

By: Graham Badman, Managing Director - Children, Families & Education
Mark Dance, Cabinet Member - Operations, Resources & Skills
Chris Wells, Cabinet Member - Children, Families & Educational Achievement

To: Children Families and Education Policy Overview Committee -
30 January 2008

Subject: BUDGET 2008-09 AND MEDIUM TERM PLAN 2008-09 TO
2010-11

Classification: Unrestricted

Summary: The purpose of this report is to consult the Committee on budget proposals for the Directorate, with reference to the KCC published consultation paper issued on 21 January 2008.

Members are invited to comment on the key issues on the proposed funding changes for the services provided by the Children, Families & Education Directorate.

Introduction

1. (1) The Autumn Budget Statement report by the Leader, Cabinet Member for Finance, Chief Executive and Director of Finance to Cabinet on 17 September 2007 set out the national and local context for KCC's medium term plan (MTP) for the period 2008-09 to 2010-11.

(2) The report 'Update on CSR 07 and the Local Government provisional finance settlement' to Cabinet on 14 January 2008 updated the overall budget position to reflect the provisional local government finance settlement for the years 2008-2011. As reported, the provisional grant settlement was better than expected and has provided a small degree of flexibility for the overall proposed budget package.

(3) We reported the national and local context to the last Policy Overview Committee meeting and outlined the existing MTP priorities.

(4) Since that meeting there have been a number of further developments that have resulted in the budget proposals being presented for consultation. Members are invited to comment on the key issues for the services provided by the Children, Families & Education Directorate so that these can be taken into account at the budget meetings of Cabinet on 6 February and County Council on 19 February 2008.

Background

2. (1) The consultation papers include an overall summary of the proposed portfolio budgets for 2008-09 showing the amounts proposed for each service within the two portfolios that cover the Children, Families & Education Directorate. This now identifies the gross expenditure, income and net expenditure.

(2) The papers also include the proposed capital investment programme and the medium term revenue and capital plan for 2008-09 to 2010-11 expressed as figures and portfolio priorities. All papers are presented in a consistent format for every portfolio.

(3) Due to the timing of the consultation release (21 January 2008) we cannot include any papers with the agenda for this Committee but copies of the draft budget book and medium term plan will be available from 21 January 2008 and at the meeting.

Revenue Budget

3. (1) The starting point for the budget is derived from the existing MTP. As indicated in the previous report, there have been some adjustments to reflect transfers between portfolios, service pressures, and efficiency savings and income generation.

(2) Some areas of spending priority for which significant additional funding is proposed are highlighted below:

Home To School Transport £4,675k

This represents the total cost of estimated price increases for all Home To School and Home To College Transport. This funding will maintain the current level of service.

Independent/Non Maintained Schools £2,535k

This reflects the total cost of estimated price increases for places purchased in the Independent/Non Maintained sector for children with additional educational needs. This funding will maintain the current level of service.

Student Award Reduction £738k

This legislative pressure is caused by the fact that the phasing the DIUS has applied in removing funding from local authorities for the student finance function - as part of the national transfer to the Student Local Company in Glasgow – does not reflect the actual phasing of the reduction in the workload and loss of staff as the entire function is removed from local authorities in 2011.

Tree Safety/Hiring and moving mobile classrooms - £970k

This is a legislative pressure on the Capital Strategy Unit and is a result of work carried out by our external auditors which identified that these areas of expenditure – previously charged to our capital programme – do not meet the latest definitions of what constitutes capital expenditure and so these costs now form a pressure on the revenue budget. There is no change to the level of service as a result of this.

Prudential Borrowing £1108k

This borrowing is to support the major service improvement around the implementation of the Special Schools Review.

Childrens Social Services £3,910k

This price pressure reflects the best estimate of the impact of price increases across a range of services including fostering and residential placements. This will maintain the services at their current level.

Payment for 3 & 4 Year Olds £3,544k

This price pressure represents the cost of the annual increase in the hourly rate paid to all the Early Years private, voluntary and independent providers and should maintain the current service.

Supporting Improvement in 740 early years settings £752k

The legislative pressure arises from the Childrens Act 2006 and our duty to ensure the quality of early years provision. This additional funding will help us to meet these requirements, improve the service and raise standards in the sector.

Increase in early education entitlement 3 & 4 Year Olds £6,176k

This legislative pressure reflects the impact of the national increase in the early years entitlement from 12½ hours per week to 15 hours per week and will help expand provision across the county.

Care Matters Grant Shortfall £591k

This is a legislative pressure that affects the Children's Social Services Division within CFE. Following on from Care Matter the DCSF have announced a new grant to help meet the additional costs arising from the proposals to improve the experience of looked after children and support local authorities in improving the outcomes for this group of young people. The work that we have done combined with development of the "Pledge" has identified costs that will total around £2.6m and we currently estimate that we should receive around £2m in grant funding. This pressure represents the cost of the shortfall in the grant that we would need to fund in order to deliver all that is in the Pledge. This pressure will allow a significant improvement in the level of support that Kent can provide to looked after children.

