is split into four sections.

Section 1 Introduction

This gives you a general overview of what is meant by Budgetary Planning and Control and its importance. It also sets out the responsibilities of Institution heads of finance for budgetary planning and control.

Section 2 Budgetary planning

This section explains how budgets are used within the University. It details those activities for which budgets are formally created and monitored in the University Finance System (UFS). It also provides guidance on the main issues that should be considered when preparing a budget for any activity.

Section 3 Monitoring and controlling budgets

This section gives guidance in the techniques required and reports available to enable interpretation of actual results against budget at a point in time.

Section 4 Monitoring and controlling expenditure against income

The University does not set formal budgets for all activities. This section gives guidance on the techniques required and reports available to enable interpretation of actual expenditure against available income at a point in time.

For purposes of this chapter, Institution means any of the following: Department, or a Faculty not organised in departments, Centres, Institutes, or other bodies under the supervision of the General Board or Council and includes Divisions within the Unified Administrative Service.

1. Introduction

A budget is a financial representation of planned activity for a given period. The basic principle is to compare the cost of the planned activity to the expected income the activity will generate and establish whether there will be a surplus (income exceeds cost) or deficit (cost exceeds income) at the end of the period. A surplus will mean that related reserves have increased, and a deficit leads to reduction in related reserves.

The University is a not-for-profit organisation. However, we need to ensure that activity is financially sustainable such that total income and total expenditure are broadly in line with each other.

1.1. Why do we set budgets?

The prime reason why the University sets budgets is to ensure that it is operating sustainably. In this context sustainability means that in the medium term total planned expenditure by the University should not exceed its expected income, and that a sustainable financial surplus is generated to re-invest in the academic mission of the University

This is a formal requirement placed on the University by the Office for Students (OfS).

This requirement explicitly allows the University to run deficits (i.e., expenditure is more than income) on some activities or in some years, provided these deficits are counterbalanced by surpluses (expenditure is less than income) on other activities or over other years.

Setting budgets also facilitates the equitable and transparent sharing of financial resources or funds between activities and individual institutions. At a strategic level setting budgets ensures that available resources are used to fund current activities and to invest in new areas of activity.

At an operational level a budget tells you how much money is available, for example a Chest budget for staff or non-staff expenditure for a year, or what an external research sponsor has agreed to fund within a research programme.

Finally setting budgets provides one method for monitoring actual versus planned activity. As a budget is a financial representation of planned activity, regular comparison of actual income to planned income, and actual expenditure to planned expenditure, will provide a measure to assess the financial sustainability of activities.

1.2. What do we mean by budgetary control?

Budgetary control is financial jargon for managing income and expenditure. In practice it means regularly comparing actual income or expenditure to planned income or expenditure to identify whether corrective action is required.

For example, most University institutions are given annual Chest allocation budgets for certain staff costs. By regularly comparing actual expenditure on this budget to planned expenditure an institution will be aware of what staffing plans are affordable within their Chest allocation. If the account is in deficit an institution will need to identify an alternative source of funds to support planned expenditure. This process of monitoring expenditure and taking appropriate action is known as budgetary control.

1.3. The role of Finance Business Partners and Institution heads of finance in budgetary planning and control

The University operates an annual Planning Round, one aspect of which is to collate financial forecasts from institutions (usually around December each year) covering all funding streams. For Chest activity the financial forecast relating to the subsequent financial year, together with prior year actual financial results also form the basis for determining the Chest allocation and budget.

Finance Business Partners and Institution heads of finance are generally responsible for collating and submitting institutional financial forecasts. For some this process operates top-down (with a forecast prepared for a group of institutions as a whole), for others the approach is bottom-up (institutional level forecasts prepared that then need to be consolidated). Your Finance Business Partner or Institution head of finance can advise which approach is adopted for your institution.

Finance Business Partners and Institution heads of finance are also responsible for providing the details for the Chest allocations budget by institution, subject to approval by the relevant body (e.g. School Council), which are subsequently consolidated by a central finance team and published in a collected budget document. The Institution head of finance's involvement in budgetary control includes general oversight by reviewing financial reports at least monthly for their areas of responsibility and raising issues with the local institutions as appropriate.

Finance Business Partners and Institution heads of finance can advise on producing budgets for non-Chest sources of funding, such as research and trading activity. Research Operations Office (ROO) deal with Research grants and contracts, and monitoring against individual research project budgets. Finance Business Partners' and Institution heads of finance involvement in budgetary control for non-Chest activity will vary depending on the policies adopted by institutions. The monthly review of financial reports means these roles monitor non-Chest activity regularly.

