

Cabinet
16 September 2010**12. MONEY MATTERS****Relevant Cabinet Member**

Mr A I Hardman

Relevant Officer

Interim Director of Financial Services

Recommendations

1. **The Cabinet Member with Responsibility for Finance recommends that his conclusions be endorsed concerning:**
 - (a) **budget monitoring up to 31 July 2010 and revised cash limits (Section 1);**
 - (b) **the need to recommend to Council that the Capital Programme be updated (Section 2);**
 - (c) **National Indicator 179 Value for Money Gains (Section 3);**
 - (d) **CLG consultation paper on Local Government Finance Formula Grant Distribution (Section 4); and**
 - (e) **DfE consultation on school funding 2011-12: Introducing a Pupil Premium (Section 5).**
2. The further development of the government's policy towards public spending will be announced on 20 October. Precise figures for the Council will be announced in the provisional local government financial settlement which is expected in late November or early December. However, it was reported to Cabinet in July that following the government's announcement in May to reduce grant funding in the current financial year it would be necessary to adjust Directorates' operating cash limits to reflect the new funding regime, including the government's decision not to commence the provisions of the Personal Care at Home Act.
3. The Directorate revenue cash limits for the current financial year have been adjusted to reflect these changes and a revised estimate for 2010/11 is shown in the attached Appendix.

Budget Monitoring and Revised Cash Limits for 2010-11 (Section 1)

Capital Programme update (Section 2)

4. The Adult and Community Services budget continues to require careful budget management with the key areas of cost pressures being Learning Disabilities Residential Care and Older People's external and internal home care. The measures being taken to ensure a balanced budget in 2010/11 include the one-off use of ACS reserves.
5. Treasury management operations continue to indicate that there will be a favourable variance this year in the region of £0.5 million.
6. Other Directorate budget pressures are being managed within the revised cash limit together with one-off use of Directorate reserves in accordance with Financial Regulations.
7. The Cabinet Member with Responsibility for Finance concludes that the Council should be asked to approve the revised cash limits for 2010/11.
8. The cessation of the Building Schools for the Future (BSF) programme by the coalition Government on 5 July necessitates the removal of this project from the Capital Programme.
9. The Programme will therefore be reduced by the £124 million approved funding from BSF capital grant. Members will be aware that the Council had previously earmarked £18 million of its own funding for the Wyre Forest Special School. This will remain within the approved Programme.
10. The Government have also announced that the following capital grants are being cut in 2010/11:

	£000
<u>Environmental Services</u>	
Integrated Transport	-1,330
Detrunking Roads (A449)	-430
Road Safety	-260
<u>Children's Services</u>	
Harnessing Technology	-1,020
Extended Schools	-226
Youth Capital	-122

11. The Capital programme should be updated to reflect these changes and that will require formal approval of the County Council.
12. The Council's performance against National Indicator 179 – total net value of ongoing cash releasing value for money gains that have impacted since the start of the 2008-09 financial year – was submitted to the official Data Interchange Hub by the deadline of 23 July. The Council

National Indicator 179 Value for Money Gains (Section 3)

CLG consultation paper on Local Government Finance Formula Grant Distribution (Section 4)

reported cumulative gains of £15.483million. This comprised gains in 2009/10 of £6.757 million, exceeding the forecast of £6.007 million made in October 2009; together with on-going gains from 2008/09 of ££8.726 million. Cumulatively, this represents 5.1% of 2007/08 baseline expenditure.

13. On 28 July 2010, the CLG issued a consultation document entitled '**Local Government Finance Formula Grant Distribution**'. The full version can be found on the CLG web site: -

<http://www.local.communities.gov.uk/finance/1112/sumcon/index.htm>

14. Respondents are requested to complete a consultation response form. This contains 25 questions on options for grant distribution changes that could be introduced for the next settlement period commencing April 2011. There is no indication in the consultation paper how many years this will cover. The changes are described mainly as looking to update and fine tune the existing system, rather than a full system review. The response should answer the specific consultation questions and comment on issues raised by the CLG. It makes clear that the components of the new system may not be necessarily drawn from the list in the consultation paper and the Government have stated they would welcome any alternate proposals.

15. The consultation closes on the 6 October 2010. Ministers will then make decisions on the proposed changes and the provisional announcement is expected during November/December 2010.

