

# LEEDS CITY COUNCIL 2007/08 BUDGET REPORT

## Department: Education

### 1 Introduction

- 1.1 This briefing note has been produced in order to inform members of the Executive Board as to the main variations and factors influencing the Education budget for the Original Estimate (OE) 2007/08.
- 1.2 The figures for actual spend in 2005/06 and the latest estimate (LE) for 2006/07 have been included in the following table. Variations between the OE 2006/07 and the LE 2006/07 reflect approved variations in accordance with the Budget and Policy framework.
- 1.3 The Original Estimate, as in previous years, has been prepared at outturn prices and as such there is no central provision for pay and prices.

### 2 Summary of the Revenue Budget

Actual 2005/06		Original Estimate (OE) 06/07	Latest Estimate (LE) 06/07	Variation OE to LE 06/07		Original Estimate (OE) 07/08	Variation OE 06/07 to OE 07/08	
				£000	%		£000	%
£000		£000	£000	£000	%	£000	£000	%
623,019	Gross Expenditure	548,823	610,358	61,535	11.2	566,715	17,892	3.3
-179,877	Income	-460,242	-494,258	-34,016	7.4	-482,735	-22,493	4.9
<b>443,142</b>	<b>Net Expenditure</b>	<b>88,581</b>	<b>116,100</b>	<b>27,519</b>	<b>31.1</b>	<b>83,980</b>	<b>-4,601</b>	<b>-5.2</b>
-5,954	Charges to other departments	-9,074	-55,651	-46,577	513.3	-22,927	-13,853	152.7
<b>437,188</b>	<b>Net Cost of Service</b>	<b>79,507</b>	<b>60,449</b>	<b>-19,058</b>	<b>24.0</b>	<b>61,053</b>	<b>-18,454</b>	<b>-23.2</b>

The £19m reduction in the Net Cost of Service in the Latest Estimate 2006/07 is due to a technical accounting adjustment whereby capital charges no longer include a capital financing charge. The £18m decrease in the Net Cost of Service from OE 2006/07 to OE 2007/08 is also primarily due to this change in capital accounting, £17m, combined to a largely technical adjustment to the PFI accounts in light of a reassessment of the impact of school contributions, £3m. If these two accounting adjustments were excluded, the net year-on-year movement would be an increase of £2m which is attributable to the adjusted increase in the LEA budget.

### **3 Explanation of variations between the Original Estimate 2006/07 and the Original Estimate 2007/08 -£18,454k**

#### **3.1 National Funding of Education 2007/08**

##### **Schools Budget**

The funding system for education changed from April 2006. All expenditure previously within the 'Schools Budget' transferred to be funded by a grant known as the Dedicated Schools Grant (DSG).

The estimated 2007/08 DSG for Leeds represents an increase of £16,262k to £380,131k. This represents a 4.47% increase and is lower than the 6% national average increase due to a combination of demography (where pupil numbers are decreasing faster than the national average) and the removal of funding for the David Young Academy from 1st Sept 2006.

The final DSG for 2007/08 will be based on pupil numbers taken from the January pupil count immediately prior to each financial year. For each pupil different to the projection an adjustment of £3,764 will be made in 2007/08 to the indicative DSG in the table below.

##### **Dedicated Schools Grant for Leeds**

	<b>Indicative 2006/07 £000s</b>	<b>Final 2006/07 £000s</b>	<b>Indicative 2007/08 £000s</b>	<b>increase £000s</b>	<b>increase %</b>
Dedicated Schools Grant	<b>361,664</b>	<b>363,869</b>	<b>380,131</b>	<b>16,262</b>	<b>4.47%</b>

All authorities have received an allocation delivering a guaranteed increase per pupil on 2006/07 funding per pupil. Within this increase the DfES has allocated funding targeted on Government priorities such as personalised learning in key stages 2 and 3 and the introduction of more practical learning pathways at key stage 4. The Leeds allocation earmarked for these strands amounts to £5.6m. Although it is for individual local authorities in consultation with their Schools Forums to decide on the distribution of the whole of the grant locally (subject to meeting the minimum funding guarantee and taking into account local circumstances) the DfES has requested information from local authorities as to how they have addressed the Government's priorities.

The £16,262k increase from the final 2006/07 DSG figure is proposed to be split between the Individual Schools Budget £14,212k and the Central Schools Budget £2,050k.

