To: CABINET – 14 July 2008

By: Nick Chard, Cabinet Member – Finance
Lynda McMullan, Director of Finance

1) Revenue & Capital Budget Monitoring Exception Report
2) Impact of Current Economic Situation on the Council
3) Roll Forward of Remaining 2007-08 Underspend

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1. Introduction

1.1 This is the first exception report for 2008-09, which identifies a number of significant pressures that will need to be managed during the year if we are to have a balanced revenue position by year end. This report includes an analysis of the impact of the inflationary pressure on the economy and more specifically, KCC. Further details are provided in section 2.

1.2 There are a number of issues which we are facing in 2008-09 which are likely to affect the timing of delivery of our capital programme. Most relevant, is the impact of the falling land and property values, and how KCC can respond. This and other issues are considered in section 4.

2. 2008-09 REVENUE MONITORING POSITION BY DIRECTORATE & PORTFOLIO

A summary of the forecast revenue pressures, excluding schools, is shown in **table 1** below:

Portfolio	Forecast Variance £m	Pressure/Saving
Operations, Resources & Skills	+0.995	Increasing cost of Home to School Transport contracts due to rising fuel prices
Children, Families & Educational Achievement	+3.064	Continuation of the pressures experienced in 2007-08 on Fostering and Independent Sector Residential Care, partially offset by underspends on Adoption and Grants to Voluntary Organisations. This reflects a continuation of the budget imbalance reported in the outturn report. Also, pressure on Sure Start grant funded projects and legal costs.
Kent Adult Social Services	+1.551	Demographic pressures & more complex needs
Environment, Highways & Waste	+1.000	Half year impact of increase in electricity prices on Street Lighting contract.
Regeneration & Supporting	0	

Portfolio	Forecast Variance £m	Pressure/Saving
Independence		
Communities	+0.206	Coroners Service – continuation of pressures experienced in 2007-08 ie costs of long inquests, pathology fees and mortuary attendants.
Public Health	0	
Corporate Support & External Affairs	0	Pressure on ISG services, looking to be managed through greater demand for chargeable services
Policy & Performance	0	
Finance	-0.054	Savings on debt charges due to the lower level of borrowing required in 2007-08 (-£1.302m) Reduction in LABGI income (+£0.461m) Continuation of the change in accounting treatment in 2007-08 of the indirect staffing costs of the Corporate Property Unit, which were previously capitalised (+£0.787m)
Total (excl Asylum)	**+6.762**	
Asylum	+5.000	Same grant rules and unit costs as 2007-08 assumed. Increasing number of referrals.
Total (incl Asylum)	**+11.762**	

1.2 The £11.762m pressure shown in table 1 above is before the implementation of management action. Directorates are currently working to identify options to reduce these pressures with the intention of delivering a balanced budget position (excluding Asylum) by 31 March 2009. Details of management action plans will be reported in the next monitoring report to Cabinet.

2.1 *Children, Families & Education (CFE) Directorate:*

2.1.1 **Operations, Resources & Skills portfolio:**

Within this portfolio, pressures have been identified on the Home to School Transport (HTST) budgets as a result of the impact of rising fuel prices, as follows:

- **+£0.480m Mainstream HTST**
- **+£0.481m SEN HTST**
- **+£0.034m Home to College Transport**.

2.1.2 **Schools Delegated:**

Schools' revenue reserves increased by 7.2% to £67.6m (excluding Unallocated Schools reserves of £11.7m) and capital reserves increased by 31.3% to £17.0m at the end of 2007-08 financial year. Back in October 2007, the DCSF consulted through the update on School Finance Regulations to introduce a retrospective 5% redistribution of schools' revenue reserves. In a statement at the end of October 2007 to Local Authorities, Jim Knight, Minister for Schools confirmed that whilst he would not be introducing this proposal in the current CSR period he would continue to monitor the overall level of surplus balances. If the levels reported do not show a significant reduction then the DCSF will come forward with further action for the next CSR period.

The LA has consulted its Schools' Funding Forum regarding the levels of school reserves and agreed with them that we will challenge those school's who have had consistently high levels of revenue reserves over the past 5 years. A copy of the initial letter sent via email to all headteachers and chairs of governors is attached at Appendix 1 for information. Schools' with the highest levels of reserves will be required to explain why they are holding them at these levels and may be subject to recovery of some of their accumulated balances. Any reserves recovered will need to be re-distributed amongst Kent schools' (as per DCSF regulations) and we will discuss this with the Forum at the next meeting.

