BUDGET AND FINANCE SCRUTINY COMMITTEE

Minutes of a meeting of the Budget and Finance Scrutiny Committee held on Tuesday, 16th October 2012 at 6.30pm in the Scrutiny Meeting Room, Civic Offices, Telford

PRESENT: Councillors S. Reynolds (Chair), R. Evans, A. Lawrence, C. Mollett, G. Reynolds, R. Sloan, A. Stanton and Co-optees F. Robinson and R. Williams.

Also attending: Cllr. W. McClements, Cabinet Member Resources & Service Delivery; P. Harris, Finance Manager, Corporate Finance & Customer Services; R. Jones, Community Engagement Equalities and Action Manager; S. Jones, Scrutiny Officer.

BFSC-6 MINUTES

RESOLVED – that the minutes of the meeting of the Budget and Finance Scrutiny Committee held on 31st July 2012 be confirmed and signed by the Chairman.

BFSC-7 APOLOGIES FOR ABSENCE

K. Clarke, Assistant Director Finance, Audit & Information Governance; Andy Challenor, Community Engagement and Equalities Manager.

BFSC-8 DECLARATIONS OF INTEREST

Cllr. Sloan declared a non-prejudicial interest in matters pertaining to the Department of Work & Pensions.

BFSC-9 SERVICE & FINANCIAL PLANNING UPDATE – CABINET REPORT OF 20TH SEPTEMBER

The Chairman welcomed Cllr. Fiona Robinson from Newport Town Council to the Committee. Cllr. Robinson had been appointed by the Scrutiny Management Board as a Town & Parish Council Co-optee. Cllr. Robinson was invited to introduce herself, and the Chairman said she felt Cllr. Robinson's experience would be very useful to the work of the Committee.

Cllr. Reynolds then invited Cllr. McClements and officers present to provide a briefing on the Service & Financial Planning Update report which had been presented to Cabinet on 20th September. The Finance Manager summarised the key points.

The report provided an update on changes to funding mechanisms which would affect the Council from April 2013, and additional savings proposals which had been published early on for 2013/14. The following points were made:

- The number of changes being made to local government finance meant that there was a high degree of uncertainty about funding from April 2013 and made forecasting extremely difficult. In 2012/13 the Formula Grant accounted for 53% of the Council's net revenue spending and any changes to the funding mechanism could have a great impact on the Council's overall financial position.

- From April 2013 the existing Formula Grant system of funding for local authorities would be replaced by the Business Rate Retention Scheme. The proposed scheme was made up of a number of complex and inter-related components which were described in the report. A system of top-ups and tariffs would be applied depending on whether the authority's base rates baseline is above or below the baseline funding level to establish a fair starting point and this would be fixed until 2020 with only an RPI increase. Authorities would retain 50% of business rate growth up to a threshold deemed to be "disproportionate" beyond which no additional growth would be retained locally. There was a safety net for authorities experiencing unforeseen falls in business rates, but the threshold for top-ups would be set within the range of 7.5%-10% below an authority's baseline funding level meaning the authority would have to fund the shortfall. It was felt the scheme had watered down the original intentions to incentivise authorities to support business growth by capping the retained growth income, and had transferred significant risk from government to authorities where there is a fall in business rates. Consultation on the scheme had closed on 20th September and feedback was being reviewed. The outcome would be announced in the Autumn Statement due on 5th December with Councils receiving confirmation of settlements between 6th and 31st December.

- The government had announced the abolition of the Council Tax Benefit Scheme and the introduction of localised Council Tax Support schemes. Authorities would be allocated a grant which would be 10% less than currently paid out in benefits. Pension age claimants would be protected but authorities had discretion to design their own schemes for working age claimants to manage the funding shortfall. Cllr. McClements also informed members that the government had just announced £100 million additional funding for transitional grants which Councils could apply for to support schemes during the first year but which limited the maximum cut to benefits for working age claimants who have never paid Council Tax to 8.5% and to other set criteria. Consultation on the Telford & Wrekin proposed Council Tax Support scheme closed on 26th October and the Scrutiny Officer reminded members that a scrutiny meeting had been scheduled for 23rd October for members of the Budget & Finance and Co-operative & Communities Scrutiny Committees to take part in the consultation.

