TELFORD & WREKIN COUNCIL

CABINET- 20 SEPTEMBER 2012

SERVICE & FINANCIAL PLANNING UPDATE

REPORT OF THE ASSISTANT DIRECTOR: FINANCE, AUDIT & INFORMATION GOVERNANCE (CHIEF FINANCIAL OFFICER)

LEAD CABINET MEMBER – CLLR BILL McCLEMENTS

1. PURPOSE

This report provides an update on current government consultations on the proposed localisation of business rates, new local support for council tax scheme (whereby the government is significantly cutting the funding available for council tax benefit), changes to education and public health funding and an update on the council's saving proposals for 2013/14 and future years. Given the uncertainties which lie ahead, relating to the impending changes to the local government funding mechanisms and potential reductions in Government funding, it is likely that further savings will be necessary and work is underway to identify additional proposals for 2013/14 and beyond.

2. RECOMMENDATION

2.1 **That the contents of the report are noted and that targeted consultation on the savings proposals included within Appendix 1 is commenced in accordance with the approach set out in section 7 of the report.**

3.0 SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	The Service & Financial Planning Strategy is integral to ensuring that available resources are used as effectively as possible in delivering all corporate priority outcomes
	Will the proposals impact on specific groups of people?	
	Yes	The proposals contained in this report will impact on specific groups of people. Section 7 of the report

		describes the equality impact assessment and targeted service user engagement which will be undertaken to consider the impacts the changes may have.
TARGET COMPLETION/DELIVERY DATE	The Service & Financial Strategy will be considered by Full Council on 7 March 2013 and recommendations implemented in 2013/14 and subsequent years.	
FINANCIAL/VALUE FOR MONEY IMPACT	Yes	The financial impacts are detailed throughout the report.
LEGAL ISSUES	Yes	This report develops proposals for the Councils Service & Financial Planning Strategy. Consultation will be in line with the Constitutional budget and policy framework and the final budget and council tax will be set in March 2013 as required by regulatory deadlines.
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	Appendix 1 details other impacts and risks associated with the savings proposals.
IMPACT ON SPECIFIC WARDS	No	Borough Wide

4. INFORMATION

The Government are currently consulting on making very significant changes to the Local Government finance system. Key areas of proposed change include:-

- A scheme allowing the retention of an element of business rates locally,
- A reduction in the grant received by the Council to fund the cost of Council Tax Benefit,
- Education funding,
- The introduction of a ring-fenced grant to fund the cost of Public Health responsibilities being transferred to Councils when Primary Care Trusts are abolished.

All of these changes are due to come in to effect on 1st April 2013 and the details of how these schemes will operate are currently very unclear. This makes any forecasts of resources available for next year extremely difficult and subject to a very high degree of uncertainty. This is unlikely to be much clearer until after the funding settlement is announced by the Government which is expected to be sometime in November or December.

A brief update on each of these key issues is given below.

4.1 <u>Business Rates Retention Scheme</u>

The Business Rates Retention Scheme will replace the Formula Grant system of local government funding in 2013/14. Under the current system, the Council receives Formula Grant which consists of re-distributed business rates and Revenue Support Grant (RSG) which is distributed to authorities based on an assessment of needs determined through a complex set of formulae. Individual allocations of Formula Grant are normally announced annually in the Local Government Finance Settlement around early December.

Formula Grant funds around 53% of the Council's net revenue spending and therefore changes to the funding mechanism can have a very significant impact on the Council's overall financial position.

	£m
Total net spending 2012/13	126.254
Funded by:	
Formula Grant	66.645 (53%)
Council Tax	57.819 (46%)
Balances/Collection Fund	1.790 (1%)

The new proposed "Business Rates Retention Scheme" is currently subject to consultation which closes on the 24th September. The final details of the scheme are therefore not yet known and it is likely that we won't know the full implications for Telford & Wrekin until the Local Government Finance Settlement is announced in late November or December.

