Managing the Budget – Part 1

Table of contents

1. Budgeting basics

1.1 Budgeting – a definition

Definition of a budget:

> ‘A **financial representation** of **planned activity** for a **given period of time**.’

Financial representation

Budgets are normally prepared in monetary terms although organisations do often prepare other budgets using measures such as units of production, target sales volumes or numbers of employees.

How the budget is expressed depends on the size of an organisation. A top level summary budget statement will often be expressed in £’m. If the budget is further sub-divided, then it may be expressed in £’000 or simply in £’s where budgets are divided down to detailed operational levels.

Planned activity

The annual Planning Round is an established process through which Institutions monitor progress towards strategic objectives and review the resources required to deliver them. The output of this process is shared with the central bodies and scrutinised during a series of planning meetings.

Updated financial forecasts are consolidated enabling a University-wide view of income and expenditure, which informs the annual Report to the University on the state of the University’s finances (the Budget Report)

https://www.governance.cam.ac.uk/committees/finance-committee/Pages/budget.aspx

As well as setting the budget for the coming year, the Budget Report also provides a view of the projected finances for the planning period, covering four years in total.

The University Budget Report shows total income and expenditure, split between Chest and Non-Chest.

Given period of time

The University sets and monitors budgets over five years (the current year and four further financial years)

An example of the University's operating budget (with just one of the projected years) is shown overleaf.

As part of the annual planning round a revised forecast for the current year is provided. This becomes the basis for the revised forecast the University submits to Office for Students in the last quarter of the accounting year.

In Higher Education, an annual budgeting cycle, coupled with a regular strategic plan is deemed to be of sufficient rigour to respond to changes in funding, competition, government policy, economic conditions and other internal/external factors.

Internally departments, schools etc. are asked to do a revised forecast of spend on Chest Allocation at the half year and nine month mark.

The University year end is 31 July.

1.2 Chest and Non-Chest

The Chest

The Chest is the term for funds and related allocations that are derived from income collectively earned by the University as opposed to income such as a specific donation which is attributable directly to a department.

Chest funds are largely “unrestricted”, meaning the detailed allocations are not dictated by the funding provider, as long as they support the core teaching and research mission of the University.

The term “Chest” originates from the time when University cash, valuables and important documents were kept in secure chests like the one pictured above. This chest is based in the Registrary’s office at the Old Schools.

Non-Chest

This is all activity not classed as Chest and includes income and expenditure within departmental accounts such as trading activity, donations, research contracts and trust funds.

1.3 Operating Budget summary

	Budget 2017-18			Projection 2018-19		
	Chest £m	**Non-Chest £m**	**Total £m**	**Chest £m**	**Non-Chest £m**	**Total £m**
Income						
Grants from the Funding Council	147.6	4.0	151.6	147.2	3.9	151.1
Academic Fees	224.3	27.1	251.4	236.0	29.3	265.3
Research Grants and Contracts	40.0	439.5	479.5	40.8	441.0	481.8
Endowment Income and Interest Receivable	21.7	42.7	64.4	22.2	45.6	67.8
Other Operating Income	16.8	74.5	91.3	17.2	73.9	91.1
Other Services Rendered	2.8	55.7	58.5	2.8	58.5	61.3
TOTAL INCOME	**453.2**	**643.5**	**1,096.7**	**466.2**	**652.2**	**1,118.4**
Allocation/Expenditure						
Schools	190.7	615.9	806.6	194.6	616.5	811.1
Academic Institutions and Services	51.7	28.6	80.3	53.3	31.5	84.8
Staff and Student Services	1.3	1.3	2.6	1.3	1.4	2.7
UAS	36.2	13.7	49.9	36.1	14.3	50.4
Administered Funds						
Teaching and Research	113.7	0.0	113.7	117.5	0.0	117.5
Contingency	7.8	0.0	7.8	7.8	0.0	7.8
197.Human Resources	4.0	0.0	4.0	4.3	0.0	4.3
Operational	4.0	0.0	4.0	4.1	0.0	4.1
Estates	57.9	0.0	57.9	59.6	0.0	59.6
General	5.9	0.0	5.9	5.9	0.0	5.9
Baseline	1.4	0.0	1.4	1.4	0.0	1.4
Administered Funds Total	194.7	0.0	194.7	200.6	0.0	200.6
TOTAL EXPENDITURE	**474.6**	**659.5**	**1,134.1**	**485.9**	**663.7**	**1149.6**
Surplus/(Deficit)	**(21.4)**	**(16.0)**	**(37.4)**	**(19.7)**	**(11.5)**	**(31.2)**

1.4 The advantages and disadvantages of budgeting

Setting and monitoring budgets is considered standard practice in most organisations. The way that budgets are agreed, and how they are implemented and monitored, will vary and will affect the amount of benefit derived.

Advantages of budgeting

- enables systematic and comparable financial control
- allocates appropriate and agreed resources to projects
- budget reports allow monitoring of performance at regular intervals
- identifies problems as they develop by spotting trends through regular monitoring
- plans for the future
- help define personal and organisation objectives
- increase staff motivation, acts as an incentive
- control - setting limits and boundaries
- can be more inclusive, sharing decision making and responsibility across the organisation
- promotes consistency across the organisation
- the exercise of budgeting makes an organisation plan ahead and reflect back on past decisions and performance, so aids and improves decision-making

Disadvantages of budgeting

- increased process and paperwork
- diverting effort from other tasks
- can be inflexible to changing circumstances
- restrictive and de-motivating e.g. desired behaviour stops when target is achieved
- can encourage the wrong behaviour – I've got a budget, so I'll make sure I spend all of it – the "use it or lose it" approach
- stifles innovation and entrepreneurship
- top down budgets are imposed rather than owned by all parts of the organisation
- inclusive, "bottom up" budgeting requests are often ignored, rejected or watered down at top level

1.5 The role of Department Administrators in budget setting and monitoring.

The Financial Regulations state that heads of Department should ensure (amongst other things) “proper allocation of funds” and “sound financial control”.

The Regulations also allow Heads to “designate in writing one or more people to execute specified tasks.”

Many departmental administrators take an active role in budget setting, resource management and budget monitoring.

Budget setting

Each School will work with departments in their own way towards setting budgets and contributing to the annual plan. Administrators may be asked to review and amend detailed pay and non-pay budgets and to provide information on the departments aspirations (within the School overall plan).

In the UAS and non-school institutions, the School Finance Manager will usually work closely with the head of institution or designated person to set the budget submission each year.

Bidding for non-recurrent budgets

If an academic department needs to bid for some non-recurrent budget e.g. for an unforeseen need, they will make a case to the School office, which may hold a contingency fund. In a non-school institution, bids can be made to the central administration.