1.4. Institutional responsibilities for budgetary planning and control

The amount of input required from an institution for Chest budgetary planning and control can vary by institution and whether the budget is devolved fully. It is important that institutions understand what they have responsibility for within their Chest allocation budgets. It is sensible to liaise with your School or UAS Finance Business Partner or Institution head of finance to clarify these responsibilities. Traditionally all Chest budgets for non-staff costs are fully devolved. This means that all institutions are responsible for controlling this activity within budget.

Where a bottom-up approach to planning is adopted, institutions will be more involved in the planning process and Institution administrators will add value to the planning exercise in several areas including the following:

- Checking the accuracy of information on Chest-funded posts including ratifying any year-on-year changes. Budgets are built up on a post-by-post basis and it is crucial that this information is correct
- Communicating the institution's plan for any changes in staff profile
- Communicating the institution's plan for making any required savings

- Communicating changes in student numbers, new courses being introduced, or Surplus Improvement Fund projects (your Finance Business Partner or Institution head of finance will know if these are relevant)

- Input to the research forecasts. By providing valuable insights into trends in volume growth; impact of large grants ending, and replacement funding applied for; and/ or changes in sponsor mix and hence, the forecast of Chest overhead/ non direct cost recovery, which again impacts on Chest-related income sources received by the institution

Dependent on the level of devolvement to institution level, the RMC and/or School office may need to approve the filling of certain posts and use of temporary staff where vacancies exist.

Department administrators and heads of finance are responsible for ensuring that the Chest non- staff cost budget is not exceeded. Monitoring should be done monthly, and deficits should not be allowed to accumulate all year before being cleared at year end as this creates problems at University level when forecasting the likely year end position. Other Chest budgets that should be monitored may include (but are not limited to) unpaid leave of absence, vacation study grants and the annual equipment grant (see checklist).

All institutions have a responsibility for budgetary planning and control over non-Chest areas of activity, no matter how large or small that activity is. This includes reviewing financial resources as a whole and, when needed, identifying areas which generate surpluses that can support or subsidise areas in deficit.

For research grants and contracts, it is likely that individual PIs will be responsible for monitoring expenditure on their grants, but the Department Administrator or Accounts section may then be responsible for sending the PIs the appropriate reports.

1.5. Administrators' checklist

Administrators should check that they know the answers to the following:

#	Task	Advice /resources
1.	Do I have to produce anything as part of the Planning Round? If so, what and by when?	Finance Business Partner or Institution head of finance
2.	Do I know what parts of my institution's Chest allocation budget I am responsible for?	
3.	Do I know the major non-Chest financial areas within my institution?	Monthly financial reports provide an indication, and your Finance Business Partner or Institution head of finance can advise
4.	Do I have budgets for the streams of non-Chest activity in my institution?	Your Finance Business Partners or institution head of finance can

	Note: the Planning Round provides assumptions for future inflation and Cambridge University Endowment Fund (CUEF) distribution rates – available from your Finance Business Partner and Institution head of finance.	advise, assist, and provide templates having discussed requirements
5.	Where PIs expect my support in monitoring their grants, have they copied me in on grant awards and contracts details?	ROO can provide details if necessary.
6.	Do I review financial reports regularly? It is best practice to do this at least monthly. Some examples of areas to look at include (but are not limited to): **Stipends:** Has the Other Teaching budget been exceeded? Has the budget for unpaid leave of absence been transferred to the unpaid leave of absence account for all relevant academic staff? **Wages**: has the overtime budget been exceeded? **Annual equipment grant**: if the budget has been exceeded, are there sufficient reserves from previous years to cover the shortfall? **Unpaid leave of absence funds**: are YTD budget and reserves sufficient to cover current expenditure? If not, how will the shortfall be funded? **Trust funds**: if expenditure exceeds income, check whether this is because spendable capital is being used to fund expenditure. If not, how will this deficit be addressed at year end? **Trading:** if expenditure exceeds income, are there sufficient reserves to cover the shortfall? If not, how will the shortfall be funded? This may need to be done on a cost centre by cost centre basis as otherwise trading activities in surplus could be subsidising those in deficit. **Donations accounts:** if expenditure exceeds income, are there sufficient reserves to cover the shortfall? If not, how will the shortfall be funded? **General**: Are there sufficient resources to cover the cost (plus associated Indirect Cost Charge overheads if appropriate) of all posts funded on non-Chest money?	Finance Business Partner or Institution head of finance

NB: If you require assistance, contact your Finance Business Partner or institution head of finance.