### 3.2 Variation between the OE 2006/07 and the OE 2007/08

<b>Net Cost of Service – Original Estimate 2006/07</b>	<b>£79,507k</b>
LEA Budget	-£1,509k
Asset Rentals	-£16,945k
<b>Net Cost of Service – Original Estimate 2007/08</b>	<b>£61,053k</b>

Schools Budget services within the 2007/08 Education budget amount to £374,176k all fully funded from the ring-fenced Dedicated Schools Budget (the balance of £5,955k DSG for Early Years is held in the Learning and Leisure budget). LEA Services have a net cost of £34,751k and Asset Rentals a net cost of £26,302k in 2007/08.

### 3.3 Individual Schools Budget (DSG funded)

The individual Schools budget is funded by a combination of the Dedicated Schools Grant (DSG) and Learning and Skills Council (LSC) funding (for post-16 pupils).

	<b>DSG £000s</b>	<b>LSC £000s</b>	<b>Total £000s</b>
Original Budget 2006/07	332,025	28,400	360,425
Final Budget 2006/07	333,708	29,817	363,525
Original Budget 2007/08	347,920	31,458	379,378
Increase	14,212	1,641	15,853

The original budget for 2006/07 was based on indicative pupil numbers used by the DfES and LSC. This indicative budget was then amended following confirmation of the January pupil numbers to give the final ISB budget of £363,525k. The ISB for 2007/08 is expected to increase by £15,853k (4.36%), comprising £14,212k increase in DSG funding and £1,641k increase in LSC funding, based on the best estimate of pupil numbers.

#### **The Minimum per pupil Funding Guarantee (MFG) £13,184k**

The DfES introduced a mechanism to ensure that all schools receive an increase in funding on the majority of their formula funding from 2004/05. This is to continue for 2007/08 and the guarantee has been set at a 3.7% increase from 2006/07. The cost of delivering the guarantee in 2007/08 is estimated at £13,184k.

#### ○ **Inflationary and demographic pressures within the MFG increase**

Inflationary pressures are currently assumed to account for 3.0% [£10,670k] of the 3.7% MFG increase. These pressures include:

- Teachers and Officers pay awards 2.5%
- Teachers and Officers superannuation increases 0.6%
- General price increases of 2% (3% for traded services)
- Energy inflation estimated at 15%
- Insurance premiums reduction -24%
- Teaching assistants, Higher level teaching assistants and Nursery Nurses career structures.

#### ○ **Other pressures to be funded from within the MFG increase**

- The LSC funding increase of £1,641k is in line with the MFG increase, adjusted for increased pupil numbers, and will be passed on directly to schools.
- Pupil numbers are forecast to continue to fall in 2007/08 with a consequent reduction in funding for schools of -£4,300k.  
(Pupil numbers are forecast to reduce in Primary in 2007/08 by 900 and in secondary the numbers are forecast to reduce by 1050, including the effect of the academy).
- Job evaluation is anticipated to result in increased pay costs in 2007/08 estimated at £500k.
- Available growth within the MFG is estimated at £4,673k in 2007/8. It is proposed (subject to consultation with schools and Schools Forum) that this growth is used to provide additional funding for personalisation and workforce reform.

○ **Pressures to be funded outside of the MFG £2,669k**

• **Private Finance Initiative (PFI) and Building Schools for the Future (BSF) £787k**

The four current PFI contracts will start to go into a cumulative deficit position in 2010/11. The Council has therefore established a sinking fund into which additional contributions are made to ensure that at the end of the contract terms no deficit remains. The Council's financial strategy requires these costs to be funded from the ISB through the PFI factor in the formula. Provision of £3,253k was made in 2006/07 and the required contribution is expected to increase in 2007/08 to £4,040k.

• **Funding for Inclusion (FFI) - Level 2 £803k**

This reflects inflationary pressures and additional identified pupil needs £673k. In addition there is an anticipated pressure to provide FFI level 2 funding for the Academy £130k.

• **National non-domestic rates £435k**

This reflects inflationary pressures and the impact of school revaluations (particularly increased valuations for new schools).

• **Remaining Balance £644k**

At present an overall funding balance of £644k is predicted for schools should funding increase in line with the forecast and all the cost pressures and savings materialise as currently projected. Schools Forum will be fully consulted about any changes to the funding principles and the allocation of remaining resources although it would be proposed to provide additional funding for key stage 2 and key stage 3 personalisation.

## Other school funding in addition to the ISB:

- **School Standards Grant (SSG)**

It is currently proposed that the Schools Standards Grant will remain a separate grant until 2008/09 when it may be amalgamated with the School Development Grant into a single standards grant. The DfES is moving the basis of the grant from purely lump sum per school to a fairer flat rate per school plus a per pupil amount in 2006/07 and 2007/08. An overall 18.5% national increase in SSG is expected from 2006/07 to 2007/08. In Leeds the average percentage increases will be 23% per pupil in Primary, 20% per pupil in Secondary and 11% in the SILCs. However, due to falling rolls some schools will only receive an increase in funding of 3.7% per pupil in 2007/08, and some may receive the same cash funding as in 2006/07.