In both cases, it is likely that the administrator will be setting out the case of need. Consequently, the administrator may have to cost the proposal, research the best value for money, and put the case of need in writing also stating why the need cannot be met from other departmental reserves or funds.

(See also Section 4 on Non-recurrent Grants)

Budget monitoring

Administrators are very often the “eyes and ears” on behalf of the head of institution with delegated responsibility to monitor expenditure against Chest allocations and balances on department funds.

Administrators often receive the monthly Departmental Summary Report and will need to understand how to investigate variances and take corrective action. They are usually the first point of contact with School Finance Managers and Finance Advisers.

2. The University's Operating Budget

2.1 How the Operating Budget is put together

Budgets are set at various levels:

- by School
- by Institution – e.g. University Library
- by Administrative group – e.g. the UAS

To see the current status of budget devolvement across the University, go to the Planning Office web pages at:

https://www.prao.admin.cam.ac.uk/planning-round

Each year schools and institutions are required to participate in the planning round. These plans set out the academic priorities and objectives for the institution for the current year and the following four years, and explain how they are to be implemented.

It varies from school to school as to how much detail the departments contribute to the budget plan. Most non-school institutions provide a detailed budget submission.

The School (and Non-school) Finance Managers are responsible for building and collating the plans within their areas. All this work is done within a framework using standard assumptions (e.g. for future pay inflation) that is issued by the Academic and Financial Planning and Analysis Office (AFPA)

The Strategic Plans for each school/institution are a detailed view of the direction and scope of the schools teaching and research delivery accompanied by detailed financial forecasts. Each forecast is prepared and submitted in a standard format and consolidated into the Operating Budget to include:

- a revised forecast of the current year
- a budget for the coming year
- projections for three further years

The financial forecasts are revisited annually to provide the basis for school and institution operating budgets.

There are a number of factors which limit the budget aspirations of schools and institutions such as:

- no growth in college capacity for student numbers
- government caps (and efficiency targets) on grant income
- imposed limits on the majority of student fee rates
- reduction in expected donations
- reduced trading income

2.2 The Operating Budget timetable

A summary of the process.

Date	Activity
June/July	Planning guidance issued
July to December	Finance Managers prepare financial forecasts, in collaboration with departments/institutions. School committees review and approve their plans for the submission deadline of 1st December
September/October	Prior year income/expenditure is analysed
1st December	**Plans submitted to Academic and Financial Planning and Analysis (AFPA)**
January to May	Plans are reviewed through meetings with Pro-Vice-Chancellors/Heads of Schools and then presented to University committees Office for Students grant letter received in March
May	University Council considers Plans and Forecasts and recommends them to the members of the University (Regent House)
May/June	Operating Budget is published in The Reporter
June	Budget is “graced” by the Regent House
July/August	Finance Managers produce detailed breakdown of Chest allocations
August/September	Finance Division uploads the budgets to CUFS in time for reporting at the first quarter end.

2.3 The role of University Committees in budget setting

At one stage or another, virtually all the central and school based committees will see the proposed budget and will do one or more of the following:

- make recommendations for budget allocations
- approve recommendations
- commend the budget to a higher authority
- challenge budget plans against various criteria e.g. administration costs, impact on quality and teaching delivery etc.

The committees and their role in budgeting:

Decision making body	Membership	Powers/role
Regent House & Senate The governing body of the University	Made up of around 5,500 University academics, officers and senior College members	**Discusses** the Operating Plan and Budget. If it approves, plan goes through without a vote.
University Council The principal executive and policy making body	The Council comprises the Chancellor (who does not usually attend), the Vice-Chancellor (who generally chairs), 19 elected members and 4 external members	Recommends the budget to the Regent House.
Planning & Resources Committee (PRC) Strategic decision making	The Senior Pro-VC (Planning and Resources) The Pro-Vice-Chancellors The Heads of the Schools The Chair of the Colleges' Committee 1 other member appointed by the Colleges 3 members appointed by the Council 3 members appointed by the General Board 1 student member	Advises the Council on the allocation of University funds, oversees the Chest Allocations process.

Decision making body	Membership	Powers/role
Resource Management Committee (RMC) Operational resource management and co-ordination	Pro-VC (Planning) Heads of Schools 1 Council rep 1 student rep	Advises PRC on non-school budgets. Oversees staff establishments and some non-recurrent budgets.
Finance Committee Control of income, expenditure, investments, capital/buildings	VC 3 college reps 4 Council reps 1 General Board rep 3 Regent House reps	Accountable to Council (a standing committee of the Council). Reviews Operating Plans, forecasts and variances.
Councils of the Schools and School Resource Committees Agreeing School priorities and allocations	Typically: Heads of each Dept. within the School Faculty reps 1 General Board rep 1 Council rep	Represents depts. in the school and influences budget decisions through RMC/PRC
UAS Management Board	Registrary Directors of UAS Divisions	Decides priorities within the UAS, co-ordinates budget plan submissions from its divisions

3. University budgets in CUFS

3.1 General Ledger budgets

The University Finance System (CUFS) holds the Chest Allocation in the General Ledger which equate the Chest expenditure total in the Operating Budget. This expenditure plan is approved by the University committees and is approved (graced) by University members.

Once the budgets are approved, the Chest Allocation is entered into CUFS. This is input each month as actual income.

The different categories of allocation are as follows:

Source of Funds code	Source of Funds name	Main usage
AAAA	Chest Non-Pay	Recurrent – consumables and other non-pay expenditure
ABAA	Chest Stipends	Recurrent – Academic and Academic Related pay costs
ACAA	Chest Wages	Recurrent – Assistant Staff pay costs
AHAA	Equipment Grants	Non-recurrent - General department equipment
AH** Others	Grants from central funds	Non-recurrent for specific purposes
AN**	Special expenditure, strategic expenditure, managed and administered funds	Administered funds hold Chest allocations to meet certain costs incurred University-wide and which do not form part of the running costs of the central offices that administer them. Budgets are allocated to these *Sources of Funds* by Financial Planning & Analysis
EBAA	Unpaid Leave of Absence	For duration of leave - budget transfer from ABAA to fund the replacement costs of a staff member who takes unpaid leave

3.2 Research grants

Every research grant has a budget which is set up within the CUFS Research Grants (Projects) Module. Here, budgeting is not on an annual or recurring basis but is set up over the agreed duration of the research grant and is split into categories of expenditure to reflect the contract terms and nature of the research. For example, some research contracts will include a budget specifically for equipment, others may not. The various expenditure categories are agreed with each sponsor and with strictly enforced rules for each budget category in each grant.