2. Budgetary planning

This section explains how budgets are used within the University. It details those activities for which budgets are formally created and monitored in the University Finance System (UFS). It also provides guidance on the main issues that should be considered when preparing a budget for any activity

2.1. Using budgets to monitor the University income and expenditure

It has already been established that budgets are an important method through which to monitor and control actual versus planned activity. However, to carry this out effectively it is important to spread the budget across the months of the financial year in a realistic manner. This is known as 'phasing' the budget. Appropriate phasing of the budget allows for meaningful comparison between actual and planned activity.

2.2. What budgets do we set in the University?

Currently, the University formally creates budgets in UFS and monitors them via Cognos reports, for three areas of activity:

- Chest income and expenditure
- Research grants and contracts
- Expenditure on buildings

Institutions are free to establish local budgets for any activity. It is possible to set up non-Chest budgets on UFS, but please speak to your Finance Business Partner / institution Finance Manager.

2.2.1. Chest budgets

Most institutions receive some central funding from the University. It is this central funding that is known as the 'Chest' budget or allocation. This is an institution's share of income collectively earned by the University as detailed below:

- Funding body grants from the Office for Students (OfS) for teaching, research, and other activities
- Fees paid by students
- Investment income from the University's general Trust Funds
- Other Income which includes the profit transfer from Cambridge University Press and Assessment (CUPA)
- The Chest share of research overhead income received by 3rd party research funding bodies

Section 2.3 of this chapter details the process by which Department Chest budgets or allocations are set each year.

In general Chest budgets relate to one financial year and Chest allocations are distributed annually, at the beginning of the University's financial year.

The table details those sources of funds (SoF) for which budgets are created in the General Ledger module of UFS.

SoF code	SoF Name	Main Usage
AAAA	Chest Non-Pay	Recurrent funding for consumables and other non-pay items

ABAA	Chest Stipends	Recurrent funding for the pay costs of academic and academic-related staff
ACAA	Chest Wages	Recurrent funding for the pay costs of assistant staff
A*** Others	Special Expenditure	Specific to Institution
AAAD	Equipment Grants	General institutional equipment
A***	Non-recurrent grants	As specified in the letter/email awarding the grant
ABAD	Unpaid Leave of Absence Savings	Budget equals saving in pay costs made by a Chest-funded member of staff taking Unpaid Leave of Absence e.g. an academic who is granted a Royal Society Fellowship
FABM	Incentive payments for non-professorial staff	Recruitment incentive payments for non-professorial staff
AAAC	Vacation Study Grants	Expenditure on field trips and vacation study

Budgets in UFS can be either positive or negative. Expenditure (e.g. stipends) is entered into UFS as a positive budget, whilst income (e.g. research grants) is entered as a negative.

2.2.2. Research grant budgets

The budget for a research grant or contract is set when the grant or contract is awarded. All applications for research grants and contracts must now be costed on 'X5' on a Full Economic Cost (fEC) basis.

> More information on the costing process is available from ROO webpages

Budgets for Research Grants are input into the Grants module of UFS by ROO for the whole life of the grant, generally extending over several years. More information on the setting, monitoring, and controlling of research grant budgets can be found in the Research Grant Chapter of the Financial Procedures Manual (chapter 19).

2.2.3. Budgeting for buildings

In the University most buildings-related expenditure is managed by the Estates Division (ED). This includes routine running costs, refurbishment, and construction of new buildings. Budgets for these activities are managed by ED directly. The budget for the routine running costs of the University's estate is set as part of the annual Planning Round, more details of which are given in section 2.3.

Major investment, such as refurbishment or the construction of new buildings, has a separate approval process. Budgets will be prepared by ED or contractors employed by them and these budgets will be submitted to the Technical Sub-Committee of the Estates Committee (for minor works up to £3m) and Planning and Resources Committee (PRC) (for major projects over £3m) for approval. As part of this process the

expected contribution from the institution to the cost of refurbishment or new building will be agreed.

2.3. How and when does the University set its budget?

Schools and other University Institutions are expected to produce strategic plans. These plans set medium- to long-term priorities and explain how they are to be implemented. The strategic plans are accompanied by detailed financial forecasts.

Although the strategic plans are only updated periodically, the financial forecasts are revisited annually in the Planning Round. The financial forecasts for Schools and all other institutions are consolidated to provide a University level financial forecast which forms part of the Budget Report (formally called the Allocations Report). This includes the allocation of Chest funding to Schools and Institutions.

To meet the OfS requirement that the University operates sustainably, the Budget Report is not just a consolidation of Schools' and other Institutions' financial forecast submissions. This is because financial forecasts at this level represent their Institution's aspirations. The Planning & Resources Committee (PRC) will consider the University's total expenditure plans in the context of its estimated future income and may need to cap some (or all) institutional expenditure plans by containing the allocation of Chest funding to Schools and individual institutions. It is this iterative review process which generates the final numbers in the Budget Report.

