

## 2.4 Preparation of Three Year Budget Plans

### Introduction

Under the Scheme for Financing Schools, schools are required to supply the authority with forecasts of income and expenditure at the year-end, prepared at the end of September and December. There is no requirement to produce three year budgets for submission to the LA (unless the school has a deficit budget) but it is recommended that three year budgets are produced annually in order to plan for medium term expenditure.

### Purpose

Producing three year budgets is a mechanism to estimate the school's financial position at the end of each of the three financial years in question. The purpose is to:

- Establish the outturn position after three years
- To ascertain the sustainability of current levels of expenditure
- Give you time to take remedial actions where necessary
- Assist budget setting for the new year
- To plan for medium term expenditure in line with the school improvement plan

It is recommended that the three year plan is produced during the summer term of each year, after the budget plan for the year in question has been agreed by governors.

It is expected that the three year plan will be submitted to governors (Finance Committee) as part of the school's budget monitoring process to enable Heads and governors to consider in the light of the three year budget as to whether any of the items/projects included in the school's annual budget/ medium term financial plan in conjunction with the school's Development/Improvement Plan can be brought forward or deferred.

Three year plans should enable school managers to avoid either a deficit balance position or the creation of a large surplus in the longer term.

### Preparation

**Income/Resources** available - the factors to be considered are as follows.

#### Balance Brought forward

- Schools should plan to have a specific amount to carry forward at the end of a financial year in line with the school's development and financial plans. In the school's annual budget the revenue sum will be held in contingency and/or the future years projects budget codes.

#### Budget Share

Forecasts should be done for all parts of the Formula Allocation but the following are the most significant elements:

- Pupil Numbers

Given the sensitivity of funding driven primarily by pupil numbers, schools need to monitor their pupil numbers and prepare a forecast of those numbers to include in

the plan. The plan should address the lowest and highest scenarios so that, alternatives are evaluated in terms of the elements of risk and likelihood that should be brought into the plan

- **Special Educational Needs**

Given that significant sums are now delegated to schools in this area, schools need to monitor the numbers of

- SEN pupils including Statemented pupils
- Pupils with English as an Additional Language

And prepare a forecast to include in the plan.

Warning – the formula allocation is due to change for 2012/13 and may change again in 2013/14 due to a required simplification of factors. Pupil numbers will continue to be the most important factor and increase in significance.

### **Income from other sources**

Schools need to prepare realistic estimates of income from sources such as Pupil Premium, any other grants, lettings, donations etc., taking into account past performance and any school initiatives to develop income sources. The planning process should include a review of the school's charging policy and level of charges.

With regard to **expenditure** - the factors to be considered are as follows.

### **Staffing**

A staffing policy is required which considers management responsibilities, structure appropriate to the size of the school, age profile, staff development needs, the mix of staff between full and part-time, and teaching and non-teaching.

Where there is stable staffing situation an allowance should be included for incremental drift, otherwise an estimate should be made for staff turnover and the likely cost of replacement staff.

### **Premises**

Schools should have a properly costed plan for the repair and maintenance of all the school's premises (including where applicable the caretaker's house). The plan should be prepared with the assistance of a suitably qualified person and be over a 3 to 5 year period.

### **Transport, Supplies & Services and Contracted Services**

Schools will need to consider if there are likely to be any significant variation in the costs of these areas to maintain the current level of operation over the duration of the plan (excluding inflation). Or if a change in the level of operation is planned.

### **Holding Codes**

A modest contingency should be held as a provision against unforeseen financial requirements, in accordance with the school's policy on the level of contingency/risk analysis.

As part of the planning process the school should plan to utilize surplus balances for developments. In the annual budget this will be held on the Revenue Projects Future Years code. In the longer term budget this will be the balance carried forward.

### **Inflation/Pay Awards**

It is recommended that for the purposes of medium term financial planning, schools carefully consider and take advice on the level of funding, effect of pay awards, and general inflation and specific inflation. For example (August 2012)

- Funding – maintained at current cash levels, i.e. no increase for inflation
- Pay awards – immediate future nil; subsequent years 1 %(?)
- General inflation – 3 %(?)

### **Developments/ Reductions**

Schools should develop and prioritise a range of financial options

- Developments - to improve quality and/or quantity of education provided
- Reductions - to cope with reduction of income or unforeseen rise in costs

These may be over short and longer timescales.

### **Capital Planning**

Schools medium term plans including financial plans should include use of capital and revenue resources for the maintenance and where possible development of capital assets e.g. premises. Further detailed advice is given in Section 3.

### **Format**

A comprehensive spreadsheet to assist schools in the preparation of the three year budget is available from the Schools' Finance Support Service (traded service) – email [schools.support@barnet.gov.uk](mailto:schools.support@barnet.gov.uk) for which there may be a charge.