The first monitoring returns from schools are due in October and an update on the schools' forecast movement on their reserves during 2008-09 will be provided as soon as the information is available.

2.1.3 **Children, Families & Educational Achievement portfolio:**

A number of pressures have been identified within this portfolio, which largely reflects a continuation of the pressures experienced in 2007-08, as follows:

- **+£1.0m Advisory Service Kent (ASK) (Early Years)** – this pressure is on Sure Start grant funded projects in 2008-09. The total grant funding for 2008-09 (excluding Children's Centre funding) is at a similar level to last year, however the Directorate has additional targets for 2008-09 that the DCSF have now set, linked to the Outcomes, quality and inclusion strand of the grant, where our performance is subject to external monitoring and assessment against the National indicators. KCC is committed to containing spend within the totality of the grant and is therefore looking at balancing this pressure.

- **+£3.0m Independent Sector Residential Care** - In 2007-08 the independent sector residential care budget overspent by £3.158m. This overspend had been forecast throughout the year and the early indications are that the pressure on this service, due to increased demand and high cost placements, will continue into 2008-09. We are therefore forecasting a £3m overspend on this budget line at this early stage of the financial year.

- **+£0.792m Fostering** - In 2007-08 the fostering service budget overspent by £2.0m. Like independent sector residential care, this overspend had been forecast throughout last year. The latest monitoring suggests that the pressure on this budget line will continue into 2008-09 with a net overspend of £0.792m. This is made up of forecast overspends on County Fostering team of £0.400m, Independent Fostering Agencies of £1.236m and a forecast underspend on other fostering lines of £0.844m.

- **+£0.466m Other Services Support** – this represents a continuation of the pressure in 2007-08, which mainly relates to Legal Services charges.

- **-£1.863m Grants to Voluntary Organisations** - as in previous years, and as recently reported as part of the 2007-08 outturn, this budget has consistently underspent with the saving being used to offset the pressures elsewhere in Children's Social Services (Independent Sector Residential Care and County Fostering Team) and this situation continues into 2008-09 with an underspend of £1.863m forecast on the grants to voluntary organisations budget. This reflects the historic budget imbalance between the Children's Social Services budget lines, and not a reduction in the level of grants to be paid, which will be maintained at historic levels. This underspend needs to be secured to offset the pressures reported above, therefore ***Cabinet are requested to agree a virement of £1.863m from Grants to Voluntary Organisations to Independent Sector Residential Care (£1.463m) and County Fostering Team (£0.400m) for 2008-09, and a similar base adjustment in the 2009-12 MTP, to correct this underlying issue.***

- **-£0.331m Adoption** - The Adoption service as a whole is forecasting an underspend of £0.331m. Adoption allowances are forecast to underspend by £0.576m which is partly offset by an overspend on the County Adoption Team of £0.245m.

2.1.4 **Asylum:**

We are currently forecasting direct spend of £14m, with an additional £0.5m of indirect costs. Our current estimate of income is £9.5m, leaving a funding shortfall of £5.0m for the 2008-09 financial year. The income estimate assumes the same grant rules and unit costs as for 2007-08, as no grant rules have been issued for the current financial year and therefore forecasts may alter if grant criteria change.

It should be noted that the number of referrals in April (48) and May (49) have been much higher than the same period in all of the last four financial years, when they ranged from between 19 and 32.
All grants now fall under the Home Office, with the grant for 18+ Care Leavers having transferred from DCSF on 1st April 2008.

Work is continuing with officials from Home Office and DCSF to address the issues of under-funding in previous years, and establish a more robust method for the ongoing funding for these services.

2.1.5 **Other CFE issues:**

The CFE Directorate, as part of the 2008-11 MTP, has agreed savings of £6.1m across both portfolios that need to be achieved, as any shortfall will just add to the budget pressures identified above. Cabinet Members and SMT recognise how important it is that these savings are achieved and have set up a specific quarterly monitoring process looking at the progress managers are making in achieving these savings.

The Directorate is committed to the roll-out and development of Local Children's Services Partnerships arrangements. However there is no specific funding for this.

2.1.6 **CFE Directorate Management Action:**

Following the 2007-08 Outturn, the implications for 2008-09 and future years have been discussed in detail with both Cabinet Members and CFE SMT. Directors are currently reviewing their budgets with the task of coming back to Finance with information on what options they have for further savings. Clearly with the scale of overspend the Directorate is facing this year on the back of large and challenging MTP savings, these options are likely to have a negative impact on service delivery. Details of any savings options will be included in the next report to Cabinet and in the Directorates 2009-12 MTP submissions.