The Summary Timetable for the Planning Round and Budget Report shows the main stages of the Planning Round.

Summary Timetable for Planning Round and Budget Report

Month/Year	Activity
Sept/Oct	• Formal planning guidance issued by Academic and Financial Planning and Analysis (AFPA), once approved by PRC • Actual income and expenditure for the previous financial year is analysed by AFPA
Sept - Dec	• Finance Business Partners and Institution heads of finance work with their leadership teams to prepare the financial forecasts, informed by strategic plans and based on the priorities for the year ahead. • The involvement of institutional finance staff in this process is determined locally by the institution • The financial forecast is reviewed and approved by the appropriate authority, such as the Chair of the Council of the School; or the Head of the Institution • The financial forecasts are submitted to AFPA
Dec	Submitted to AFPA • Financial forecasts. • Student number forecasts • Periodically - strategic plans

Dec / Jan / Feb	AFPA • Review financial forecasts submitted. • Consolidate individual forecasts into a University level picture. • Create University wide analyses of income and expenditure. • Review strategic plans. • Review and consolidate forecasts of non-financial data e.g. student numbers. • Meetings may be held with institutions if financial plans exceed any budgetary framework that is articulated in the planning guidance
May	PRC • Reviews draft budget report • Agrees provisional Chest allocations to Schools, other Institutions and Administered Funds.
June	Finance Committee and Council considers draft Budget Report.
Jun	Budget Report published in The Reporter.
Jun	Budget Report graced.
Jul / Aug	Department Chest budgets produced by Finance Business Partners or institution head of finance and passed to AFPA
Aug	Department Chest budgets uploaded into UFS by AFPA

2.4. What activities do not have budgets in UFS?

The table below details those activities and sources of funds for which budgets are not created in UFS, unless your Finance Business Partner/Institution Finance Manager tells you otherwise. These activities are monitored by comparing Actual expenditure to Actual income.

SoF Code	SoF Name	Main Usage
0***	Balance Sheet	Petty cash, key deposits, money on deposit, Debtors, Creditors
B***	Funded from External Sources	Recoverable costs and related income
C***	Funded from University Sources	This SoF is used for historic reasons
EA** to EE** and F***	Specific Reserves	Monies are given for a specific purpose. Income cannot be moved from these Source of Funds (SoF)
EF00 to EZZZ	General Donations	Expenditure can be charged here but income cannot be moved

GAAA	External Trading	For trading with customers outside the University
GAAB	Internal Trading	Trading between institutions within Cambridge University
GB**	Other Trading Income & RTSG	Research Training Support Grants, College support
H***	Donations	Donations with specific criteria for their use
J***	OfS or UKRI Initiatives	Income from OfS or UKRI for specific purposes e.g. capital projects
K - Permanent	Trust Funds Permanent	These must be legally established. The capital funds cannot be spent, only the income earned
K - Spendable	Trust Funds Spendable	Both the capital and the income on these funds are available to spend but must be spent specifically as the trust fund states
M***	Research	All research grant activity is detailed in the Grants module and then summarised in the GL using the M source of funds range
P***	Buildings	Used and controlled by EM
Z***	Depreciation	Processed centrally by the Finance Division, little impact on institutional accounts

2.5. How to budget for Trust Funds

All trust funds are legally created and have their own deed that details the rules and regulations for the specific fund. The primary consideration when budgeting for a trust fund is that expenditure is limited by funds available, that is income earned in the year plus spendable reserves brought forward from previous years.

The income available to a trust fund in the year is the sum of the monthly dividends from capital invested in the Cambridge University Endowment Fund (CUEF) plus interest earned from monies on deposit. Each year, as part of the annual Planning Round, an estimate of dividend payable per unit by the CUEF is prepared by the Finance Division. Your Finance Business Partner, Institution head of finance or the Treasury & Investments Team in the Finance Division can provide you with this information if you are trying to calculate the expected income for a year.

It is important when calculating what income is available to fund planned expenditure on a trust fund, to distinguish between Permanent Capital and Spendable Capital. Permanent Capital, recorded on cost centre ZZYA, cannot be spent. Spendable Capital, recorded on cost centre ZZYB, can be spent and can thus be used to supplement income earned in a year if this is insufficient to cover the cost of planned activity.

If the rules of the trust fund permit it, salaries charged to a trust fund will incur an overhead.

Therefore, the process for preparing a trust fund budget is as follows:

- Is planned expenditure permitted by trust fund?