- The government had consulted on changes to schools funding and details had been released in June. The dedicated Schools Grant had been retained, but the there would be less flexibility in how funding would be allocated with a move from local formula (currently with around 42 factors) to a formula set within national parameters with about a dozen criteria. Schools were being consulted on the new formula subject to final agreement by the Education Funding Agency (EFA). From April 2013, funding would flow directly to schools based on pupil numbers.

This was likely to have an impact on the financial stability of smaller secondary schools or schools with falling rolls and it was anticipated that action may be needed to address the issue for schools where there may be interim falls in pupil numbers. The proposals also affected Special Education in requiring a more standardised funding system removing funding linked to lower value statements and a lesser role for Councils in commissioning high needs places with more involvement of the EFA. A report would go to Cabinet on 8th November outlining the funding methodology which would be sent to the EFA.

- The Public Health functions of the PCT would transfer to the Council from April 2013. Under current proposals the Council would receive a grant of around £7.3m for functions on which the PCT currently spends £10.4m. The Council's approach would be to spend within the ring-fenced grant and it was felt that this was manageable particularly if transitional arrangements were put in place. There were continuing pressures relating to the transfer of costs from the PCT to the Council from the withdrawal of Continuing Healthcare (CHC) funding. One-off payments had been made to the Council to offset additional costs but this was not a long-term solution. Cllr. McClements emphasised the huge drop in the level of CHC funding in Telford & Wrekin over the last 4 years. Expenditure in Shropshire had been double that in Telford & Wrekin up to 6 months ago, but the level had now been scaled back to the same as Telford & Wrekin and it was felt that the funding had been moved elsewhere. There was a risk that the current application of the funding mechanism would become embedded and would disadvantage Telford & Wrekin over future years. There was a DoH toolkit for the application of CHC funding and the Audit Commission had identified significant differences in what PCTs spend. The Scrutiny Officer reminded members that the Health & Adult Care Scrutiny Committee was looking at the issue of CHC and the result of this work would be reported back to the Budget & Finance Scrutiny Committee.

- Additional savings proposals identified for 2013/14 were shown in Appendix 1 of the report. As mentioned previously there was a great deal of uncertainty about the finances and planning totals for next year. The economy had not recovered as quickly as hoped and there was an assumption that local authorities would continue to bear the burden of rebalancing the finances and work continued to find savings.

- The Community Engagement Equalities and Action Manager gave an update on the equality impact assessments, consultation and communication relating to the additional savings proposals which was described in the main body of the report and in a separate briefing note. There had been widespread consultation on the three year budget proposals in 2011/12 so this did not need to be repeated. The approach this year had three elements:
  - Equality Impact Assessments and / or targeted service user engagement proportionate to individual proposals. Each proposal was evaluated to decide what was required so that resources could be focused on proposals which would have a more significant impact.
  - A broad communications strategy focussing on key messages about the Council's budget position and approach to managing the budget

- Contingency for further consultation in January should the Council's settlement in December be worse than anticipated and more new savings are needed. £7.5m of savings had been identified in the report which went to Cabinet in September to meet savings target for 2013/14, but if, for example, the settlement in December was £6m less than expected there would need to be consultation on the £6m new savings.

- The Chancellor had announced £270m of funding for Councils to freeze Council Tax and a requirement for a referendum for Councils planning an increase above 2% in 2013/14. Further detail was awaited in the autumn statement.

- In previous years Cabinet had agreed the budget proposals before Christmas but this year it was quite likely they would be not be agreed for consultation until January dependent upon the date that the settlement is received.

Members asked questions and discussed a number of issues raised in the briefing.

- Cllr. Stanton wanted to know how the "disproportionate benefit" had been defined as a cap for the retention of business rate growth. The Finance Manager explained that the level is set so that Councils cannot benefit by more than 1% p.a. above the baseline funding level. The additional money would be retained in the system and used to fund the safety net for authorities experiencing in-year fluctuations in business rates. If the borough lost a key business the Council's yield would drop but the safety net would not be triggered until rates fell to 7.5%-10% below the baseline funding level and the Council would need to fund the gap which could be as much as £5-6 million.

- Cllr. Lawrence asked if the Council had done a breakdown of businesses in the borough to analyse the risks/opportunities around business rates. Cllr. McClements agreed this was a good idea and if a list did not already exist it would be put together. Cllr. Lawrence also wanted to know what the Council is doing to target large businesses to discuss how their needs can be supported to ensure they remain in the borough. Cllr. McClements said there had been government lobbying to support the retention of the MOD in Donnington and to promote the message out that it was cheaper to build and expand in Telford.