The CFE directorate has initiated a piece of work jointly with colleagues from Corporate Finance to review the Independent Sector Residential Care and Fostering budget lines.

CFE Finance are reviewing the School Finance regulations to explore what options we have to utilise some of the DSG (non-delegated) reserve, which represents the unspent DSG for central expenditure rolled forward from 2007-08.

2.2 Kent Adult Social Services:

The initial forecasts indicate a pressure of £1.551m. It should be noted that detailed forecasts are currently being worked on, in order that next months report is more firmly based. Over the forthcoming weeks, the KASS SMT will be working to ensure that management action plans are in place to reduce the pressure, in order to achieve a balanced position by the end of the financial year. This forecast pressure assumes that all savings identified within the Medium Term Plan will be achieved. Work is on-going with Areas to identify methods of accurately tracking progress against each saving on a monthly basis.

The main reasons for the £1.551m pressure are detailed below:

2.2.1 **Older People -£0.802m** – the main issues are:

2.2.1.1 -£0.334m Residential Care – April showed a reduction of 23 permanent placements from March, however initial estimates for May indicate this reduction has been offset with an increase, bringing the figure back up to the level in March. There are currently 2,894 placements compared with 3,034 at this time last year. The directorate will review the level of cash limit against this heading in light of the continued reduction in placements and the budget pressure against domiciliary care.

2.2.1.2 -£0.753m Nursing Care – this follows a further drop of six placements in April. As with residential care, if client numbers continue to fall there may be a need to review the level of cash limit and if necessary, request a virement.

2.2.1.3 +£0.725m Domiciliary Care – this budget remains very difficult to forecast with great accuracy at this early stage, as it is the most volatile activity line within the portfolio. Demographic pressures continue alongside extra demand for packages of care to keep people out of residential care.

2.2.1.4 -£0.530m Other Services – the Managing Director's Contingency of £0.512m has been released to offset the overall budget pressure.

2.2.2 **Learning Disability Care +£1.790m** – the main issues are:

2.2.2.1 +£1.052m Residential Care – this includes estimates of costs for clients known to be coming into residential placements during the year ahead. Alongside demographic growth within this client group, there is increasing pressure relating to new and existing clients whose needs are becoming more complex. This is particularly true for those clients coming through transition from childhood.

2.2.2.2 +£0.554m Domiciliary Care – as with Older People, this budget remains very volatile and difficult to estimate at this early stage. High cost packages of care are increasingly required to keep clients with more complex needs out of residential care.

2.2.3 **Physical Disability +£0.099m** – small underspends against most budget lines are off-setting much of the pressure on residential care, which is detailed below:

2.2.3.1 +£0.479m Residential Care – this results from similar pressures experienced within Learning Disability residential care. A detailed piece of work will be undertaken to look in further depth at this budget line.

2.2.4 **Assessment & Related +£0.696m** – As a result of this pressure there is currently a freeze on all non-essential posts. The cost of increments is not funded on the assumption that staff turnover will cover this cost, however there is some evidence, including from the staff survey, that the level of turnover is reduced on previous years, and this has impacted on the forecast.
Although there has been no increase in the number of staff within care management for a number of years, there is clear evidence of increase in the number of referrals made to the Directorate. Between 2004 and 2007 there was a 25% increase in referrals to care management, but more importantly the number of referrals leading to a formal assessment, and therefore potentially a service, increased from 78% to 88%.
The move towards more self directed support should mean less support is needed from professionals. There are also a number of initiatives to modernise the service, particularly through mobile technology. However, it should be recognised that as more clients remain within their own homes and receive more complex packages of care in a community setting, the support from care managers is higher than if they were in traditional residential placements.

2.3 Environment, Highways & Waste portfolio:

A £1.0m pressure is reported which reflects the indication that the renewal of Street Lighting electricity contracts in October 2008, will be more expensive than budgeted. A Management Action Plan will be put in place to mitigate the effects of this price rise.

Waste Contracts are also affected by the rise in inflation indices by approximately £0.5m, although the lower start point for the year for waste tonnage as compared to the budget assumption is expected to offset these higher costs this year.

Increases in inflation indices generally are expected to hit all services, but particularly Highway Maintenance, Supported Bus Services, the Freedom Pass Scheme and Waste contracts. Precise impacts are not yet entirely clear, but will be closely monitored and reported during the year. The assumption in these projected outturn figures is that spend on highway maintenance will be contained within existing cash limit, and on that basis there would be a reduction in the amount of work delivered.