- Calculate the cost of planned expenditure
- Allow for overheads on pay if applicable
- Estimate annual income from fund
- Compare income available to planned expenditure to ensure funds available are sufficient.

Refer to FPM, Chapter 13 for more information on Trust Funds

Section 4 provides guidance on how to monitor and control expenditure where there is no formal budget in UFS.

2.6. How to budget for other non-Chest activities such as Trading

The primary consideration when budgeting for a non-Chest activity is to ensure that expenditure does not exceed the funds available. Therefore, the best place to start when budgeting for a non-Chest activity is to calculate the income available.

The process for preparing a non-Chest budget is as follows:

- Estimate annual income available
- Calculate cost of planned expenditure
- Allow for overheads on stipends if applicable. (Please refer to section 2.8 for more details)
- Compare income available to planned expenditure to ensure funds available are sufficient

Section 4 provides guidance on how to monitor and control expenditure where there is no formal budget in UFS.

2.7. Budget phasing

By budget phasing we mean how the budget has been split across the months of the financial year.

Staff costs should consider the timings of known University-wide uplifts and any others where practical.

Non-staff costs should be phased according to the best information available which may include patterns of actual expenditure in previous years.

Failure to phase budgets accurately prevents meaningful financial analysis at institutional, School and University level.

2.8. Budgeting for Chest overhead recovery income

In general, trust funds established after 1995 will pay an overhead of 20% (or 30% for most funds established after 2007) of the gross pay costs charged to the fund. This is normally indicated by the inclusion of the phrase “and associated indirect costs” within the regulations. Pay costs are those using transaction codes in the range AAAA-DZZZ. Any applicable overhead charge should be built into relevant budget calculations.

The overhead rate when applied to professorial salary is calculated on the gross cost of spine point 68 irrespective of the actual spine point of the professor.

2.8.1. Indirect Cost Charge (ICC) overheads

In general ICC overheads are charged on salary costs paid from donations accounts, special funds, external trading accounts and research Chest overhead accounts. This overhead, charged at 30% of salary costs only (UFS transaction codes A - D), is to cover the infrastructure cost of the individuals employed. By infrastructure costs we mean a share of the cost of the building in which an individual works, the cost of equipment that they use and the costs of employment such as payroll and health and safety.

Where an institution considers that a particular item of expenditure should constitute an exception to this policy, they should raise the issue with their Finance Business Partner or Institution head of finance. Please note that we should not routinely exempt services provided to charities or other educational establishments from ICC on the grounds they are not for profit. These costs are real and do not constitute a 'profit'. By not charging these overheads we are using our limited Chest income to subsidise other organisations, and we reduce the financial sustainability of academic activities.

2.8.2. Research grant overheads

Research grant sponsors may allow overhead or indirect cost recovery to be included when costing the budget for a research project. This is in recognition of the costs incurred in the institution and centrally because of the research activity being carried out. As an incentive for Institutions to apply for grant funding, a share of the cost recovered is credited to institutions' accounts. Consequently, some institutions may have access to substantial sums that can be used to finance capital projects or to fund staff long- or short-term.

2.8.3. Costing grants

Grants costed from September 2005 must be costed on a full economic cost (fEC) basis using the X5 tool. The full economic costing methodology allocates non-direct costs to a project based on research staff FTE (excluding support staff). There are separate cost allocation rates for:

- Estate costs, both lab and office-based
- Infrastructure technicians
- Other indirect costs

These rates are set by the University and updated annually (University of Cambridge fEC Rates | Academic and Financial Planning and Analysis). In addition, the cost of the time of the Principal Investigator (PI) and co-investigators may also be charged to the grant.

Few sponsors pay the full economic cost of a project, e.g. Research Councils pay 80% and Charities often pay direct costs only, so a discount is calculated which equals the unfunded amount.

Non-direct cost recovery funded = PI (and co-investigators') costs
+ Indirect costs
+ Estate costs
+ Infrastructure technician costs
– University discount

In some instances, e.g. where large equipment purchases or studentships form part of the grant costing calculation, sponsors will pay

differing proportions of the full economic cost of a project. Calculation of the expected non direct cost recovery is therefore not straightforward.

If the amount the sponsor is prepared to pay is insufficient to cover 100% direct costs, the institution will have to make up the shortfall and the Head of Institution will need to decide whether the grant application should go ahead.

Income received from Research Grants and Contracts that is surplus to direct costs on the project is split between the Chest and Institution in line with the University's Income Allocation Policy (IAP). Again, non-direct cost recovery is split between the Chest and institutions.

Fellowship grants do attract non-direct costs for Research Council sponsors.