The Business Rates Retention Scheme proposals include a number of components which are complex and inter-related. In simple terms, under the new system authorities will receive a baseline funding level plus RSG. In addition to the baseline funding level, in future years authorities will retain 50% of any growth in business rates, however this is subject to levies which will be charged where there is a disproportionate benefit. The proceeds from the levy will be collected nationally and used to provide a safety net for authorities who experience unforeseen falls in their business rates. The safety net will be set within the range of 7.5% - 10% <u>below</u> an authority's baseline funding level – this means the authority will have to fund any shortfall until the fall in income is such that the safety net is reached transferring significant risk to the Council from the Government.

Business rates collected will be split equally into a local and central share. A **baseline funding** level will be set for each authority (i.e. an assessment of need). This will use the 2012/13 funding formulae as a starting point (although there are proposals to update certain elements of this, such as the treatment of concessionary travel, sparsity and data). An individual authority's **business rates baseline** will also be set. This will be 50% of the Government's estimate of the total national business rates collected apportioned across individual authorities on a proportionate basis (using average business rates income collected). To establish a fair starting point at the beginning of the new system, **tariffs** and **top-ups** will then be applied. Where an authority's business rates baseline is higher than its baseline funding level a tariff will be paid to Central Government; where the base rates baseline is lower than the baseline funding level it will receive a top-up from Central Government. Tariffs and top ups will be fixed for the next 7 years with only an RPI increase, (until 2020 when the system is "re-set").

To ensure that the Government's overall Spending Controls are adhered to, the balance of funding (which includes the central share but is after deducting various set asides including £2bn funding for New Homes Bonus, a contingency for the safety net, capitalisation funding and Police Authority funding) is then re-distributed to local authorities as RSG. The basis for distribution of RSG will be set out in the annual local government finance settlement.

As mentioned above, it is unlikely that we will know the detail of the scheme before late November or sometime in December which means there is a great deal of uncertainty around any funding projections for the financial year starting 1st April 2013.

However, it is already clear that the new scheme will be significantly more complex than the current scheme, that it transfers risk to local from central government and that some of the original intentions of the new system such as encouraging councils to support growth in their areas have been watered down by the proposed "resetting" of the scheme in 2020 and the retention of only 50% of growth in business rates up to a level deemed to be "disproportionate" beyond which no additional growth would be retained locally.

4.2 Council Tax Support Scheme

The Council currently administers the nationally prescribed council tax benefit scheme and receives a subsidy grant from the Department of Works and Pensions (DWP) in relation to benefits paid out, together with a grant towards the administrative costs of the scheme. The system is demand led i.e. an increase in eligible claimants leads to increased council tax benefit being paid and increased subsidy grant received by local authorities. Spend on Council Tax Benefits in this area was £14.7m in 2011/12.

As part of the 2010 Spending Review the Government announced that the current national Council Tax Benefit Scheme would be abolished and local authorities would be required to establish their own local Council Tax Support scheme by 31st January 2013, for implementation in April 2013. It was also announced that in making this change, the Government would cut the amount of grant paid to councils by 10%. Pension age claimants will be protected i.e. they will not experience a reduction in support as a result of these changes. Local Authorities have the freedom to design a scheme for working age claimants and to decide how to manage the impact of the reduction in funding.

In future, Council Tax Support is to be given as a council tax discount with funding being provided from Government Grant. However, the grant is to be distributed through the new business rates retention scheme, rather than being given as a separate identifiable grant so after the first year of the scheme we will not be able to identify how much grant we are receiving specifically for the new local support for council tax scheme. However, the amount of grant transferred into the business rates retention mechanism will only be 90% of the Government's forecast of the 2013/14 subsidy.

The Government's forecast has no allowance for inflation (i.e. assumes that no council will increase council tax) and is based on an assumption of reduced caseload volumes (2.3% reduction presumably due to an assumption that the economy is starting to grow). Our budget strategy includes assumptions for a 2.5% council tax increase over the medium term and local caseloads indicate a trend of around 2% pa increases. This, together with the likely impact on collection levels gives an estimated funding shortfall of £3.1m in 2013/14 (note final grant allocations will be updated by Government and therefore current estimates are only indicative). Telford & Wrekin's proposed scheme was launched for consultation at the end of August and includes suggested changes to a number of council tax exemptions and discounts and applying a percentage global reduction in support given to less-vulnerable claimants to manage the funding shortfall. It is also proposed that £0.065m is allocated to award discretionary discounts in cases of extreme financial hardship.