16. The Government draws attention to the fact that the proposals do not prejudice the outcome of the Spending Review.

OPTIONS FOR CHANGE AND EXEMPLIFICATIONS

17. The CLG consultation paper includes options and exemplifications of gains and losses which for local authorities cover the areas described below. The options have been exemplified by re-running the 2010/11 settlement as though the particular option had been in place. Gains and losses in formula grant exemplified for the Council (WCC) are BEFORE the operation of the floor damping.

a) Area Cost Adjustment (ACA)

- Changes to the proportions attributable to the Labour Cost Adjustment. The Council gains £2.3m.

b) Taking account of Relative Needs and Resources and the Scaling Factor for the Central Allocation Block

- Two options for whether there should be a further judgemental change in the extent to which the system takes account of needs or resources. The Council loses £1.4m or gains £0.4m.

c) Floor Damping

- Views sought on whether the floor level should be set close to the average change for fewer formula changes to feed through, or set further from the average which will affect authorities above the floor. No exemplification.

d) Options to update/replace various indicator data

- These options are proposed mainly due to the original indicator data no longer being available requiring new indicators to be developed or more relevant and up-to-date sources of data becoming available. In most instances (5) these changes result in losses for the Council of around £0.5m in total. In addition there is one significant loss estimated at £1.2m (day visitor indicator replaced by foreign visitor night indicator) and one significant gain of £1.1m where the Children of Income Support Claimants indicator is replaced with the children of out-of-work families receiving Child Tax Credit indicator.

e) Transfers of Responsibilities for Functions

- Options on the method of transferring funding for Concessionary Fares from District Councils to County Councils (or lower-tier EPCS block to upper-tier EPCS block). Not all options have been exemplified.

f) Other Areas

- Changes relating to the Police and Fire distribution systems have also been proposed. Since the introduction of the 4-block model these changes also result in changes to levels of grant for authorities other than Police and Fire authorities. The Council's settlement is affected by between a loss of £0.4m to a gain of £0.1m for the fire exemplifications and very small changes for the police exemplifications.
- Option for changing the council taxbase for student exemptions. The Council loses £0.2m.

KEY RESPONSE ISSUES

18. The general principles which the Council's response for distributing formula grant will adhere to are:

- Predictability and stability of grant settlements are both important and should be considered when changes are proposed.
- The latest available and most up-to-date data should be used wherever possible. Support will be given to all options for more sound and updated data. In cases where this leads to significant volatility, it may be necessary to use an average of several years for stability.
- Any changes to the grant distribution formula relating to a particular function should only affect authorities that have a responsibility for that particular function.
- A basic entitlement for each service should be the starting point in any formula calculation and this should be set at a realistic and adequate level to cover basic need.
- Use of judgement should be kept to a minimum. Where it is used there should be transparency regarding its use and the information used to inform that judgement.

a) Area Cost Adjustment

- This has been an area where in the past the Council has argued vigorously for change. Unfortunately, despite much work by local authorities at the Settlement Working Group meetings, only one change is proposed relating to how the proportion of labour costs regarding contracted out services is calculated. The change involves a reduction in the use of judgement in this calculation to the use of data from company accounts and as such is supported.

b) Resource and Needs Equalisation

- The grant distribution system takes into account an authority's ability to raise council tax income and its level of need. The Government has the ability, therefore, to alter the amount of funding it directs towards authorities with higher needs or towards authorities with a poorer ability to raise council tax. This process has the potential to move substantial amounts of funding amongst individual authorities.

- As in previous Formula Reviews the Government's principles for performing equalisation have not been published and therefore a technical response is difficult. The rationale needs to be transparent and not set by judgement unsupported by evidence. No changes should be made until sound principles of equalisation have been established and evidence produced to enable appropriate calculation.

c) Floor Damping

- There is a floor mechanism operating on the overall grant total where a grant floor is set to ensure stability in the funding of local services and tops up the formula grant calculation guaranteeing that a local authority will not receive grant below the floor increase. The floor is self-financing and is paid for by scaling back the grant increase of authorities above the floor.
- If a needs based formula is to be used for allocating grant, then it must be the aim that authorities should receive the full entitlement as reflected through the formula. However the speed with which authorities can change spending levels or their ability to increase the council tax to offset the loss of grant must also be considered. With the current level of dependence by many authorities on the floor and the continued use of capping it would not be practical to remove the floor mechanism completely.
- The best method for achieving the aim of using the grant formula as designed is by a gradual tapering of the floor over the settlement period, which would allow authorities more time to plan for any change in grant funding.