- Members wanted to know with the system of tariffs and top-ups to equalise the start position between authorities, whether Telford & Wrekin would be in a tariff (i.e. collect more than assessed as needing) or top-up (i.e, collect less than assessed as needing) position. Cllr. McClements thought that the Council would be in a top-up position and as this would be set to 2020 it was necessary to drive business growth to generate income. The components of the scheme are very complex and the final position would not be known until December but it was unlikely that the Council would be better off.

- Cllr. Lawrence said that growth would be very important going forward and Cllr. McClements also pointed out that the funding for the New Homes Bonus scheme was set aside from the balance of funding from business rates before the balance is re-distributed to local authorities as revenue support grant. This meant that authorities needed to build above the national average rate to benefit from the funding scheme. If the Council builds below the national average there would be a net loss.

- Cllr. Sloan said that Telford & Wrekin had done well from public sector employment but there would be an inevitable scaling back and authorities who were more reliant on the public sector jobs with less private sector growth potential would be disadvantaged. He was disappointed that the original incentives to encourage growth had been dampened under the proposed scheme. Cllr. Lawrence said if the public sector is shrinking, the emphasis should be on growing the private sector. Cllr. McClements said that in Telford & Wrekin manufacturing accounted for 18.6% of the economy compared to 10.1% nationally but there was still a lot of social deprivation and wages in the borough were below national averages. The public sector in Telford & Wrekin accounted for 26% of the economy which was below the national average.

- Cllr. Sloan said he had supported the concept of driving out savings through procurement but was concerned about the pace and whether the projected £2.1m savings were on target. Cllr. McClements said there had been a lot of procurement activity and some issues of double-counting had been ironed out. It was difficult to show savings through procurement when services changed and were re-tendered and there was an element of judgement involved but attempts were made to categorise the reason for the saving in the budget proposals.

- There was a further question about whether the Council has the right skills in-house to deliver the savings and Cllr. McClements said that two extra posts had been created as an Invest to Save investment to bring extra resource and key skills to procurement.

- The Chairman asked about the Equality Impact Assessments and service user engagement on the additional savings proposals and whether it was sufficient to avoid as far as possible the risk of challenge and Judicial Review. The Community Engagement Equalities and Action Manager said that challenges were usually made when the impact of changes on groups with protected characteristics had not been adequately assessed and the Council's approach was to carry out targeted engagement on specific proposals with service users and affected groups – sometimes a small cut can have a significant impact on a small number of people.

The Cabinet member and officers left the meeting at the end of the discussion.

Relating to the table "Savings Proposals by Type" in Appendix 1 members felt it was confusing for people not used to reading financial spreadsheets to have "income" shown as a saving and this should be explained in future reports.

BFSC-10 <u>WORK PROGRAMME</u>

Members of the Budget & Finance Scrutiny Committee had been invited to other meetings where items of interest were being discussed to avoid duplication of work and the Chairman invited feedback from members who had attended these meetings.

- Children & Young People Scrutiny Committee, 18th September
  The Scrutiny Officer reported that the discussion on value for money of children in care placements had been deferred until 5th November and members were invited to attend.

- Audit Committee, 25th September
  The Chairman, Cllr. Evans and Mr. Roy Williams had attended for the item on Capital Receipts. The item had been held in closed session as it involved the likely disclosure of exempt financial information. Mr. Williams said that the information had been provided in a clear and open fashion, but felt that the Budget & Finance Committee should continue to monitor this as it was a high risk issue for the Council.

- Co-operative & Communities Scrutiny Committee, 11th October
  The Chairman, Cllr. Mollett and Mr. Roy Williams had attended a presentation on the proposed Council Tax Support scheme. Mr. Williams said the presentation had been very good and that it was difficult to see any room for manoeuvre with the proposals because reducing the cuts for one group of people would mean another group paying more. Cllr. Sloan was concerned about the cost of administration and bureaucracy of each authority having its own scheme and about the potential impact on collection rates which must be closely monitored. The Chairman was concerned about the enforcement of the empty property tax. The Chairman said it had been agreed that a joint meeting of the Co-operative & Communities and Budget & Finance Scrutiny Committees would be held on 23rd October to agree a response to the proposed scheme.

The date of the next meeting on 18th December was noted. It was agreed that if the 2013/14 full budget proposals had not been approved by Cabinet by this date which was unlikely, the Committee would look at the additional savings proposals already published and a report on the changes to schools funding.