Full details about costing and budgeting for research can be found at the Research Operations Office website at:

https://www.research-operations.admin.cam.ac.uk/

The site includes detailed instructions on methodology for full economic costing and X5, the costing and pricing tool.

3.3 Budgets for buildings and other major capital expenditure projects

Building and refurbishment

The Capital Projects Process (CPP) covers projects estimated to cost £2M or more and includes:

- building projects
- major items of equipment purchase
- computer systems and major software acquisition
- equity investments
- joint venture initiatives

The CPP is a 3-stage application process:

- registration of opportunity
- concept
- full case

The Planning & Resources Committee (PRC) is the approving Committee.

New arrangements for capital planning were agreed by the Planning and Resources Committee in November 2015. The changes provide a simpler framework to support strategic decision-making about capital planning and the relative priority of individual capital projects.

A significant outcome of these changes is that the CPP is now directly aligned with the Capital Plan. Projects with an approved Registration, Concept or Full Case will be placed in the Blue, Amber or Green zones of the Capital Plan respectively.

Government funded projects and initiatives

Schools and institutions are invited to submit their bids for government allocations (often under the banner of HEFCE Initiatives, Project Capital or Research Infrastructure Funds). These are often viewed as budget allocations because bids have been submitted and agreed by central committees but when the monies are received into the University they are allocated directly to the department as income as a credit to the J*** source of funds account.

3.4 Non-chest budgets

The central University and departments devise numerous budgets for income and expenditure across a wide range of activities and funding categories but these budgets are not routinely loaded into CUFS.

There needs to be thorough budget plans for trading activities to ensure these activities do not result in deficits.

Indirect Cost Charge (ICC)

Where additional staff are budgeted against department funds, the University will levy an overhead charge, which may differ per school. The AFPA website has the current rates https://www.prao.admin.cam.ac.uk/resource-allocation/indirect-cost-charge

The indirect cost charge (ICC) is an overhead charged on pay costs met from certain non-Chest sources of funds. The charge is intended to recognise and recover part of the central and local infrastructure costs that have been incurred during the non-Chest funded activity. The sources of funds covered by the ICC are:

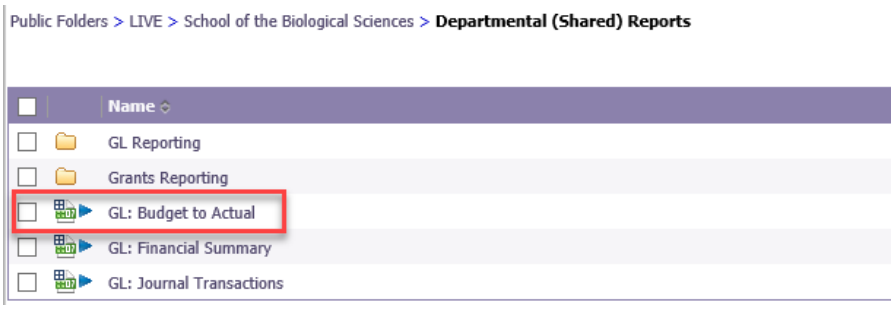
- external trading
- general and specific donations
- departments' share of charity QR
- departments' shares of non-direct costs (excluding pooled labour) and research overheads

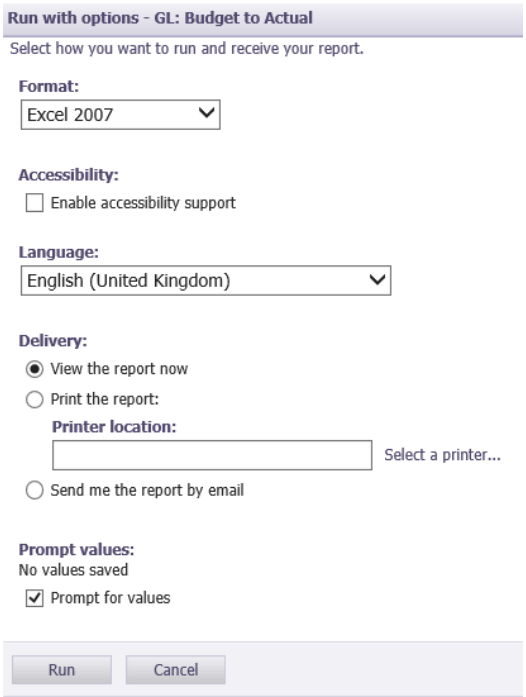
3.5 Budget reports

Budget reports can be run in either Cognos or CUFS. These reports allow departments to view their actual performance against their Plan budget..
Departmental Budget to Actual by CC or SoF, report in Cognos

In Cognos navigate to:

Public Folders → LIVE → your school folder **→ Departmental (Shared) Reports**





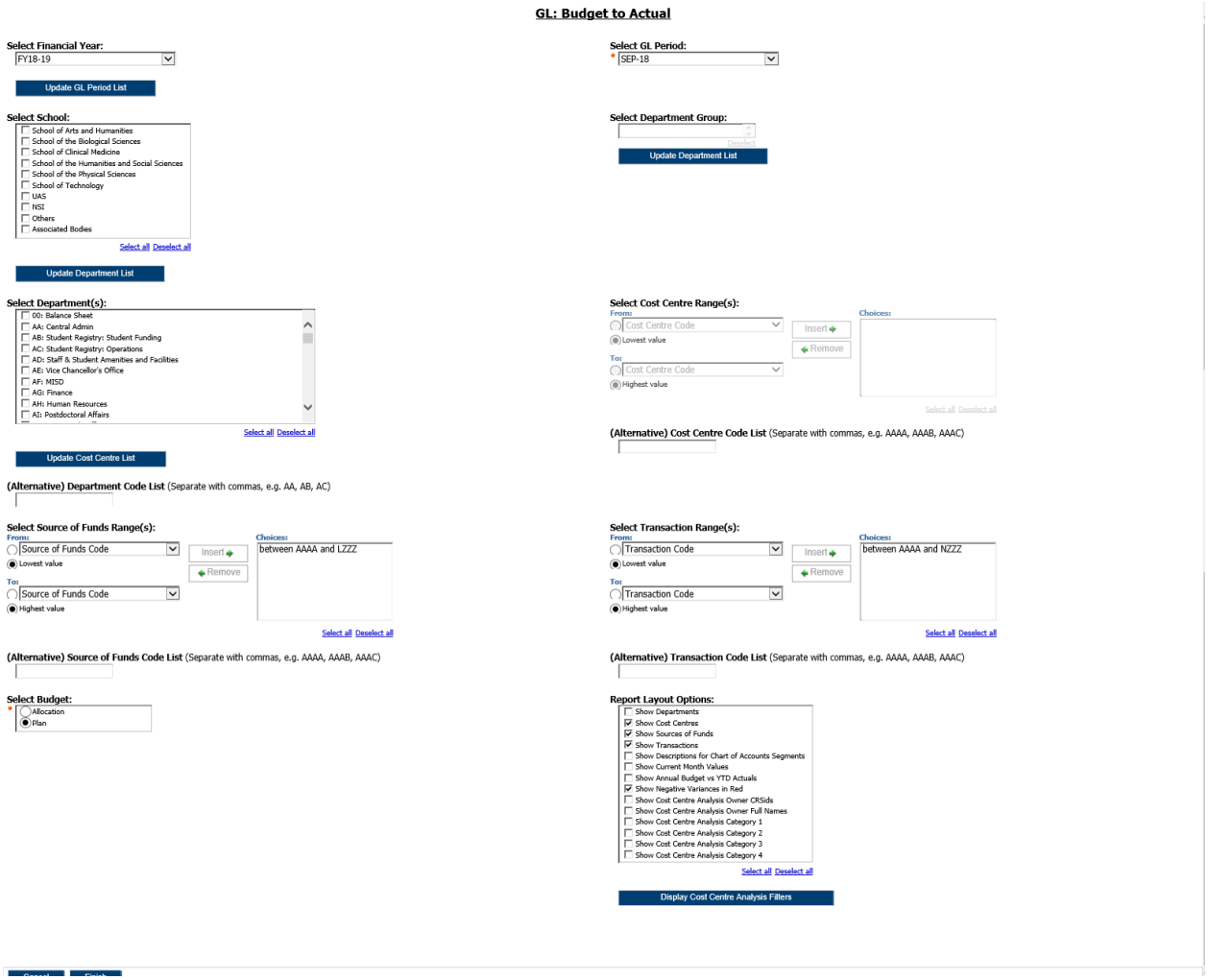
To run the report, click on the **Run with Options** icon to the right of the report. Remember not to click on the report name to run as this will bypass the format and output options