4.3 Education Funding.

The Government have consulted over the last year on proposed changes to school funding. The final details of these changes were released in June 2012 with the overall proposal being to retain Dedicated Schools Grant (DSG) whilst making some changes to how it can be allocated. The main impact of these changes will result in less flexibility in how funding is allocated to schools and movement in the local formula used to more of a national model.

The Council's new formula, set within the parameters given by the DfE, is subject to consultation with all schools and final agreement by the new Education Funding Agency (EFA). It will need to be implemented from April 2013. Most funding will then simply flow to schools via pupil numbers and this is likely to have a significant effect on the financial stability of some of our smaller secondary schools in particular and indeed any schools with falling pupil numbers. Whilst we expect pupil numbers to grow over the next few years in line with our Building Schools for the Future programme there will be an interim period of a few years where funding will be an ongoing problem for some secondary schools and action will need to be taken to address this issue.

The proposals also affect Special Education in requiring a more standardised funding system and as part of this removing any funding linked to lower value statements. There are also moves towards a lesser role for the Council in commissioning high needs places with more involvement of the new Education Funding Agency. Changes are also proposed in the status of alternative education provision.

The Council will also need to consider the impact these changes will have on DSG centrally funded services as well as others bought in by schools.

Changes in the current arrangements for recoupment of Council funding for the impact of Academies are part of the Business Rates retention consultation summarised in section 3.1 of this report and indicate the use of pupil numbers in maintained and Academy schools to allocate a new DfE grant. This will be an amount removed from the Council's current formula grant. Consultation on this proposal is due to close on 24th September 2012. The impact on changes in funding amounts for the Council resulting from this change will not be known until the outcome of this consultation is available later in the year. At the next spending review there is a possibility that further changes to how DSG is allocated to Councils could be put in place. The Council needs to be aware that as part of the allocation of costs through central recharges e.g. legal, accommodation, HR, Finance, ICT etc. a proportion is funded via centrally retained DSG. Any changes to this grant could impact significantly on these services.

4.4 <u>Public Health Funding.</u>

The NHS is also facing major change with Primary Care Trusts (PCT) being abolished from 1st April 2013. Most PCT functions will transfer to new Clinical Commissioning Groups but Public Health functions will transfer either to Public Health England, a new national body, or to upper tier councils such as Telford & Wrekin Council. Public Health functions will be a significant new additional responsibility for local government and will be funded by a new ring-fenced grant which can only be used to fund Public Health activities. It is currently assumed that the Council's Public Health budget will be equal to the grant that we receive so there will not be any material financial impact on other Council services or council tax payers as a result of this change.

The Government recently issued a consultation paper, "Healthy Lives, Healthy People: Update on Public Health Funding" which sets out proposals on how the £2.2bn currently spent by the NHS on Public Health activities that will transfer to local authorities could be allocated between different councils. Under this set of proposals, this council would receive around £7.3m of grant. However, in the current year the Telford & Wrekin PCT is spending around £10.4m on these same functions. The consultation paper suggests that transitional arrangements will be put in place to smooth the redistributive effect of the new funding formula so whilst a shortfall may be experienced between the grant we receive in 2013/14 and what the PCT currently spend it is hoped that this will be not be as significant as may at first appear to be the case.

A large number of Council and PCT officers are working together in order to ensure that the transition is as smooth as possible and information is being received from the PCT on contractual commitments, staffing and existing budgets in order to assist with the development of the first council Public Health budget.

4.5 Care & Support Pressures.

The local Primary Care Trust has cut 73% of its funding for Continuing Health Care cases over the last 2 years in cash terms (over 80% in real terms) which has increased costs falling on the Council's social care budgets by around £8m pa ongoing - a major threat to service levels on top of government grant cuts. While part of this pressure has been funded by savings from other services a gap of some £5m still exists covered only temporarily by one off funding.

