Appendix A – financial modelling summary

The in-house model

An enhanced in-house service, based on additional investment to grow services has been developed. In doing so, account has been taken of the views from staff, engagement with trade unions and examples from other local authorities

It has now been assumed that the budget saving of £1.3m arising from not having to procure an external partner could be used to support a small marketing team and that a more commercial approach would thus lead to some growth in services.

As a result it is now assumed that, instead of having to secure a £1.55m budget saving largely through service reductions, it may be possible to hold the service reductions down to about £0.7m.

This is largely as a result of assuming growth in income amounting to approximately £1.9m over 5 years, mainly by selling more services to schools, including schools that currently do not buy services both within and outside the Borough. This represents an increase in income of over 20%. It is assumed that this would involve increased expenditure of about £1.5m on providing the additional services, thus producing a surplus of some £0.4m that would contribute towards the savings.

It is assumed that the balance of savings can be achieved through efficiency measures, with savings equating to 2.5% of gross expenditure, or about £470,000, over 5 years.

It is assumed that service growth would develop over time and that this approach would require substantial use of the procurement saving to meet the shortfall in the budget savings in the first two years.

The service reductions and efficiency savings required would still amount to a significant proportion of the non-Dedicated Schools Grant (DSG) budget. The net non-DSG budget, excluding SEN Transport (as savings in this area have already been factored in centrally) would still have to reduce by about £1.17m from £2.77m to £1.6m, a reduction of over 40%, with service reductions expected to be £0.7m or 25% of the net budget.

The social enterprise model

A similar approach has been taken to the development of the social enterprise model. In this case it has been assumed that investment of £1.5m will be available, £750,000 from schools and matched funding from the council. Some of this funding would be used to support a marketing team and a more commercial approach that would thus lead to some growth in services.

As a result it is now assumed that, instead of having to secure a £1.55m budget saving largely through service reductions, it may be possible to hold the service reductions down to about £0.3m.

This is largely as a result of assuming growth in income amounting to approximately £3.2m over 5 years, mainly by selling more services to schools, including schools that currently do not buy services both within and outside the Borough. It is assumed that schools' commitment to investing in the service would be reflected in a commitment among many schools to buy more services and to encourage other schools inside and outside Barnet to

do the same. The growths represents an increase in income of over 33%. It is assumed that this would involve increased expenditure of about £2.6m on providing the additional services, thus producing a surplus of some £0.6m that would contribute towards the savings.

It is assumed that the balance of savings can be achieved through efficiency measures, with savings equating to 3.3% of gross expenditure, or about £620,000, over 5 years. The figure is slightly higher than for the in-house model because it is assumed that there will be more scope for efficiencies in an organisation that is separate from the council.

It is assumed that service growth would develop over time and that this approach would require substantial use of the procurement saving to meet the shortfall in the budget savings in the first two years.

The service reductions and efficiency savings required would still amount to a significant proportion of the non-DSG budget. The net non-DSG budget, excluding SEN Transport (as savings in this area have already been factored in centrally) would still have to reduce by about £0.93m £1.17m from £2.77m to £1.84m, a reduction of over 33%, with service reductions expected to be £0.3m or 11% of the net budget.

The joint venture models

With the joint venture models, the underlying assumption is that a third party would invest in the new model in order to grow and sell more services in order to make a return on their investment over the lifetime of the contract. It is therefore assumed that no actual service reductions will be required.

Much more ambitious growth figures are assumed because of the commercial and marketing infrastructure the third party will bring to the partnership and because of their experience and track record in selling services to schools and/or local authorities across a number of council areas.

It is thus assumed that income growth will increase by £9m over 5 years (for the 2-way joint venture, about £0.5m less for the 3-way JV). This would be achieved through a combination of selling more services to schools, including schools that currently do not buy services both within and outside the Borough, and from selling services, including statutory services, to other local authorities. The growth represents a doubling of income. It is assumed that this would involve increased expenditure of about £7.2m on providing the additional services, thus producing a surplus of some £1.8m, with some of this contributing towards the savings and the rest to some form of gain-share agreement between the parties to the partnership.

It is also assumed that some savings can be achieved through efficiency measures, with savings equating to at least 4% of gross expenditure, or about £770,000, over 5 years. The figure is higher than for the social enterprise model because it is assumed that the third party will bring commercial expertise that will deliver a greater level of transformation and efficiency.

It is assumed that service growth would develop over time and that this approach would require management of its own investment and cashflow by the third party to cover any savings shortfall in the first year.