- **School Development Grant (SDG)**

In 2007/08, each school will receive a per pupil increase of 3.7% in their SDG in line with the minimum funding guarantee increase.

### Devolved Formula Capital

The national formula for devolved formula capital is:

Year	Per School	Per Primary Pupil	Per Secondary Pupil	Per SEN pupil or boarding pupil
2006-07	£17,000	£61.00	£91.50	£183.00
2007-08	£18,500	£63.00	£94.50	£189.00

### 3.4 Central Schools Budget

Original Estimate 2006/07	£24,236k
Final Estimate 2006/07	£24,758k
Original Estimate 2007/08	£26,256k
OE to OE Increase	£2,020k

#### Central Schools Budget (CSB)

In 2004/05 the Secretary of State set out additional regulations that only allow Local Authorities to increase the central schools budget by the same percentage increase as the ISB. For 2007/08 three items are excluded from this requirement; increases in the cost of education for pupils under five in Private, Voluntary or Independent settings, the central schools contingency and local authority contributions to grants. The Local Authority may increase the central schools block expenditure by a higher percentage than the percentage increase in the individual schools budget (ISB) with the permission of the Leeds Schools Forum. Such agreement has been made to address the following issues:

- Head teacher Support Service
- 14 to 16 More practical learning pathways
- Teacher pay reform
- Match-funding for the previous Vulnerable Children's Grant
- Nurture groups

Details of specific pressures and savings within the central schools budget are shown in Appendix A. The main variances are described below.

### **Pay and price increases £564k**

Provision has been made for 2.5% pay increases from the relevant pay award date (April for officers, September for teachers and soulbury staff). Increases of 0.6% in the employers' superannuation rates for officers and teachers have also been provided for. Running expenses have been increased by an average of 2% but a number of budgets have been cash limited. Income has been increased on average by 3%.

### **Outside Placements £306k**

Provision of £367k as been made for an expected increase in the number of pupils educated outside Leeds partially offset by additional grant from the LSC for post-16 pupils of -£61k.

### **14 to 16 More Practical Learning Pathways £950k**

Following consultation with schools, Schools Forum has agreed to increase the centrally retained schools budget above the level of the percentage increase in the ISB in order to fund 14 to 16 More Practical Learning Pathways. This is in accordance with the notional allocation within the DSG for the government priority to provide more practical learning pathways for pupils in key stage 4. This will mean an additional central retention of £950k in 2007/08 over and above the £550k retained in 2006/07. This funding is held centrally but managed jointly with the Area Management Boards formed last year and is all devolved to schools in-year.

### **Prudential Borrowing £157k**

Provision of £554k, an increase of £157k, has been made for the revenue implications of the approved Prudential Borrowing scheme for the Primary Review.

### **Support for Area Management Boards £1,260k**

The Local Authority currently has no funding retained centrally that can be used by Area Management Boards to provide enhanced support for schools in meeting the outcomes of the 'No Child Left Behind' strategy and alternative provision has relied on refocusing the work of current central provision. This has been a limiting factor on the pace of introduction of any changes. Schools Forum have agreed to the proposal that £1,260k of the additional funding retained in 2006/07 to support the Schools Contingency is held centrally in 2007/08 and devolved to be managed by the Area Management Boards to provide additional support to schools.

### **Schools Contingency Fund -£1,325k**

In 2006/07 the schools contingency fund was required to meet the cost of equal pay compensation for school based staff. This cost will not be repeated in 2007/08 as new salary grades are to be introduced resulting in the year on year reduction in funding held centrally.

### **Private, Voluntary and Independent Nursery provision £17k EL [£552k also included within the Learning and Leisure budget]**

In addition to an increase for pay and prices in the early years education grant to be paid to parents for three and four year olds accessing education in non-maintained settings, there is an increased cost due to growth in provision through the development of additional Children's centres.

## **3.5 LEA Budget**

Original Estimate 2006/07	£36,260k
Original Estimate 2007/08	£34,751k
Decrease	-£1,509k

Education services funded outside of the DSG have decreased by -£1,509k and details of specific pressures and savings are shown in Appendix B. The main variances are described below. If the impact of a reduction in PFI costs of £3.1m, due mainly to an accounting adjustment, was excluded, the remaining LEA services would show a net increase of £1.6m.

#### **Pay and price increases £1,148k**

The same inflationary increases as those used in the Central Schools Budget have been assumed (see 3.4 above).