The meeting ended at 7.30pm.

Chairman:..

Date:..

TELFORD & WREKIN COUNCIL **CABINET - 8 NOVEMBER 2012** **APPROVAL OF A NEW FUNDING FORMULA FOR TELFORD & WREKIN MAINSTREAM SCHOOLS** **REPORT OF THE ASSISTANT DIRECTOR, EDUCATION, CULTURE & SKILLS** **LEAD CABINET MEMBER – COUNCILLOR PAUL WATLING**

PART A) – SUMMARY REPORT

1. PURPOSE

1.1 In March 2012 the Department for Education (DfE) published the document "*School Funding Reform: Next steps towards a fairer system*". This outlined a number of changes affecting school funding, including the requirement for Local Authorities to revise their local funding formula for schools. The new formula for mainstream schools must only include the more limited range of funding factors allowed under the new arrangements.

1.2 The new formula needs to be submitted to the Education Funding Agency by 31 October 2012. Telford & Wrekin's formula will be submitted (as is allowed) subject to cabinet approval on 8 November. There are other funding changes which will effect special schools and Pupil Referral Units (PRUs) but these are not subject to the 31 October deadline and will be the subject of a future report.

1.3 This report seeks Cabinet approval for the proposed new funding formula for Telford & Wrekin mainstream schools.

2. RECOMMENDATION **2.1 That the proposed new funding formula for Telford and Wrekin mainstream schools, to take effect from April 2013, be approved.**

3. SUMMARY IMPACT ASSESSMENT

IMPACT ASSESSMENT AT A GLANCE		
COMMUNITY IMPACT[1]?	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	By ensuring that, as far as is possible schools receive fair funding for their pupils, this supports the objective to Improve achievement and attendance at all key stages.
	Are there any measures that will be used to show the proposals are making a difference?	
	Yes	Sustaining as much financial stability for schools as is possible within the new requirements.
	Will the proposals impact on specific groups of people?	
	Yes	Children, young people, parents and the wider community served by schools.

TARGET COMPLETION /DELIVERY DATE?	The new funding formula will take effect from April 2013. Details of the new formula have to be provided to the Education Funding Agency (EFA) by 31 October, but ours will be provided on the basis of being 'Subject to Cabinet approval'.	
FINANCIAL (VALUE FOR MONEY) IMPACT?	Yes	The new funding formula redistributes funds between schools as discussed in the report below.
LEGAL IMPACT?	Yes	The new arrangements have to comply with the new School Finance Regulations.
OTHER RISKS & OPPORTUNITIES?	Yes	The national Minimum Funding Guarantee, currently set at minus 1.5% per pupil, offers schools protection from significant losses of funding per pupil as a result of formula changes. However, no such protection is available for losses of funding in individual schools arising from reductions in pupil numbers. As a result, some of T&W's secondary schools, with large reductions in pupil numbers, will experience large reductions in funding in 2013/14 and subsequent years. More detail is provided in Section 9 of this report.
IMPACT ON SPECIFIC WARDS?	Yes	The new formula will affect all schools, including academies, with the exception of nursery schools, special schools, Thomas Telford school and independent schools and so will impact upon all Wards across the Borough.

4 SUMMARY

4.1 The DfE requires Local Authorities to implement a simpler funding formula for schools from April 2013. The DfE plans this to be the first stage towards a national funding formula for schools, to be implemented in the next spending review period (i.e. at some point in the period from 2015/16).

4.2 The DfE has set the rules for the new formula to ensure that it is predominantly pupil led and requires more delegation to schools.

4.3 The new funding formula affects how much of the total funding received by T&W is allocated to individual schools. The amount per pupil that is allocated to T&W via the Dedicated Schools Grant (DSG) is not changed by these proposals.

5 INFORMATION AND BACKGROUND

5.1 The new 2013/14 funding formula can only be based upon the the following factors:

1. *Basic per pupil allocation*
2. *Deprivation* – measured by eligibility for Free School Meals or the Income Deprivation Affecting Children Index (IDACI).
3. *Looked After Children*
4. *Low cost, high incidence SEN*
5. *English as an Additional Language (EAL)* - for no more than 3 years after the pupils enter the school system
6. *Pupil mobility* - relating to pupils who didn't start in school in September
7. *Lump Sum* - no more than £200,000 & the same lump sum must apply to all primary and secondary schools
8. *Split site allowance*
9. *Rates* - at actual cost

10 *PFI contracts*
11 *London Fringe factor* - not applicable to T&W
12 *Post 16 funding* - where LAs have used DSG to provide additional support for 6th Forms, not applicable to T&W
13 *Exceptional premises factors* – each has to be individually approved by the Education Funding Agency (EFA – a new DfE agency). T&W have applied for and had approved an exceptional funding factor for schools making significant financial contributions to joint use leisure centres.