Format
Change to required option using the drop down menu e.g. Excel or PDF

Delivery
Select to either view the report now, or to send the report by email. The email option will send an emaill to the person who is running the report unless the address is altered in 'advanced options'.

It is not recommended that the report is printed as the length of the report is unknown. The report can always be printed once viewed or emailed.

Click on **Run** to display the parameters page



Use the buttons to select:

The Financial Year
E.g. FY18-19

GL Period
The appropriate GL periods for that financial year will then be available for you to choose from in the drop down list. Select from the list the ***cumulative*** period required.

School
Select from the drop down list your school or required grouping. This will drive which departments will be displayed in the next field.

Department
Highlight the department and this will then generate the cost centre pick list.

Sources of Funds (optional)
Either select a range or use the 'Lowest value' to 'Highest value' radio buttons to include all.

Cost Centres (optional)
Either select a range or use the ‘Lowest value’ to ‘Highest value’ radio buttons to include all.

Budget
This will default to Plan (Allocation is not being used from 18-19 onwards and so should never be selected for these periods)

Report layout options
Select any additional columns/layout options that are required

Cost Centre	Cost Centre	Source of Funds Code	Source of Funds	Transaction Code	Transaction	Annual Plan	Plan YTD	Actual YTD	**Variance YTD**
PDBA	Plant Sciences General	AAAA	Chest Non Payroll	GPAA	Main Chest Allocation per Blue Book	(265,390.00)	(44,232.00)	(44,232.00)	**0.00**
PDBA	Plant Sciences General	AAAD	Chest Equipment	EXZZ	Other/General Miscellaneous	27,371.00	4,562.00	0.00	**4,562.00**
PDBA	Plant Sciences General	AAAD	Chest Equipment	GPAA	Main Chest Allocation per Blue Book	(27,371.00)	(4,562.00)	(4,562.00)	**0.00**
PDBA	Plant Sciences General	ABAA	Chest Stipends	AAAA	Stipends: Established Posts - Administration - SP	22,663.00	3,778.00	0.00	**3,778.00**
PDBA	Plant Sciences General	ABAA	Chest Stipends	ACJA	Stipends; Academic staff - teaching and research	66,774.00	11,130.00	6,037.88	**5,092.12**
PDBA	Plant Sciences General	ABAA	Chest Stipends	ACKA	Stipends; Academic staff - teaching and research	75,273.00	12,546.00	6,120.78	**6,425.22**
PDBA	Plant Sciences General	ABAA	Chest Stipends	ACLA	Stipends; Academic staff - teaching and research	319,668.00	53,280.00	26,124.76	**27,155.24**
PDBA	Plant Sciences General	ABAA	Chest Stipends	ACMA	Stipends; Academic staff - teaching and research	825,046.00	137,506.00	69,138.09	**68,367.91**
PDBA	Plant Sciences General	ABAA	Chest Stipends	ANHA	Stipends; IT/Computing; Grade 7	26,606.00	4,434.00	2,073.73	**2,360.27**
PDBA	Plant Sciences General	ABAA	Chest Stipends	BBAA	Stipends: Casual Posts - Teaching and Research	26,317.00	4,386.00	0.00	**4,386.00**
PDBA	Plant Sciences General	ABAA	Chest Stipends	BCAA	Stipends: Casual Posts - Teaching and Research	0.00	0.00	306.14	**(306.14)**
PDBA	Plant Sciences General	ABAA	Chest Stipends	BZBK	Additional pay; Holiday pay	0.00	0.00	42.26	**(42.26)**
PDBA	Plant Sciences General	ABAA	Chest Stipends	GPAA	Main Chest Allocation per Blue Book	(1,362,347.00)	(227,060.00)	(227,060.00)	**0.00**
PDBA	Plant Sciences General	ABAD	Savings Accruing for Unpaid Leave of Abs	ABAE	Stipends: Established Posts - Teaching and Rese	0.00	0.00	1,421.85	**(1,421.85)**
PDBA	Plant Sciences General	ACAA	Chest Wages	CHDA	Wages; Administration; Grade 3	29,042.00	4,840.00	2,444.50	**2,395.50**
PDBA	Plant Sciences General	ACAA	Chest Wages	CHEA	Wages; Administration; Grade 4	54,268.00	9,046.00	7,508.46	**1,537.54**
PDBA	Plant Sciences General	ACAA	Chest Wages	CHFA	Wages; Administration; Grade 5	68,708.00	11,452.00	2,471.64	**8,980.36**
PDBA	Plant Sciences General	ACAA	Chest Wages	CHHA	Wages; Administration; Grade 7	104,828.00	17,470.00	8,493.21	**8,976.79**
PDBA	Plant Sciences General	ACAA	Chest Wages	CJEA	Wages; Library; Grade 4	13,943.00	2,324.00	1,173.71	**1,150.29**
PDBA	Plant Sciences General	ACAA	Chest Wages	CKCA	Wages; Maintenance of premises; Grade 2	18,818.00	3,136.00	0.00	**3,136.00**
PDBA	Plant Sciences General	ACAA	Chest Wages	CKDA	Wages; Maintenance of premises; Grade 3	0.00	0.00	1,783.25	**(1,783.25)**

There is the capability for departments to upload an owner and up to 4 additional categories to Cost Centres on the General ledger.