#### **Building Partnerships Team £189k**

Increased costs are due to the requirement for additional staffing and through the fall out of standards fund grant.

#### **Home to School and College Transport £222k**

Increased provision has been made arising from the impact of changes to the Education Act relating to eligibility and distance criteria, school taxi costs for pupils with statements of educational need, training costs for independent travel, reduced grant funding from the LSC and a rise in the number of pupils eligible for bus passes. The budget has been reduced for the effect of fewer transport days, the mainstream bus contract and college taxi costs.

#### **School Improvement -£37k**

An additional £113k has been included for the School Improvement Partners initiative and for specific costs targeted to schools causing concern. An income target of -£150k has been included for the service to trade non-statutory support and training with schools.

#### **Voluntary Early Retirements (VERs) £735k**

Provision of £161k has been included for increased ongoing pension costs of VERs in schools, £500k for expected school VERs in 2007/08, £24k for increased ongoing pension costs and £50k for possible new VERs within Education Leeds.

#### **Education Leeds Operating Surplus £358k**

The level of the operating surplus used to support the 2007/08 budget has reduced by £358k in 2007/08 from -£1,448k to -£1,090k.

#### **School Clothing Vouchers £425k**

In July 2006 the Council revoked an earlier decision to amend its school clothing allowances scheme and introduced a further revised scheme, similar to that in operation prior to 2006/07. Subsequently, the pupil support budget for 2007/08, including administrative costs, is £425k higher than the 2006/07 Original Estimate.

#### **Financial Reporting Standard 17 – Retirement Benefits -£461k**

The authority is required to comply fully with Financial Reporting Standard (FRS) 17 – Retirement Benefits. This means that the pension costs shown in service accounts are required to be the current service cost rather than the amounts actually paid out in relation to pensions during the year. The overall impact of this adjustment year on year is to decrease the net cost of service by -£461k. There is no impact on Council Tax levels as the effect of the FRS17 adjustment is reversed by a contribution to the Pensions Reserve.

#### **PFI Scheme costs -£3,106k**

The reduction in net PFI scheme costs, which are funded through the sinking funds for Education PFI schemes, is largely attributable to a technical adjustment following a reassessment of the accounting treatment of school contributions to the sinking fund.

### Efficiencies and cost trends

Various efficiencies have been assumed in calculating the 2007/08 estimates. Specific savings have been made in relation to discretionary National Non-domestic Rates (NNDR) relief on properties Education Leeds rents from the Council, mailroom and postage charges due to reduced usage, cessation of the catering contract subsidy at Elmete Centre and the realignment of grant funding for staffing costs.

### 3.6 Variations in charges for capital

Under new accounting requirements introduced in the 2006 Statement of Recommended Practice (SORP), the revenue charge for the use of assets will continue to include a charge for depreciation but will now no longer include a capital financing charge. The overall impact of this accounting adjustment is to decrease the net cost of service by -£17m. There is no overall impact on Council Tax levels of this change as the corresponding credit entry in the Asset Management Revenue Account has also been removed.

### 3.7 Efficiency savings

Following the publication of the Gershon report on public sector efficiencies, in setting the budget the council is required to identify actions to improve efficiency and quantify the expected gains. Cashable gains represent the potential to release savings in cash for other areas of spend; non-cashable efficiencies relate to improved outputs or enhanced service quality for the same expenditure, efficiencies that achieve reductions in fees and charges to the public, and improvements to productive time (unless fewer staff are needed as a result). In terms of this, the following savings have been identified.

	<b>Nature of saving</b>	<b>Total</b>
		<b>£k</b>
1	Senior Education Leeds Management restructure	75
2	VAT reduction	125
3	Education Leeds NNDR discretionary relief	137
4	Postage/Mailroom efficiencies	90
5	Telephone/mobile efficiencies	32
6	Printing/stationery efficiencies	30
7	Cash limit of School Development Grant	129
8	Education Leeds Car allowances capped	14
9	Reduced use of consultants by Education Leeds	43
10	Removal of Elmete catering subsidy	35
11	Joint library service reduced charge	17
12	Education Leeds KPMG audit fee	3
13	Translation Unit transfer	73
		<b>803</b>

## 4 Risk Assessment

In determining the Education budget, consideration has been given to all the risks and these are managed within the overall risk management framework. Within this framework, a register of those items considered to carry the highest risk and therefore requiring careful and regular monitoring has been prepared. The key risks in the 2007/08 budget are as follows:

Job Evaluation, PFI/BSF developments and contracts, Home to School and College transport, School staff VER and severance, Outside Placements and Education Leeds' traded services income.

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