2.4 Communities:

A £0.206m pressure is reported which relates to a continuation of the pressures experienced in 2007-08 on the Coroners Service. This pressure is made up from the following:

- Long Inquests – costs associated with long inquests quadrupled between 2006-07 and 2007-08 and there is no indication, given the current trend that this activity is slowing down in 2008-09. We currently anticipate a pressure of £0.047m in 2008-09.

- Pathology Fees – costs of pathology fees are increasing due to increased activity from 2007-08, resulting in a forecast pressure of £0.072m in 2008-09, as current trends indicate no apparent slowdown in activity.

- Mortuary Attendants & Other Coroner related fees – there is a pressure of £0.087m which relates to a continuation of the increased activity experienced in 2007-08.

The additional £0.2m included in the 2008-09 budget received through the MTP was for the increased charges from PCT's for storing bodies, therefore there is no additional funding for any of the pressures highlighted above. Communities Finance staff will be working closely with the Coroners Unit to produce a detailed action plan to quantify and address the extent of the unavoidable pressures. If these pressures cannot be contained within the Coroners Service, the directorate will look to implement management action elsewhere across the directorate.

2.5 *Chief Executives Directorate and Financing Items budgets:*

2.5.1 **Finance portfolio:**

- +£0.787m Corporate Property Unit – this pressures reflects the impact in 2008-09 of the change in accounting treatment adopted at the year end of 2007-08 for the indirect staffing costs which were previously capitalised. This will be included as a pressure in the draft 2009-12 MTP but remains unfunded for the current year. Options for compensating savings are being investigated.

- +£0.461m Local Authority Business Growth Incentives (LABGI) – The Government has reconsidered all aspects of the approach used to distribute the resources available for year 3 of this scheme. As a result, the best case scenario is that we will receive £0.461m less income than we previously expected. However, the Government has retained some funding to cover the potential outcomes of existing Judicial Reviews against the LABGI scheme. We have assumed that not all of this will be required and that we will receive a further distribution, but if this does not happen, or we receive less from this second distribution than we have assumed, then our loss of income compared to the budget assumption could increase up to a worst case scenario of £1.215m.

- -£1.302m Debt Charges and interest – this is a direct result of the lower level of borrowing required in 2007-08 due to the significant re-phasing on the capital budget, partially offset by a reduction in interest due to reductions in the base rate since the budget was set.

A change in the regulations around the Minimum Revenue Provision (MRP) (minimum repayment of outstanding debt) is currently being assessed to establish the impact on the revenue debt charges budget. There are several options and the current preferred method is to use the asset life as a means for calculating MRP for 2008-09 onwards, whereas previously it was a straight 4% of outstanding debt. The calculations are currently being worked through to establish what impact this change will have. The policy will be presented to Cabinet and full Council for approval during this financial year.

3. <u>POTENTIAL INFLATION PRESSURES FACING KCC</u>

3.1 KCC, like almost all other organisations and individuals, is facing significant additional inflation pressures due to much higher fuel and energy prices, generally rising inflation (both RPI and CPI) and the risk that the expectation of higher general inflation will feed through to higher costs both now and in the longer term.

3.2 The last year has seen some tumultuous increases in commodity prices and products derived from base commodities. Between May 2007 and 2008 the Office for National Statistics has estimated increases of:

- 84% for crude oil
- 72% for Gas
- 10% for electricity
- 31% for metal ores and quarried/aggregate products
- 21% for manufactured basic metal products (i.e. iron and steel)
- 11% for imported iron and steel
- 8% for fabricated metal (e.g. structural materials, forging, pressing of steel)
- 13% for other manufactured mineral products (e.g. glass, cement, concrete etc.)

The impact is already being felt on portfolios as detailed in section 2 of this report.

3.3 As a consequence of the above increases, some of the issues facing us immediately are:

- A 10% increase in the cost of highway maintenance work.
- A 20% increase on energy costs, which impacts on street lighting and all buildings
- A 10% increase in fuel costs that impacts significantly on the budgets for;

  - Waste
  - Home to school transport
  - Public transport
  - Car allowances

The budgets for the above items of expenditure total some £185m.

- Pressure from impact of general economic situation, including fuel costs, on the renewal price of contracts

3.4 An approximate, worst case full year cost, can be priced. This could be as much as an additional full year £25m of pressures, of which £12m could be ascribed directly to the high cost of all fuels. To set this in context the full price inflation provision for 2008-09 after mitigation action taken by the Council was just £15.7m.