4. Recurrent versus non-recurrent budgets

4.1 Recurrent budgets

The majority of Chest allocations are recurrent in nature. For example, if a University Lecturer post is established, then the allocation will be recurrent. Similarly, the non-pay (Other Charges) allocation is recurrent because departments will have a continuing requirement for budget for photocopiers, stationery, etc.

Each year these recurrent allocations are rolled forward. An agreed amount of inflation will be added to pay budgets, and any changes to establishments are reflected in the mix and numbers for each grade. This approach is possible in the University due to the relatively stable nature of some of the income streams each year and only marginal changes in total teaching activity.

There are some recurrent central budgets that need re-basing each year. One clear example is the budget for utilities costs; where electricity and gas prices fluctuate significantly and it is not possible to simply roll forward the previous year's budget.

4.2 Non-recurrent budgets

All Chest funding requests should be accounted for via the Planning Round and/or where possible from Department/School reserves. In exceptional circumstances, the University has two centrally administered sources of in-year funding from which allocations may be approved:

- Non-recurrent Grant Fund
- Strategic Planning Reserve Fund (SPRF)

These allocations can be either for planned activity e.g. a building programme, equipment replacement, or for unforeseen events (see Non-recurrent Grant Fund below).

It is important to note that although equipment replacement is seen as key to maintaining adequate infrastructure support for teaching and research, they are classed as non-recurrent because the total allocation each year can vary considerably – partly dependant on total Chest income available.

Planned activity will be based on agreed priorities (and may be linked to non-recurrent income streams).

4.3 Central non-recurrent Grant Fund

The officers supporting the Resource Management Committee (RMC) maintain a non-recurrent grant fund with authority to commit up to £50k (as at October 2017) on individual grants.

Recently minimal provision has been made centrally for non-recurrent grants, as any reserve would need to be financed by a corresponding reduction in allocations to Schools and central institutions. Schools, the UAS and larger devolved non-School Institutions are expected to make provision, therefore, for an appropriate level of non-recurrent and unforeseen expenditure by including a contingency fund in their plans. For smaller, non-devolved non-School Institutions, where alternative sources of funds are more limited, access to non-recurrent grants will be maintained. Normally grants are only made where no other suitable source of funds is available.

Grant requests from Schools, the UAS or large devolved non-School institutions will only be considered in extenuating circumstances and when there are no other sources of funds that could be used to support the request. These entities operate under devolved budgeting and, therefore, should include plans for contingencies when drawing up annual plans.

It is a strict condition that grants must be used wholly and exclusively for the purpose stated, and any unspent balances are returned to the central fund.

4.4 Strategic Planning Reserve Fund (SPRF)

Funding from the Strategic Planning Reserve Fund (SPRF) may be requested to provide in-year funding for non-recurrent opportunities that are more significant in scale and are of a strategic and academic nature.

The governance and administration arrangements for the SPRF were updated in October 2016. While the purpose of the fund remains broad, the time critical and strategic nature of any request must be emphasised.

Examples of activity that might be prioritised via the SPRF includes support for collaborative/interdisciplinary opportunities in areas that may not otherwise attract support at the level required and strategic opportunities to leverage other funds.

- All requests for SPRF funding must be submitted via PRAO for consideration by a panel of fund managers.
- The fund managers may at their discretion refer any requests to the Planning and Resources Committee for decision.
- It is essential that all requests for funding from this source are made via the formal route.
- Only allocations approved by the panel of fund managers will be considered a commitment against the SPRF.
- All requests for SPRF funding should be supported by a Pro-Vice-Chancellor or a Head of Institution.

4.5 How to bid for grants

Schools, the UAS and larger devolved non-school institutions are expected to absorb non-recurrent requirements by including a contingency fund in their plans.

For other institutions, requests are made in writing to the Academic Division with full details of the requirement and an explanation of why the need cannot be funded from other department reserves/funds.

Bids can be made at any time, as is the nature of the need often being unforeseen.

The decision to grant funds rests with the officers of the Academic Division using the devolved decision making from the Resource Management Committee.

5. Recurrent versus non-recurrent Allocations

Chest allocations are now largely devolved to schools and some large institutions. However, the University still places certain restrictions on the extent to which school Chest allocations can be changed, once they have been approved.

The over-riding factor about Chest allocations is that they have been scrutinised and agreed through the committee structure and the split between the main budget heads in the operating plan has been ultimately approved by Council and the Regent House.

Also, there are strict establishment controls on the mix of staff grades, particularly for academic and academic related staff.

For example, if a department wished to replace vacant teaching posts with computer officer posts, it may not be acceptable to the school or indeed to the General Board which has a responsibility for maintaining teaching standards and delivery

5.1 Approved allocation transfers

During the financial year it is possible to vire (or transfer) Chest allocations. There are three main categories of allocation virement:

- grant of additional resources to a department from a central University reserve
- grant of additional resources to a department from a School reserve
- transfer of monies within a department from one source of funds and/or cost centre to another

5.2 How are allocations transferred?

Whichever the virement type, all changes have to be processed via the School Office who will use a specific budget journal transfer process.

6 Budget phasing/profiling

6.1 Options available

It is important to use phasing to achieve like-for-like comparison of allocation against actual expenditure part way through the accounting year.

When Chest Allocations are uploaded into CUFS, the annual totals are split across the 12 calendar months of the financial year from August through to July, this is how the amounts will be entered each month as Actual Income. There are a number of ways to do this:

Option 1: Equal phasing across all months

The same amount each month (with the exception of the final month where a small rounding difference may be entered).

This approach is used when expenditure patterns are quite uniform during the year, or where there is no expectation or plan of an uneven expenditure pattern.

Option 2: Variable phasing across months based on past expenditure patterns

Example: A non-pay allocation for a library where most of the allocation will be spent on journal subscriptions during the first term, and a small amount each month on general items such as stationery.

Option 3: Variable phasing based on known future spending patterns

Example: Pay allocations. These are often phased to reflect the introduction of pay rises (often with related back pay) and planned increments. As a result, on the month a planned pay rise takes effect, the monthly budget will increase to match.