5.2 Only 11 of the standard factors are therefore applicable for T&W schools.

5.3 The new funding formula must also include some funds previously held centrally by the Local Authority for the provision of services to schools. For T&W this amounts to £1.1m.

5.4 The national Minimum Funding Guarantee (MFG) will continue to apply for 2013/14 and 2014/15, which guarantees that no school can lose funding of more than 1.5% per pupil compared to the previous year. The DfE has also stated that the MFG will continue beyond 2014/15, although the rate has not been specified and this would clearly be subject to decisions made by a future government. Whilst the MFG offers funding protection at a pupil level the formula cannot be used to protect schools against losses arising from reductions in pupil numbers.

5.5 As part of the changes, the DfE are also making changes to the funding of SEN, with schools expected to pay for the first £6,000 of additional needs from their general budget. As a result, from April 2013, statements of up to and including 15 hours will no longer deliver additional funding to schools – instead the funding previously distributed in this way will be distributed via the formula factors identified under paragraph 5.1 above.

5.6 Pupil premium is outside the new funding arrangements. Pupil premium is allocated based on every pupil that has ever registered as eligible for free school meals at any point within the last six years, or is a looked after child, or comes from an armed forces family. Pupil premium will continue to increase as previously announced by the government – to £900 per eligible pupil in 2013/14 (from £619 in 2012/13) with a further increase in 2014/15. The exception to this is the armed forces premium which is currently £250 per eligible pupil.

5.7 Since March a number of different options for the new formula have been modelled. They have been discussed in meetings held since March with the Schools Forum (schools representative body with regard to finances), with the Forum's School Funding Formula Sub-Group and with all schools in two consultation processes, in May and September.

5.8 The formula recommended to Members seeks, as far as is possible within the new constraints, to offer budget stability to schools and to support those schools most financially vulnerable in forthcoming years. In order to go as far as is possible to achieve these aims we have:

- Chosen a relatively high lump sum, (£175,000 compared to the maximum allowable £200,000) as this offers the most stability to our smaller primary schools. With a smaller lump sum, in most cases they would experience the maximum allowable decrease under the Minimum Funding Guarantee (minus 1.5% per year for the next 2 years) and then a much greater fall if protection arrangements ceased or were loosened.

- Maintained a comparatively high ratio of funding between secondary and primary schools at over 1.4 compared to a national average, according to the DfE, of 1.27. The secondary sector and in particular specific schools within it, are losing significant funding due to reducing pupil numbers and a move towards the national average ratio would increase the financial pressures experienced in the schools.

- Maintained funding driven by deprivation at current levels. There was a strong feeling in some of our schools that any decrease risked undermining the impact of pupil premium funding.

- Included funding factors for split sites and English as an Additional Language (EAL) in order to recognise unavoidable extra costs for schools associated with these factors.

- Limited gains for any individual school to 2.5% per pupil, so as to create more funds to be available for other schools and reduce the differential between schools that gain under new arrangements and schools that will experience reduced funding.

5.9 The new funding formula has to be more pupil driven than previous arrangements, which is the clear intention of the DfE. For example, no funding based on premises is allowed, unless approved as an exceptional factor. The minimum funding guarantee, described in paragraph 5.4 above, offers protection to schools with stable pupil numbers, but not for reductions in pupil numbers. The result is that despite our desire for stability, and protection for schools with the most difficult budget circumstances, funding for individual schools increases or decreases based mainly on changes in pupil numbers.

5.10 It should be noted that schools receive funding that is outside the scope of these funding changes, namely early years funding, 6^{th} form funding, special units attached to mainstream schools and individual funding for high needs pupils. These sources of funding are not included in the prior year baseline or the modelled funding for 2013/14.

Additional Delegation of Funding to Schools

5.11 Schools are funded by the Dedicated Schools Grant (DSG). Under the new arrangements this will be split into three notional blocks: Schools, Early years and High Needs (covering SEN). Compared to now, £1.1m more of the Schools Block will need to be delegated to schools.