The institution share of non-direct cost recovery is posted to sources of funds EDAA or EZZZ, and EZZY for Pooled labour.

Much charity funding is eligible for the Charity Research Support Fund so the University receives additional Quality Research (QR) funding based on the volume of eligible charity funding. A proportion of this income (currently 6%) will be credited to source of funds ECBA and is available to be used by institutions, without restriction, in the same way as funds from overhead and non-direct cost recovery are utilised. If these funds are employed to support staff costs, there will be an indirect cost charge to consider.

2.9. What transaction codes are used for budgets in UFS

Budgets should be input to UFS on the same transaction codes to which actual expenditure will be coded, as far as possible, otherwise meaningful analysis of Actual versus Budget expenditure is jeopardised at institutional, School and University level.

The following is a summary listing.

Type of expenditure	Source of funds	Budget transaction codes
Stipends	ABAA	Appropriate code for grade e.g. ‘ACMA’ for Grade 12 Professors
Wages	ACAA	Appropriate code for grade and job type e.g. ‘CMHA’ for grade 7 institutional technician
Appropriations in Aid	ABAA	AXXX
Vacancy Savings	ABAA	AXXA
	ACAA	CXXA
Other/Substitute Teaching	ABAA	BBAA
Non-staff costs	AAAA	Various as appropriate, EXZZ is used as a default

2.10. What is the difference between budgeting and forecasting?

A budget is the financial representation of a planning process, usually annual. It is finalised before the beginning of a financial year and actual income and expenditure are measured against it as a means of reviewing performance and controlling expenditure.

The University's planning process considers not only the following year's budget but projections for the immediate years beyond it. By planning further ahead and revising those estimates every year the aim is to ensure the medium-term financial sustainability of our activities.

Forecasting is a shorter-term activity, usually performed at regular intervals e.g. quarterly and limited to updating our view of the current year. It considers actual income or levels of expenditure and projects these forward to the end of the financial year.

It provides useful information about expected current year out-turn so that corrective actions may be taken where appropriate.

In addition, because forecasts are updated regularly, they often provide a more accurate guide to expenditure levels than a budget set before the financial year began. In turn, this may mean that a revised current year forecast is more appropriate than the original budget as a basis for future expenditure when setting the following year's budget.

2.11. What happens to budgets at the end of the financial year?

Unlike most 'for-profit' organisations, funds allocated but unspent at the end of a financial year may in some cases (subject to rules) be carried forward in reserves for use in subsequent years. This allows institutions and Schools the flexibility to plan activities and expenditure in the medium-term with confidence.

The rules on how under-spends and over-spends against budget are treated at the year-end are set centrally. Where budgets are devolved to the School/Institution, any underspends or overspends are carried forward to the next financial year. For Schools and non-School institutions, Chest Stipends and Wages are devolved, i.e. under-spends and over-spends are retained by the School or non-School institution. This exercise is performed by the Central Research and Accounting team after the July accounting period is closed to institutions as part of the year-end process.

For all institutions, Chest non-staff costs, source of funds AAAA, is fully devolved, so over- or under-spends against budget may be carried forward to the next financial year. Please note that the Schools and the UAS have local policies for their constituent institutions or UAS Divisions, and these will determine how over or under-spends are managed.

3. Monitoring and Controlling Budgets

All institutions are required to regularly monitor actual activity to planned activity and control their expenditure to ensure that it is in line with available funds. If required, appropriate corrective action should be taken to resolve significant differences between actual and planned activity. This section gives guidance in the techniques involved and reports available to enable interpretation of actual results against budget at a point in time. The financial jargon for this process of monitoring income and expenditure and taking corrective action is budgetary control.

The methodology for monitoring activity differs depending on whether the activity is one for which a UFS budget is set. Refer section on Budgetary planning.

- If there is a UFS budget, institutions should review the difference between actual and budgeted expenditure. Significant variances should be resolved.
- If there is no UFS budget, institutions should investigate significant surpluses or deficits. More detail on how to monitor and control activity where there is no budget is given in Section 4.

3.1. What is a variance?

A variance is the difference between actual and budgeted income and expenditure. At the University, we only get variances in GL (General Ledger) on Chest funded activities.

For all other non-Chest sources of funds, budgetary control will be implemented by recognising and resolving surpluses or deficits.

3.1.1. Adverse and Favourable Variances

An adverse variance is where actual income is less than budget, or actual expenditure is more than budget. This is the same as a deficit where expenditure exceeds the available income.

A favourable variance is where actual income is more than budget, or actual expenditure is less than budget. This is the same as a surplus where expenditure is less than the available income.