NB. Do not put all of the allocation in month 1, it should be phased in some way

The same principles apply to non-Chest plans

	Source of Funds AAAA Chest Non Payroll		Source of Funds ABAA – Chest Stipends
Accounting period	Option 1: Equal phasing	Option 2: Variable phasing (i)	Option 3: Variable phasing (ii)
August 2018	£1,666.00	£100.00	£41,964.00
September 2018	£1,666.00	£100.00	£41,964.00
October 2018	£1,666.00	£18,900.00	£45,741.00
November 2018	£1,666.00	£100.00	£43,223.00
December 2018	£1,666.00	£100.00	£43,223.00
January 2019	£1,666.00	£100.00	£43,223.00
February 2019	£1,666.00	£100.00	£43,223.00
March 2019	£1,666.00	£100.00	£43,223.00
April 2019	£1,666.00	£100.00	£43,223.00
May 2019	£1,666.00	£100.00	£43,223.00
June 2019	£1,666.00	£100.00	£43,223.00
July 2019	£1,674.00	£100.00	£43,223.00
Total	**£20,000.00**	**£20,000.00**	**£518,676.00**

Notes:

Option 1: Allocation totals are always entered into CUFS in whole pounds. If an allocation does not divide equally into 12 months, July is usually chosen to include the rounding amount.

Option 2: In prior years, the large invoices for journal subscriptions were paid in October and so the budget is phased with the same expectation.

Option 3: In this example, an inflation pay award is expected in October and so this and future months have a higher budget phasing. October also has budget for the back-dated increase relating to August and September.

All three options attempt to profile the allocation to match predicted expenditure plans. This approach aims to reduce the chances of a budget-to-actual difference occurring (see section 7 on variances for more) in a particular accounting period and in a cumulative total at any time in the year.

6.2 Can I request a particular budget phasing?

There is a standard specification for uploading Chest pay and non-pay allocations into CUFS at the beginning of each financial year.

However, if your department requires a different phasing for the Chest non-pay allocation, it can be requested by completing a spreadsheet form which can be found on the Finance Division website https://www.finance.admin.cam.ac.uk/staff-and-departmental-services/forms.

On the form, you should set out how much budget, month by month, you wish to see in each accounting period.

Send your budget change form to your School Finance Adviser who will action the changes in CUFS because accounts staff in departments do not have the access rights to amend or move budgets

7 Variances

The term “variance” is used where there is a budget compared to actual expenditure or income. The key column on the budget report is the variance column.

Plan	Actual Expenditure	Variance
(A)	(B)	(A-B)
£9,000	£8,850	£150

When reading a budget compared to actual report, remember:

"…..a positive variance figure is a good thing"

7.1 Types of variance

a) Quantity or volume variance

This is where the planned level of activity exceeds or does not achieve the planned levels. This can be for pay (numbers of staff) or non-pay. It is also common for organisations to set targets for volume of sales in particular price bands, knowing that a certain quantity is required to cover costs and achieve profit forecasts.

b) Price or cost variance

If the budget is set and then prices rise, an unfavourable variance will occur - unless the unit price or the volume of purchases can be reduced to offset the additional costs. It is important when budgeting to try and anticipate factors such as inflation, scarcity of goods and seasonal fluctuations in prices. For pay costs, inflation, increments and re-gradings are all factors to increase expenditure. For non-pay costs, there are some expenditure items that are outside the University's control, witness recently the increased price of gas.

c) Timing variance

To reduce the possibility of a worrying variance, it is advisable to estimate the pattern of expenditure over time and phase the budget accordingly. If you expect an equipment grant to be spent straight away, then it should all be phased in the month of allocation, whereas expenditure on stationery may be evenly spread throughout the financial year. It is also quite common for expenditure to be delayed and fall outside the accounting year in which the budget allocation is made.

d) Errors/omissions

Errors

The wrong account combination is chosen:

- This could be any part of the account code i.e. cost centre, source of funds and even the wrong department (although rare)

The correct code is chosen but:

- A keying-in error means the code is altered when the transaction is entered on the accounts

The wrong amounts have been input:

- If an adjustment has been entered by someone, it could be for the wrong amount or the accounting double entry could be the wrong way round. The latter example would double up the effect of an error.

The budget itself is wrong:

- the wrong amounts have been uploaded
- the split across codes is incorrect
- the monthly phasing is not as planned

Omissions

Incomplete records for the period being reported.

- A regular process, such as charging out telephone calls and rental to departments, has not been entered into the system.
- An invoice has been received but has not been entered onto the accounts
- An adjustment in the ledgers has been entered into the wrong accounting period
- The budget report has been created too soon e.g. before the month end processes have been completed and before planned adjustments and charges have been entered.
- An additional budget allocation during the year has not been uploaded.

7.2 The significance of variances

A variance will not always require investigation or remedial action unless it is significant or material. Also, time should be allocated for the investigation of underspent budgets as well as analysing overspends.

When a variance is expressed in £s, the significance will be determined by its size in relation to the size of the budget.

Size of variance

Example 1:		**Example 2:**	
Budget	£100,000	Budget	£5,000
Expenditure	£101,000	Expenditure	£6,000
Deficit	(£1,000)	Deficit	(£1,000)
Percentage of budget	1%	Percentage of budget	20%

The deficit expressed in £'s is the same, but in proportion to budget, Example 2 is much more significant than Example 1.

7.3 Action to correct variances

There may be a time lag before actions dealing with variances can have a positive effect on the budget position.

Also, once the cause of the variance is understood, corrective action depends upon certain factors:

One-off occurrences e.g. an error or omission in the accounts

By making a correction to the source of the error (e.g. amending an accounting code on a payroll entry) it should not re-occur. As well as dealing with the source of the error, there will need to be an adjustment journal entry into the accounting system to correct the expenditure balances.

A variance that increases over time

Overspends on pay should be relatively rare because it is not theoretically possible to employ staff over and above the approved and funded establishment. Each year, Finance Managers review the budget to ensure all posts are included and are costed at scale points that deal with increments and anticipated promotions.

Overspends of this nature will build during the financial year unless a vacancy occurs to compensate.

Overspends on non-pay will be largely due to increased prices or increased usage often against a budget which may not have been increased in one or more prior years to fund non-pay inflation pressures.

A recurring overspend will have to be dealt with by either reducing or stopping an activity, improving value for money when purchasing or switching expenditure to other departmental funding sources when Chest allocations are fully spent.

Savings Targets

If a department has a savings target budget, it will often be a deduction on a pay budget equivalent to a certain level of vacancy e.g. holding a post vacant for a year or part of a year. Historically, the University has assumed saving will accrue from vacancies and now budgets are devolved to schools, a share of assumed savings is also devolved.