5.12 These newly delegated funds are currently used to support a number of services, including the Schools Catering service, the Multicultural Development Team, non home to schools transport etc. For some of these funds, the Schools Forum can decide to then de-delegate, i.e. return the funds to the Local Authority for central provision of services. Decisions on whether any of the funds will be de-delegated will be made at the Schools Forum to be held on 20 November.

5.13 In general, the implications of this change are that apart from historic commitments and statutory functions, any other central expenditure from the Schools Block will have to be explicitly agreed with the Schools Forum, rather than, as now, the agreement just being based around the proportion of the overall Schools Budget that is held centrally. Forum approval is by phase – so only primary members can agree for primary de-delegation, secondary members secondary de-delegation etc.

6 EQUALITY AND DIVERSITY

6.1 The new funding formula includes additional funding for pupils from deprived backgrounds, pupils with low prior attainment and pupils for whom English is an

Additional Language. It therefore aims to allocate funding as fairly as possible to schools taking into account the characteristics of pupils.

7 ENVIRONMENTAL IMPACT

7.1 There is no direct environmental impact from the proposed funding changes.

8 LEGAL

8.1 The DfE is issuing new Finance Regulations which will document the legal requirements for the new funding system for schools.

9 OPPORTUNITIES AND RISKS

9.1 The Authority has no choice but to implement a new funding formula which is compliant with the new Regulations.

9.2 However, there is a risk that because the new funding formula has to be more pupil led than previously, it does not support a planned approach to the provision of school places. The DfE's view that successful schools should be able to expand underpins the allowable factors in the new formula and potentially creates problems for other schools that contract. Schools with reductions in pupil numbers will feel a stronger financial impact of this, just as expanding schools will experience a larger increase in funds.

9.3 The requirement for more delegation does place more emphasis on trading with schools and could more fully expose services to the open market.

10. FINANCIAL IMPLICATIONS

Schools

10.1 The re-distributive impact of the new funding formula in 2013/14 is limited on a per pupil basis to between minus 1.5% (by the national Minimum Funding Guarantee) to +2.5% (a proposed cap within the local funding formula).

10.2 Some schools experience much more significant changes in funding in 2013/14, but these are driven by changes in pupil numbers. Even after the MFG, modelling suggests that funding changes will range from -10% to plus 13% in the secondary sector and from -4% to +17% in the primary sector

10.3 In the longer term, more schools will experience significant changes in funding, as the cumulative impact of MFG reductions take effect. Some primary schools, would experience large losses without MFG protection. In some of these cases, this is a continuation of existing protection provided in the current formula and in that sense is not a new issue.

10.4 It should also be noted that:

- It is the DfE's stated intention is implement a national funding formula for schools in the next spending review period, which would replace local formulas;

- In a recent letter date 10 October 2012, the DfE have also stated their intention to continue with national MFG protection beyond 2014/15, as follows: "*Although we cannot give an exact figure for the Minimum Funding Guarantee in future years until after the next spending review, we can reassure you that a Minimum Funding Guarantee will continue to operate, in order to offer protection against unmanageable falls in school budgets*."

- In the same letter the DfE have also promised to “*carry out a careful review in early 2013 of the impact of simpler funding formulae*” in order to “*advise ministers on making any necessary adjustments to avoid unacceptable consequences for schools.*”

10.5 Because of the first two points in particular, for some schools it is doubtful whether they will ever reach the point of being allocated the budget that they would receive in 2013/14 if there was no protection. MFG protection seems likely to continue up to the point that a national funding formula (or change of policy from a future government) takes effect.

10.6 From an LA perspective, the requirements for additional delegation means that services provided to schools, unless related to core provision (for example SEN) will need to move to a more fully traded basis.

11. WARD IMPLICATIONS

11.1 There are implications for the all the wards in T&W as the funding changes affect all maintained primary and secondary schools and academies.

Background Papers

Minutes of the Schools Forum meetings held on 16 May, 12 July and 19 September
http://www.telford.gov.uk/info/100005/education_and_learning/279/schools_forum/2

DfE, March 2012, ‘School Funding Reform: Next steps towards a fairer system’

DfE, July 2012, ‘2013/14 Revenue funding arrangements: Operational guidance for Local Authorities’

Letter from Sarah Healey (DfE) to Local Authorites dated 10 October 2012

http://www.education.gov.uk/schools/adminandfinance

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18 October 2012

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% below 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 <u>Education Funding.</u>

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.

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