(3) Provisional cash limits for each Portfolio have been set, and therefore to balance to those cash limits, given the pressures outlined above and in the budget and MTP documents we will need to propose savings, efficiencies and new income streams to deliver a balance budget. The draft budget book and medium term plan released on 21 January 2008 detail the proposed savings required in 2008/09. Some further commentary on some of the savings is provided below:

Broadband connectivity £1,532k

Increased government funding will enable us to offer free broadband to schools and maintain the current level of service whilst reducing the financial contribution made by the authority.

Closure of Alderden House £450k

This is the full year effect of the savings arising from the closure.

Capitalisation of Building Schools for the Future (BSF) Advisers £1,120k

The cost of the BSF curriculum advisers can be charged to the capital programme as a cost against the BSF schemes and this produces a significant saving to the revenue budget but maintains the level of support for the BSF programme. This saving effectively offsets the pressure added to the revenue budget in respect of tree

safety and mobile classrooms that is detailed in Paragraph 3.2. There is the possibility that we could capitalise up to £1.8m in respect of curriculum advice on our capital schemes but at the moment have assumed just £1.12m in respect of savings in the revenue budget

Existing staff savings £506k

This is the full year saving arising out of staff reductions implemented in 2007-08 in the Commissioning division.

(4) Delivery of this budget will be difficult but is achievable. The strategy adopted will enable us to make significant service improvement in key areas such as early years and the support for looked after children as well as sustaining current levels of service elsewhere. Wherever possible we have looked to make savings in areas that will protect frontline services and enable us to retain the capacity to move forward with modernisation and innovative change – particularly in areas such as implementing the special schools review and the BSF programme.

Dedicated Schools Grant

4. (1) The announcement of the DSG for the next three years was largely in line with our expectations, as highlighted at the November meeting of this committee. We expected the settlement to be tighter than in previous years and this has proved to be the case. The headline figures are set out in Table 1 below.

Table 1

DSG	Kent Basic Increase Per Pupil	Kent Basic Increase Incl. Ministerial Priorities Per Pupil	National Increases Per Pupil
2008/09	+3.1%	+4.9%	+4.6%
2009/10	+2.9%	+3.6%	+3.7%
2010/11	+2.9%	+4.2%	+4.3%

(2) The announcement also confirmed that the minimum funding guarantee (MFG) for schools would be set at 2.1% for each of the next three years, compared to 3.7% in the current financial year. The DCSF estimate that schools will face cost pressure increases of 3.1% per annum in each of the next three years but in constructing the DSG and MFG have assumed that every school can make annual efficiency savings of 1% and believe that an MFG of 2.1% will be sufficient.

(3) We already had concerns about the impact of a tighter DSG and lower MFG on schools budgets over the medium term and these have been heightened by the recent announcement of the Teachers pay award of 2.45% in 2008, 2.3% in 2009 and 2.3% in 2010. These cost of living increases, coupled with the impact of pay progression, could mean that many schools may face an increase in their teachers wage bill of between 3% and 4%. With an MFG of 2.1% and the in-built DCSF assumptions on efficiency there will be pressure on school budgets over the medium term.

(4) Our current estimate of the cash position in respect of DSG (adjusted for the impact of academies) is set out in Table 2 below:

Table 2

	2007-08 £000s	2008-09 £000s	2009-10 £000s	2010-11 £000s
Basic increase in DSG*	31,999	22,661	22,360	22,709
Ministerial priorities	11,512	12,561	5,570	10,240
Estimated net increase including ministerial priorities	43,511	35,222	27,930	32,949
LA estimated pressures	3,005	2,812	3,016	2,824
EY price pressure	1,511	1,557	1,142	1,187
Schools	27,483	26,026	21,739	19,696
Total estimated DSG pressure	31,999	30,395	25,897	23,707
Remainder for ministerial priorities	11,512	4,827	2,033	9,242
Total estimated increase	43,511	35,222	27,930	32,949

* The figures for the basic increase in 2009/10 and 2010/11 are lower than those shown in the MTP book 2008/11 because subsequent to that being prepared DCSF confirmed that some aspects of early years funding will be removed from the DSG and allocated as a new specific grant.

(5) The above table highlights the fact that it will not be possible to “balance” the DSG and meet all the basic pressures without making some use of the money allocated as “ministerial priorities”. Our understanding is that this is in line with many other LA’s in the south east. The fact that the overall DSG increase for 2008/09 is some £8m less than that in the current year (£35.2m compared to £43.5m) makes that somewhat inevitable unless schools can deliver the annual 1% efficiency saving which is equal to around £7m in each year. This will be difficult as many are already making efficiency savings to help balance their budgets because of the impact of falling rolls. In order to support schools as much as possible we are doing all we can to help by keeping the LA share of the increases as low as possible. In addition the authority has taken the difficult long term decisions on the Primary Strategy and this will save £1.4m all of which will be recycled into the revenue budgets of primary schools across Kent.