3.1.2. When should I investigate and resolve a variance?

A variance (or surplus or deficit) should be investigated and resolved when it is significant.

Unfortunately, significance is not absolute, it does depend upon context. What is significant to an institution may not be significant for the University. For institutions we recommend that variances of 10% are treated as significant. However, institutions are free to set their own limits higher or lower than this, and to have different limits for different types of income or expenditure.

3.2. Types of variances

There are four common reasons why actual expenditure or income will show a variance against the budget.

3.2.1. The cost is more (or less) than budgeted

Budgets are prepared in advance and can only ever estimate income and expenditure. There are usually two reasons why cost varies from budget.

- Price - item costs more or less than expected.
- Volume - we buy more or less of items than expected.

We generally try and allow for likely changes in price such as inflation, but budgets will never be 100% accurate.

3.2.2. Planned activity did not occur when expected

When preparing a budget, you must decide when the activity will take place. If it happens at a different time from planned, you will get a temporary variance which will generally resolve itself without action on your part. This type of variance is known as a **timing** variance.

The only occasion when you may need to act on a timing variance is at year end. To reduce the occurrences of timing variances, consideration should be given to how the budget is phased. Please refer to section 2.7 for more information on budget phasing.

It is not always possible to predict with certainty the date activities will take place and often these are beyond the control of a budget holder. For example, a delivery of consumables may be delayed due to lack of stock at the wholesaler or delays with the recruitment process may delay the appointment of a new staff member. Understanding what is driving budgetary variances is part of budgetary control.

3.2.3. Change in planned activity

The other main cause of variances is that the planned activity changes. For example:

- The planned activity does not occur, e.g. a new staff member's appointment is put on hold indefinitely.
- Unplanned activity occurs, for example a staff member may fall ill for an extended period requiring the recruitment of temporary cover at additional cost.

3.2.4. Error/Omission

The wrong combination of codes e.g. the wrong source of funds, a keying error at the payroll/invoice input stage or failure to make an adjustment in GL could all lead to an unexpected variance.

3.3. The Financial Summary Report (Cognos)

The primary purpose when monitoring expenditure against a budget is to ensure that expenditure does not exceed either the budget, or its planned or received income. The first problem is how to spot where expenditure has, or will, exceed the budget. The easiest way for institutional administrators to spot budget problems is to regularly review the Financial Summary Report which is run via the Cognos platform.

This report gives a summary of all the transaction data in UFS and provides an overview of the current financial position of the School/ Institution/Institution.

For further information on this report, refer to the Finance Division Training Guidance and FAQs on Cognos GL Financial Summary report. Additionally, there is guidance on common reporting issues.

3.4. Other ways to monitor expenditure against a specific UFS budget

As well as the GL Financial Summary Report, there are other Cognos reports that deal with actual and budgeting variances. Refer to the Finance Division Training webpages Guidance and FAQs, Cognos reports, for a list of reports and detailed assistance.

3.5. What to do if a budget is overspent

If a budget is overspent the first thing to do is investigate the reasons for the over-spend. If the over-spend is the consequence solely of a timing difference, then no immediate action is likely to be required. All other over-spends will need to be resolved by identifying alternative sources of income/funds that could be used to cover the over-spend. Expenditure should then be transferred to the alternate source(s) to fix the over-spend.

3.6. Transfer codes

When transferring costs between sources of funds, it is recommended that the transfer should use the original transaction code wherever possible. However, should this not be practical then the generic transfer code of EZXX can be used, but must be used on both the debit and credit side of the journal.

It is much more unusual to transfer income, indeed this is not to be done for certain sources of funds. There is a general transfer code, LXBB, for exceptional circumstances.

> Further details are provided in FPM Chapter 3: Chart of Accounts and in Best Practice Guide No. 3.

3.7. Commitment accounting

A commitment is an agreement or a pledge to assume a financial obligation at a future date e.g. the funds that we are committing to spend with a supplier when we send them a purchase order.

UFS is a commitment accounting system. This means that details of any orders placed using the Purchasing module (or iProcurement) are recognised by the system and show as costs against the relevant source of funds (or research grant) even before an invoice is received. This helps to ensure that obligations against funds are shown on the system as soon as possible, thereby reducing the exposure to spending funds more than once.

In addition to the reports detailed in this chapter there is also an on-line Funds Available Enquiry within UFS that shows at any point in time the budget, actual expenditure, commitments and thus funds left on any account (or certain groups of cost centres). Refer to the Finance Division Training Guidance and FAQs, General Ledger.

3.8. Additional tools that can be used

Where finances can be managed using UFS this is the most efficient way. However, there may be times when off-line systems can add further detail/clarity. For example, trust fund managers may choose to record a simple budget for the fund on an Excel template for the upcoming year.