Depending on the budget set-up, a department may have a favourable pay variance but also have an equivalent savings target elsewhere, or the school may expect to transfer underspent balances to a reserve or school level savings target budget at the year end.

Finally - do not ignore under spends!

It is often the case that an under spend in one budget head is linked to an over spend elsewhere, and should therefore not be accepted as simply a good thing. It may be that expenditure has been miscoded or omitted in error.

Appendix A: Departmental Finance resources

Departmental staff with responsibilities for budgets are supported by a dedicated Finance Manager and Finance Adviser.

	Finance Manager	Finance Advisor
Arts & Humanities	Claire Cahill claire.cahill@admin.cam.ac.uk (7)64074	Vacant
Humanities & Social Sciences	Beverley Housden beverley.housden@admin.cam.ac.uk (7)64081	Deana Robinson deana.robinson@admin.cam.ac.uk (3)30701
Physical Sciences	Susan Wright susan.wright@admin.cam.ac.uk (7)67137	Joel Brand joel.brand@admin.cam.ac.uk (3)30582
Technology	Joanna Walmsley Joanna@tech.cam.ac.uk (7)65643	Daniel Greenfield daniel.greenfield@admin.cam.ac.uk (3)30700
Biological Sciences	Michael Godfrey michael.godfrey@admin.cam.ac.uk	Adam Durrant adam.durrant@admin.cam.ac.uk (7)61568
Clinical Medicine	Matt Burgess matt.burgess@admin.cam.ac.uk (7)65643 Philipa Moore (Assistant Finance Manager) pg317@medschl.cam.ac.uk (3)36705	Robert Williams rpw24@medschl.cam.ac.uk (3)36730
NSI	Diane Gaskin diane.gaskin@admin.cam.ac.uk (7)65812	Catherine Bentham catherine.bentham@admin.cam.ac.uk (7)66597
UAS	Mike Millard mike.millard@admin.cam.ac.uk (7)65975	Elizabeta Moss elizabeta.moss@admin.cam.ac.uk (3)32243

Appendix B: Viewing budgets in CUFS

1. How to view a budget using the CUFS enquiry screens

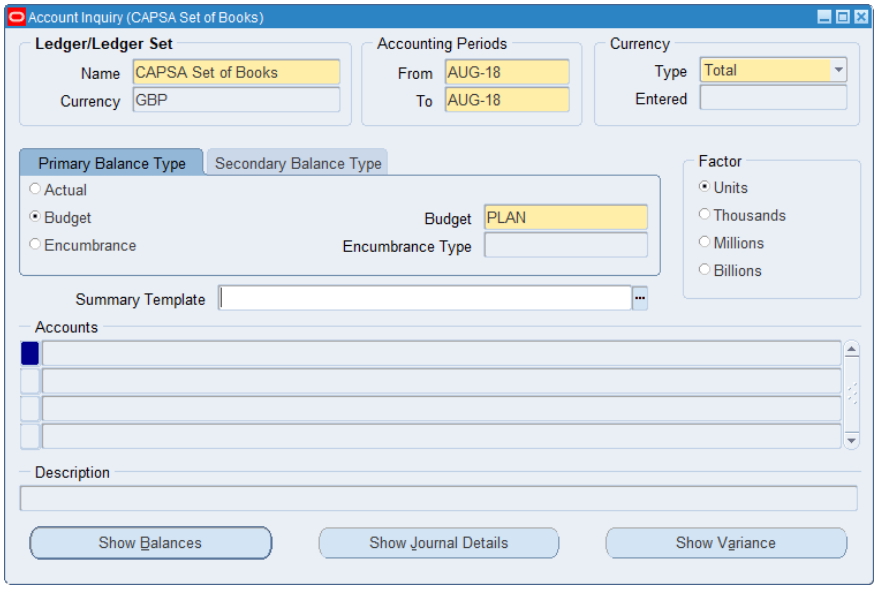
The University (Chest) allocations are visible in the CUFS General Ledger, using the Account Enquiry screens.

In the Account Enquiry screen, you need to fill in all the yellow mandatory fields. They are:

Accounting Periods: The range of calendar months you wish to see, often this may be for a financial year

Currency: Accept GBP as the default. All budgets are in GB pounds.

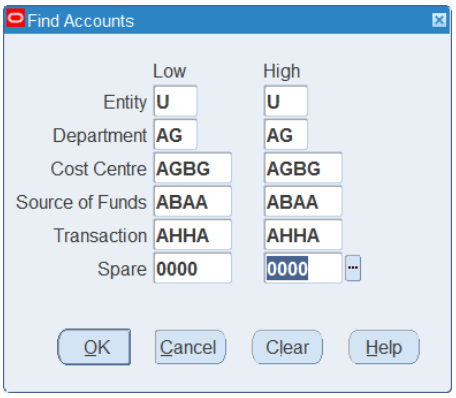
Primary Balance Type: Select the Budget radio button to the left of the screen and select PLAN into the yellow Budget field



Click into the first Accounts field (with the blue highlight), and the "Find Accounts" box will appear.

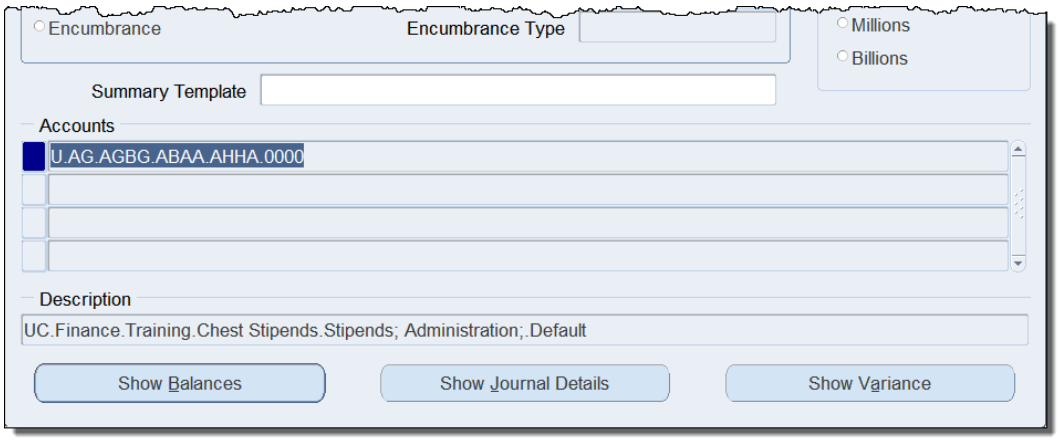
Complete the specific account code combinations you wish to see.

Click OK.