5. SERVICE AND FINANCIAL PLANNING STRATEGY.

Current projections of grant reductions for the Council are based on Departmental Expenditure Limits for Communities & Local Government announced as part of the 2010 Comprehensive Spending Review (CSR). These indicated a reduction in Government support for local authorities of around 28% over the 4 year period starting 2011/12 in order to assist the government in their target to eliminate the structural element of the national budget deficit. This equates to a reduction in cash terms of £27m, or in real terms of around £40m pa by the end of the period covered by the current CSR. At the same time demand for many services, notably social care services for children and adults is increasing and the Council has faced a significant transfer of costs from the PCT in respect of Continuing Health Care cases as well as many other budget pressures.

Nationally, the government's finances are suffering from the continuing recession. A lack of economic growth is resulting in reduced tax revenues and increased expenditure e.g. on benefit payments. These pressures are currently combining to increase, rather than reduce, the borrowing requirement and there is therefore a possibility that the Government may seek to reduce spending even further than they had previously planned in order to reduce the national budget deficit.

Local government is vulnerable to a significant share of any increased savings targets as the sector has a track record of delivering savings and the Government is likely to want to continue to do what it can to offer relative protection to health, education, police, defence and overseas aid spending. The Government may also seek to kick start the economy by increasing capital spending in order to stimulate the particularly weak construction sector of the economy – although this could be at the expense of further reducing revenue funding.

As already explained there will be considerable change to the local government finance system which will come in to effect from the start of April 2013. The lack of clarity on how the local government finance system will operate means that any projections of what funding will be available to the Council next year are extremely difficult and subject to an extremely high level of uncertainty.

It is however, clear that the squeeze on local government budgets will continue for many years and that the council needs to continue to identify further savings on top of the £40m pa of ongoing savings achieved since 2009/10. In order to ensure that future discussions about savings options are set within an overall strategic framework, on 28 June, the Cabinet agreed four key principles to be used when developing the service and financial planning strategy:

- In line with our co-operative values, we should work together with and involve our residents and employees in developing our strategy;
- Adopt a commercial approach and facilitate growth;
- Minimise the impact of savings on front-line service delivery;
- Minimise the impact of savings on our employees as far as possible.

In line with these principles, the starting point for our strategy is to focus on areas that do not have significant impact on front-line service delivery or employees, such as:

- **Improving procurement** e.g. re-tendering contracts, reviewing and robustly re-negotiating existing contracts, making greater use of framework agreements and getting added social value from procurement;

- **Property rationalisation and generation of capital receipts** – we have ambitious plans to invest in schools, regeneration and other capital projects to transform the Borough. In order to minimise the burden of ongoing debt repayments we're committed to a significant programme of asset sales totalling £110m over the medium term;

- **Driving down non-staffing costs that have minimal impact on service delivery** - reviewing and challenging budgets 'line by line' e.g. stationery, hospitality etc to ensure we have exhausted as many options as possible before considering changes or reductions to services.

However, due to the scale of the budget gap, some impact on service delivery and employees is inevitable. Our approach involves:

- **Carrying out planned, long-term service re-design, based around priorities,** not quick-fix options, such as withdrawing services or changing eligibility criteria e.g.
    - Children's Services – better help for people in the early stages of difficulties and more targeted help for families with complex needs;
    - Adults' Services – re-ablement to help ill or disabled adults learn or re-learn how to live independently;
    - Customer Services – more enquiries dealt with first time through a single point of contact

- **Facilitating growth** – becoming a business-winning council, increasing prosperity in the Borough and maximising income from business rates and the New Homes Bonus;

- **Working co-operatively with local people, organisations and partners** e.g.
  - Co-production and other new service delivery partnerships with the community;
  - Joining up services better to remove overlap and duplication;
  - Partnership with Town and Parish Councils to secure environmental improvements;
  - Encouraging local people to recycle more and reduce waste disposal costs.

- **Increasing income generation and external trading** – a more commercial approach and a particular focus on providing support services at affordable cost to local Voluntary & Community Sector organisations, Town & Parish Councils, partners, schools;

Our aim is to actively seek applications for voluntary redundancy and to promote flexible working arrangements in order to keep compulsory redundancies to a minimum although some continuing targeted restructuring activity is inevitable.