Finance Business Partner or Institution head of finance can assist in providing templates.

If a project is to be funded from multiple sources, again an Excel spreadsheet may be used to summarise the various income streams anticipated to match these against a budget for the project. Where Excel (or other off-line) details exist, these should be compared and reconciled regularly to details held on UFS as part of budgetary monitoring and control.

3.9. Budget Virements

In general Chest budgets are set at the beginning of the financial year. It is the responsibility of the School Business Partners and institution heads of finance to organise the upload of institutional budgets, as detailed in the Blue Book, into UFS.

During the financial year it is possible to vire (or transfer) budgets. The main categories of budget virement are:

Grant of additional resources to an institution from a School reserve.	For academic institutions in Schools and divisions within the UAS, devolved budgeting has meant that the School or UAS is expected to manage within a total budget envelope. In practice this means that monies for specific ad hoc items, e.g. the purchase of a new photocopier, is now funded from School/UAS reserves instead of the non-recurrent grant pot. The only difference between this and the previous type of budget virement is where the monies come from.
Transfer of monies within an institution from one source of funds to another.	A budget is an estimate of planned future expenditure. Therefore, it can make sense to revise the budget in-year to reflect a known change in activity. A typical example is where the budget for institutional cleaning was set up on Wages (source of funds ACAA) and during the year contract cleaners are employed. The cleaning budget can be vired from Wages to Other Charges (AAAA) so that budget and expenditure are in the same place, assisting in the process of budgetary control.

However, it is not good practice simply to vire budgets so that budget and actual are in line i.e. surpluses or deficits do not mean a budget virement is required. All budget virements must be processed via your Finance Business Partner and Institution head of finance.

3.10. Research grant reports/queries

Cognos reports for monitoring grant expenditure at institutional level are available, including a summary report, which provides an overview of grants expenditure and remaining budget on active awards. Furthermore, once-off, bespoke Cognos reports can also be run from the Grants module. For current Cognos reports that are available to institutions, refer to the Finance Division Training Guidance and FAQs, Cognos Grants.

Additional reporting is also available through the Research Dashboard and the Research Grant Expenditure Application.

4. Monitoring and Controlling Expenditure Against Income

All institutions are required to monitor and control their expenditure to ensure that it is in line with available funds. This section gives guidance on the techniques required and reports available to enable interpretation of actual expenditure against available income at a point in time.

Institutions should investigate significant surpluses or deficits using the basic principles of budgetary control as described in Section 3, even if there is no UFS budget.

The primary purpose when monitoring expenditure against income is to ensure that expenditure does not exceed the available income. As when monitoring expenditure against budget, the first problem is how to identify which sources of funds are showing significant surpluses or deficits. The easiest way for institutional administrators to spot significant variances is to regularly review the Financial Summary Report. In addition, there are a number of other reports that may be useful, refer to the Finance Division Training Guidance and FAQs, General ledger reports section.

4.1. Trust Funds

Income and expenditure on Trust Funds can be monitored using the Cognos General Ledger reports. However, there is a specific report for Trust Funds which summarises the purpose, performance, and activity of each Trust Fund. It is produced and distributed by the Treasury and Investments section of the Finance Division monthly following the closure of General Ledger. It pulls together information available from UFS (sums on deposit, total value of capital and deposit income) and less transparent financial information (estimated income, number of units sold or purchased). Refer FPM13, Trust Funds, Monitoring Trust funds.

4.2. The importance of matching income to expenditure

It is always important to have a clear picture of financial plans, both income and expenditure. The Financial Regulations[1] state that “Heads of Institutions are authorised to incur expenditure not exceeding the limits of funds available to the Institution. They are responsible for ensuring that monitoring and control arrangements are adequate to prevent over-commitment of expenditure”. In effect this is saying that expenditure should not exceed income, or where relevant, allocated budget.

Ideally income and expenditure should be matched against each other in the same financial year, but this is not always possible due to timing differences. Where appropriate this gives rise to the need for accruals and pre-payments. Refer to FPM Chapter 11, Yearend instructions.

4.3. Spending surpluses

In some instances, accrued surpluses may be utilised to resolve accounts that have gone into deficit. It is critical to identify how the surplus has arisen and whether there are rules concerning how those funds may be used (e.g. specific donations and trust funds). Surpluses may only be used to fund allowable expenditure. FPM Chapters 3 (Chart of Accounts) and 12 (Investments) set out more detailed rules regarding spending surpluses. It specifies when certain transaction codes are to be used. Care is required when spending trading surpluses.

[1] Financial Regulations 11.1