This means the impact is too large to expect this level of cost pressure to be wholly accommodated within existing individual portfolio cash limits in the current year, without impacting on service delivery.

3.5 The estimated impact of this in the current financial year is likely to be around £7m unless service delivery is substantially reduced. On this basis, the remaining underspend rolled-forward from 2007/08, of £5.111m, is recommended to be set-aside to part-compensate for this unavoidable pressure.

3.6 The medium term plan was set by county Council in February 2008. This included a number of assumptions, including an estimate of the likely impact of pay and prices increases over the medium term, including £22.7m for 2009-10.

3.7 Over the coming months, we will have to consider many options for responding to the additional inflationary pressure on the 2009-12 medium term plan. If the impact is as high as an additional £25m per year (see paragraph 3.4), there will be no easy options. Consequently it is entirely appropriate to fully consider the options as soon as possible.

4. 2008-09 CAPITAL MONITORING POSITION BY DIRECTORATE

Early indications of the major movements on the capital programme for 2008-09 are detailed below. It must be recognised that a significant element of the 2008-09 capital expenditure is planned to be funded from capital receipts (£69.222m).

Therefore, in the current economic climate there must be some doubt as to whether this level of capital receipts can be realised, which could result in the need to defer projects. This situation is being very closely monitored and options for dealing with a likely lower level of receipts are being considered. Once completed, a paper will be presented to Cabinet for decision.

4.1 Operations, Resources & Skills portfolio:

- +£2.631m Maintenance Programme 2008-09 – Current estimates indicate a £2.6m pressure on the maintenance budgets in this financial year. The maintenance budget for 2008-09 was reduced in the MTP following a reduction in the level of DCSF Modernisation funding, some of which is used to fund the Maintenance Programme. However the demands upon the maintenance budget remain at historic levels. This pressure is made up of 3 major elements:

    - +£1.2m Schools Access Initiative
    - +£0.8m Condition Programme
    - +£0.6m Planned Preventative Maintenance

- +£1.078m PFI Schools All Weather Pitch Provision – this relates to the provision of pitches at Hugh Christie School (£0.653m) and The North School, Ashford (£0.425m). The North School all weather pitch is an extra cost directly linked to the provision of the additional 8FE classroom block. (In addition to the £0.425m cost forecast for 2008-09, £0.270m was spent in 2007-08).
- The Academy Programme – the current MTP profile of expenditure needs revising and work is underway to both re-profile the Academy Programme and to reflect revised costs in line with additional government funding. A revised profile will be reported to Cabinet once this exercise is complete.

4.2 Kent Adult Social Services portfolio:

- +£0.417m Broadmeadow – mediation discussions with contractors have now been finalised and further negotiations are due to take place around how this pressure is to be funded.

4.3 Environment, Highways & Waste portfolio:

- -£1.0m East Kent Access Phase 2 - re-phasing into 2009-10 as Government final approval has still to be achieved. Land possession and start on site are now expected towards the end of the financial year.

- Re-shaping Kent Highways Services Accommodation – the budget for 2008-09 is £6.95m before the addition of roll forward from 2007-08, but there is potential for this scheme to significantly re-phase now that we are not going ahead with the Wrotham site. Different options for the Wrotham replacement are currently being considered. Although the budget allocation will be required for the potential purchase, design and development of a new site, until a final decision is made we will not know the impact on the current phasing of the project.

- Rushenden Link Road – the budget for 2008-09 is £12.6m, before the addition of roll forward from 2007-08, but it is likely that this project will significantly re-phase into future years. Due to the delays in SEEDA securing the land and satisfying the planning permission conditions, the contractor cannot hold the price to the original tender. SEEDA has not formally secured agreement from DCLG to the revised funding and spend profile. We will therefore need to re-tender and as a result the earliest start date is December 2008. The precise impact on the current phasing is difficult to quantify at this point in the process.

4.4 Regeneration & Supporting Independence portfolio:

- +£0.130m Kent Thameside Delivery Board – additional costs of the project are to be met by revenue contributions from partners.

4.5 Communities portfolio:

- Gravesend Library - we are clarifying with the conservation/planning officers what we can do with the 'toy shop' facade. We are also finalising who the partner services will be and therefore the overall space requirements. It is likely that there will be some re-phasing compared to the current budget provision, but the spending profile will only be confirmed by the QS when the detailed requirements have been agreed, which is currently expected to be in the late summer.