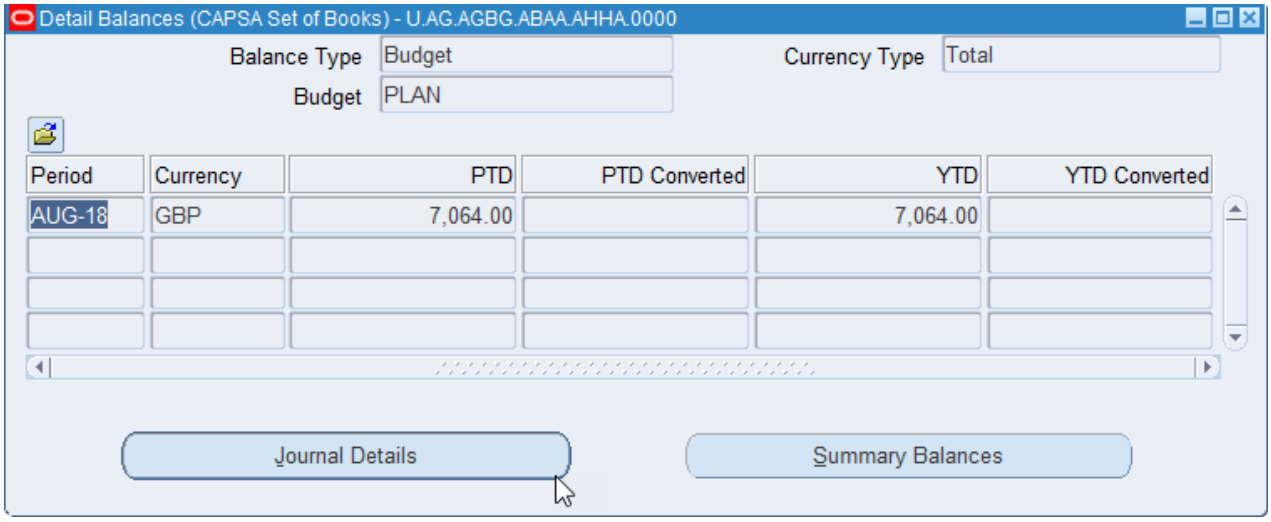
The screen will then list one or more account code combinations:

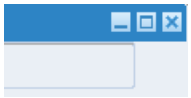
Click on the account code combination you want to see.



Click the **Show Balances** button.

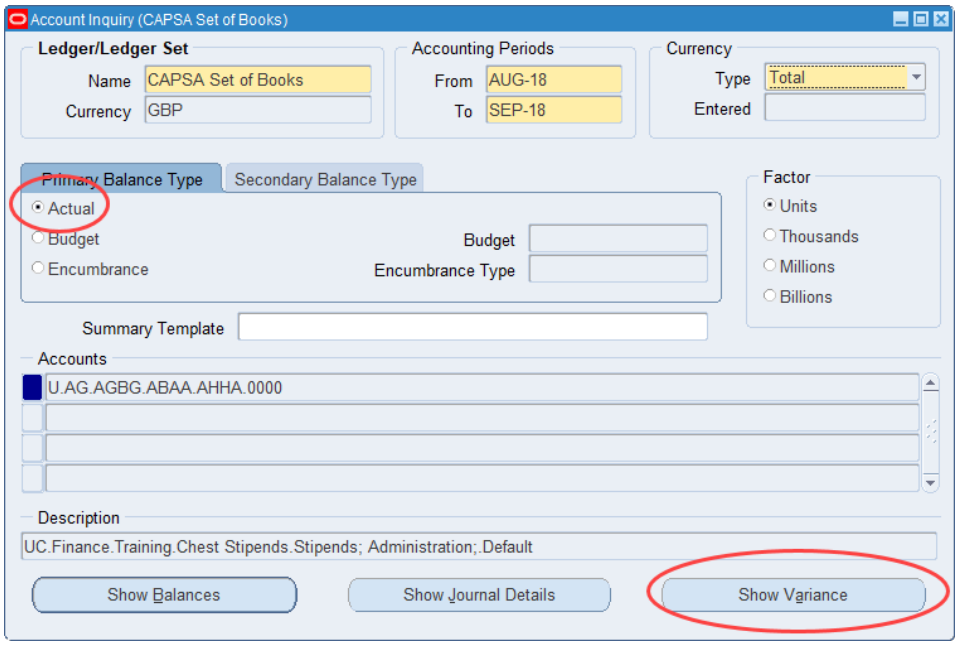
The monthly allocation amounts will show in the left hand column, the cumulative total will show in the right hand column:



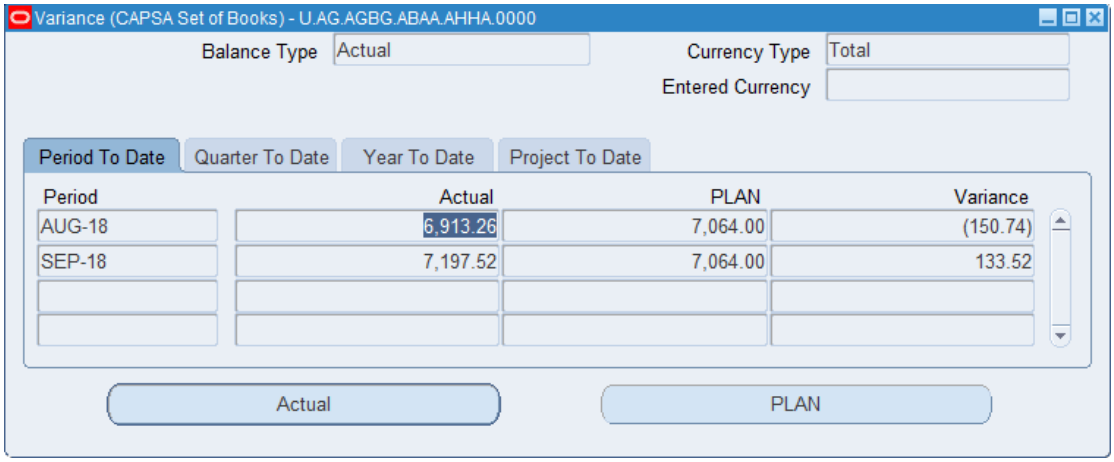
To close this screen, click on the X in the top right corner 

How to “Show the Variance” against the budget

As well as showing the monthly budget totals, it is also possible to see a comparison of budget against expenditure.



There is no need to re-run the query, simply change the **Balance Type** to “Actual” then click on the **Show Variance** button. The next screen shows the monthly totals for both plan and actual expenditure plus the difference (variance) between them.



In this screen it is possible to choose a particular monthly total and see the transactions that make up the total.

For guidance on how to understand and interpret variances, **see section 7** of this manual.