6. SAVINGS PROPOSALS FOR 2013/14 AND FUTURE YEARS.

The service and financial planning report considered at Council in March this year included details of some savings proposals for 2013/14 and later years but consultation focussed specifically on the 2012/13 budget proposals contained in that report. Officers have also been working to identify further savings proposals with a high level summary included in the report considered at Cabinet in June 2012. Full details of these additional savings proposals and those included in the March Council report are now included as Appendix 1 of this report. The shaded items in Appendix 1 were all included in the Service & Financial Planning report considered by Council in March 2012. As agreed in the March Council report, fees and charges will, where appropriate, be subject to a 2.5% increase to keep pace with inflation, on 1st October 2012 with a further increase of this amount applied in April next year.

Work is currently underway to identify further savings options and over the Autumn period the detailed base budget work will be undertaken in order to refine projections of base budget needs and underlying pressures for 2013/14 and later years. When the grant settlement is announced in late November/December an updated service and financial planning package will be considered by Cabinet and subject to consultation with final decisions being taken on the overall service and financial planning strategy for next year being taken at Council on 7 March 2013.

7. EQUALITY IMPACT ASSESSMENT AND TARGETTED SERVICE USER ENGAGEMENT.

Equality Impact Assessment is a tool that is used to ensure our decision making takes into consideration the protected characteristics with regard to the General Equality Duty (GED). In short we must demonstrate that we pay due regard to eliminate unlawful discrimination, harassment and victimisation, to advance equality of opportunity and to foster good relations.

We need to assess and analyse the practical impact on those whose needs are affected by cuts or changes. We have adopted a proportionate approach that takes into account the relevance of a proposal with regard to equality. This is a measured response recognising that our resources are best aimed at dealing with those proposals that could have a more significant impact.
In order to accomplish this we have followed a process designed to stream proposals and ensure that they are fully explored. A scoping exercise to determine which budget saving proposals will require an equality impact analysis and/or engagement has been completed for the review of fees and charges and the savings proposals contained within Appendix 1.

This scoping exercise identified that no specific impact assessments or engagement activities are needed for the review of fees and charges although an overarching Impact Statement has been completed. Individual impact assessments and engagement activities have been initially identified for the savings proposals contained in Appendix 1.

Cabinet Members have agreed the initial list of proposed saving suggestions that needed further exploration with lead officers as to the extent of an impact analysis and service user engagement. For proposals where implications have been identified and are at a sufficiently developed state a proportionate impact analysis and service user engagement will be undertaken. Where a proposal is still at an early stage of development, a plan has been put in place to ensure delivery of equality impact analysis during its development.

The budget consultation undertaken during 2011-12 helped to establish the principles and policy direction for a 3 year strategy. This required a broad range of inputs, over 3000, from the across the whole community which has significantly influenced the overarching approach to service and financial planning. During the Autumn/Winter of 2012-13 we are refining these proposals into specific savings; this requires a different kind of targeted engagement with service users and stakeholders. These are often the most difficult types of engagement and tend not to involve large numbers of people because we are looking for a precise reflection of the service and the specific impacts that these types of changes can have.

Dependant on the settlement in late autumn, there may be a further set of budget savings proposals and we will need to review our consultation programme, which at that point may require both specific service user and stakeholder engagement as well a wider whole community engagement.

8. CONCLUSION.

There will be many changes to the local government finance system from April next year but the implications for the Council of these changes are currently far from clear. We will not be in a position to make accurate forecasts of our financial position for 2013/14 and later years until we have completed the detailed budget preparation work and received the grant settlement which is not expected until late November at best or, more likely, sometime in December (final information relating to Public Health and Education could be even later, potentially early 2013).

The medium term outlook for national finances is disappointing and this is likely to result in many years of continuing financial constraint for the Council as Government funding is likely to continue to be withdrawn at the same time that demand for many services is increasing. Targeted service user engagement will therefore now commence where appropriate on the savings proposals included in Appendix 1. Further work to identify additional savings proposals will also be undertaken and details included in a report to Cabinet in December 2012 following receipt of the grant settlement when a further consultation process will commence.

Report Prepared By:

Ken Clarke, Assistant Director: Finance, Audit & IG (CFO)
telephone: 01952 383100;
Andy Challenor: Community Engagement & Equalities Manager
Telephone: 01952 385103;
Pauline Harris & Tracey Smart: Finance Managers 01952 383701/383758