Capital Budget

5. (1) The existing Capital Programme, which ran to the end of 2010 was based upon a set of assumptions on the level of financial support (be it grant or supported borrowing) that would be received from Central Government. The assumptions were primarily based upon the previous levels of funding.

(2) The announcements as part of the Comprehensive Spending Review were a mixture of both good and bad news. For a number of areas – particularly the early years of the Primary Capital Programme – the grant allocations were larger than previously anticipated.

(3) Unfortunately in the areas where the County Council has greater discretion on how it allocates the resources, the allocations were disappointing.

The two major allocations being for Basic Need and Modernisation, where the reduction from what we had previously assumed and built into the Capital Programme have caused a significant challenge. The following table [table 3] shows the comparison between what was assumed in our Programme and the actual allocations.

Table 3

	2008/09 £000s	2009/10 £000s	2010/11 £000s	Total £000s
Assumed funding for Modernisation and Basic Need [both grant and supported]	38,975	46,197	20,680	105,852
Actual Allocation	22,387	22,467	22,467	68,321
Shortfall	16,588	23,730	+1787	38,531

N.B: The position is actually worse than this as the 2010/11 current draft Programme contains no provision for a Modernisation Programme.

(4) As a result of this shortfall in funding the Directorate has been required to review its previously approved Programme and make changes to it.

In addition to the reduced Funding in the above areas we were also faced with some additional pressures e.g., the need to provide an additional £7m to complete the Children's Centre Programme.

The ability to make changes is constrained by a combination of:

- a number of the Programmes being nationally directed; and
- commitments made to individual schemes or Programmes contained within the previous Programme.

(5) With the Council not being in a position to bridge the gap, the Directorate has reviewed its overall Programme and made a number of adjustments in order to achieve a balanced Programme. The adjustments have been by way of a combination of:

- identifying additional funding (e.g., Capital Receipts);
- reducing the size of some Programmes e.g., Modernisation and Maintenance; and
- the re-phasing of some Programmes e.g., special schools.

(6) Whilst we have wrestled with the challenges of reduced funding to some schemes and increased pressures in others, we do have a very significant programme and more investment into our schools than ever before.

(7) It does, however, need to be recognised that whilst the overall sums are large, the vast majority of it is targeted e.g., BSF, Primary Capital, SSR, Development Opportunities and Academies.

(8) If we look at some of the specifics within the Programme it is worth drawing attention to the following schemes/programmes:

BSF

Just prior to Christmas the Cabinet agreed to the appointment of Land Securities Trillium as our Preferred Partner for the first of our Local Education Partnerships, and our budget includes for the full delivery of Wave 3 and for us to progress our involvement in Waves 4, 5 and 6 . All of which were approved by Government.

Our early involvement in BSF brings significant early benefits for schools and pupils. Wave 3 will see the transformation of 11 schools.

In total we are anticipating that our secondary sector will see eventual investment of some £1.8bn.

Primary Capital Programme (PCP)

We were previously included in PCP as one of 23 pathfinder authorities. The overall Programme is rolled out from 2009/10, and the grants allocations are larger than anticipated, which will mean that more of our schools will benefit sooner.

SSR

The completion of the new Programme, together with BSF, will lead to the completion of the building elements of the Review and see the transformation of all of the schools.

Development Opportunities

As in the past a number of schemes within the Programme are categorised as Development Opportunities, which basically means that there is an opportunity to fund the required building improvements via the creation of a Capital Receipt from elsewhere on the site.

The number of these schemes, particularly at feasibility, continue to grow, but we may see a slight drop off as such schemes are now being required to find the cost of any borrowing in advance of the receipt and this needs to be charged to Revenue.

Academies

Recent changes in relation to the delivery of Academy schemes has meant that we become responsible and hence a number are now included within the Programme. With the exception of our sponsorship they are basically fully funded by way of Government grant.

Other Schemes

The budget provides an additional £7m which will allow us to complete all of the Phase 2 Children's Centres during 2008/09.

The other significant scheme to be completed is the creation of the Dartford Campus which provides a 'cradle to grave' educational facility – providing nursery, primary, secondary and adult education.

The delivery of the new Programme is not going to be without its challenges, of which two spring to mind:

1. the realisation of receipts – the potential economic recession may make them more difficult to realise; and
2. the cost of schemes – we are currently seeing building cost inflation running ahead of general inflation.

Recommendations

6. Members are asked to note and comment on the above proposals.

Keith Abbott
Director, Finance & Corporate Services
Ext 6588
keith.abbot@kent.gov.uk

Grahame Ward
Director, Resources
Ext 6551
grahame.ward@kent.gov.uk

Background Documents:

None

Other Useful Information:

None