4.6 Corporate Support & External Affairs portfolio:

- KCC has recently signed a contract for the new Kent Public Services Network. It is likely that there will need to be a realignment of the capital/revenue budgets

4.7 Finance portfolio:

- An underspend of £0.787m on the Capitalisation of Works, which is due to the change in accounting treatment, adopted in 2007-08, of the indirect staffing costs of the Corporate Property Unit which were previously capitalised, but upon latest guidance, these costs must be charged to revenue.

4.8 **Risks and Options around Realising Capital Receipts in the Current Economic Climate:**

As highlighted in this report, the current national economic climate is impacting on our ability to realise capital receipts at the values previously estimated and assumed at the time of setting the budget. We need to consider our course of action in dealing with the impact of this. There are several options:

1. We defer, where possible, projects which are reliant on capital receipt funding. However, we do not know how long it will be before property values return to what they were and therefore whether it is realistic to defer projects for an indeterminable amount of time.

2. We go ahead with the projects but defer disposing of the assets until prices improve and therefore have to find alternative short term funding (although we don't know how long this will be).
3. We go ahead with the asset disposal, within reason, and projects will have to be scaled back to the lower level of resources available.

4. A mixture of the above.

A review of all capital receipts is currently underway. Once this is complete, it is proposed that the capital budget is recast to reflect the impact of the findings and a revised capital programme will be presented to Cabinet for approval.

5. ROLL FORWARD OF 2007-08 UNDERSPEND

5.1 The provisional revenue outturn for 2007-08 was an underspend of £7.889m excluding schools. At it's meeting in June, Cabinet agreed the roll forward of £3.651m into 2008-09 relating to committed projects and the roll forward of the Adult Education overspend of £0.873m. In view of the potential inflation pressures facing KCC, as outlined in section 3 above, Cabinet is asked to agree that the residual underspend from 2007-08 of £5.111m is set-aside as a contingency against the current economic climate.

6. RECOMMENDATIONS

Cabinet is asked to:

6.1 **Note** the initial forecast revenue and capital budget monitoring position for 2008-09, and the potential impact of the inflationary pressures on the current and future years budgets.

6.2 **Agree** the revenue virement and base adjustment of £1.863m within the Children, Families & Educational Achievement portfolio as detailed in section 2.1.3 above. The grants to voluntary organisations budget has historically underspent with the saving being used to offset pressures elsewhere within Children's Social Services, therefore this adjustment will not affect the historic level of expenditure on grants to voluntary organisations, it will simply correct a base budget imbalance.

6.3 **Agree** that the remaining £5.111m of uncommitted 2007-08 revenue budget roll forward be set-aside as a contingency against the current economic climate.

APPENDIX 1

Copy of Letter sent to all Headteachers and Chairs of Governors

Dear Colleague,

School Reserves

As the accounts for 2007-08 have now closed, this has given me the opportunity to review the overall schools' position in relation to revenue and capital balances. Schools' revenue reserves have increased by £4.5m to a total of £67.6m representing an increase of 7.2% on last year. Schools' capital reserves have increased by £4.2m to a total of £16.9m, representing an increase of 32.9% on last year. From the latest information I have the balances held by Kent schools as a percentage of their annual budget are now one of the highest in the south east and also above the national average.

As you will be aware there were proposals from the DCSF last year to impose a 5% retrospective redistribution of schools' surplus revenue balances in addition to the existing Balance Control Mechanism (BCM). Jim Knight (Minister for Schools) decided not to implement such a proposal but made it clear that if Local Authorities and schools' are not seen to be "managing the level of revenue balances over the next three years" then the DCSF will use its powers to implement further action.

If you have not yet submitted your three year plan, please ensure that this is returned immediately. As you are aware the DCSF required all authorities to introduce the Balance Control Mechanism in January 2007 and as part of that process the Statutory team are currently reviewing all three year plans alongside the analysis of year end reserves and where there is concern regarding the balances held, schools will be contacted individually within the next two weeks. It is clear that we will need some discussion with a number of schools about why they are holding large reserves and whether there is a case to claw back some of that for subsequent redistribution by the Schools' Funding Forum to other schools.

Please contact Janet Laflin, Principal Accountant, Statutory Team on (01622) 221694 if you have any queries.

Yours sincerely,

Keith Abbott
Director – Finance & Corporate Services

(Note - the figures quoted in the first paragraph of this letter for schools capital reserves differ to the figures quoted in the outturn report and in section 2.1.2 of this report as they exclude the capital reserves balances which relate to closed schools)