d) Concessionary Fares

- The existing Concessionary Fares scheme offers free concessionary bus travel anywhere in England for people aged 60 and over and disabled people.
- From 1 April 2011 responsibility for concessionary travel in two-tier areas will move from the district councils to the county councils. The CLG are treating this transfer of funding as two separate transfers; one removing funding from lower-tier EPCS (district councils) and the second adding the funding into upper-tier EPCS (county councils).
- Since 2008/09 the Concessionary Fares scheme has been part funded by a Specific Grant. The Government are proposing that this Specific Grant is rolled into the local government finance settlement.

Consultation on School Funding 2011-12: Introducing a Pupil Premium (Section 5)

- A decision on how much funding for Concessionary Fares is to be put into the grant distribution will be made during the Spending Review. For exemplification purposes the estimated expenditure on the function in 2008/09 has been used.
- Only some of the options proposed have been exemplified to date although more have been promised and some of the original exemplifications have been revised. It is therefore difficult to form a complete technical response at the moment. The Council's response will support the fair treatment of the Worcestershire area and the logical approach that taking on a function results in an increase in funding not a loss (as shown in some exemplifications).

19. The Interim Director of Financial Services recommends that he completes a detailed response to the questions in the Formula Grant Distribution consultation paper in line with his assessment of the key areas outlined in this report.

20. On 26 July 2010 the Department for Education (DfE) issued a further school funding consultation document for 2011-12. The full details are available on: -

<http://www.education.gov.uk/consultations/>

21. The main key aspects raised include:

- The introduction of a pupil premium from September 2011 to be funded from outside the Dedicated Schools Grant (DSG) to support disadvantaged pupils and potentially for looked after children and service children.
- Confirmation of the requirement to introduce an Early Years Single Funding Formula from April 2011 and potential changes to early years' pupil count arrangements.
- Confirmation of the retention of the "spend plus" methodology for the national allocation of the DSG for 2011-12.
- Proposals for some mainstreaming of some specific grants for schools into the DSG from 2011-12.
- Consideration of potential pupil count changes for pupils in pupil referral units, service children and home educated pupils.
- Confirmation of the continuation of a Minimum Funding Guarantee (MFG) for individual school budgets.

22. The consultation closes on 18 October 2010 and the DfE are aware that this includes the summer break but have advised they are unable to extend the deadline for responses as there needs to be sufficient time for the calculation of local authority and school budgets.

23. The DfE intend to give indicative DSG allocations for 2011-12 to LA's and to announce the level of the pupil premium for each LA, in November or early December, following the Comprehensive Spending Review announcement on 20 October 2010.

24. In terms of funding for 2012-13 onwards, the Government's intention for the longer term is to bring in a simpler and more transparent funding system. They advise that this should help reduce the funding differences between similar schools in different areas. The DfE will work with key partners to consider how best to bring this about.

25. All these issues will be considered by the Worcestershire Schools Forum (WSF) at its scheduled meeting on 8 October 2010.

26. Given the national timescales for the consultation it is not possible to consider the formal response at the October 2010 Cabinet meeting as this is after the deadline for responses. Therefore it is recommended that consideration and approval of the response to the consultation is delegated to the Cabinet Members with Responsibility for Children and Young People, and Finance, in consultation with the Director of Children's Services, the Interim Director of Financial Services and the WSF.

Supporting Information

Contact Points

- **Appendix – Revenue Budget Summary 2010-11**

County Council Contact Points

Worcester (01905) 763763, Kidderminster (01562) 822511 or Minicom: Worcester (01905) 766399

Specific Contact Points

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Martin Finch, Head of Financial Practice and Standards,

Background Papers

01905 766510, email mfinch@worcestershire.gov.uk

In the opinion of the proper officer (in this case the Interim Director of Financial Services) the following are the background papers relating to the subject matter of this report:

1. Annual Budget Papers for 2010-11
2. Cabinet reports dated 7 May 2009, 6 July 2009, 17 September 2009, 2 November 2009, 17 December 2009, 8 February 2010, 8 March 2010, 19 April 2010, 27 May 2010 and 1 July 2010.