

## Technical Commentary

### Council Tax Raised.

This section shows the projected changes in the amount of Council Tax raised, there are a number of factors influencing this.

In 2012-13 the cost of Council Tax benefit is met from a ring fenced 100% grant. The move to Council tax Support will involve a significant number of claimants who are currently 100% funded needing to make a contribution in future. In recognition of the difficulties in collecting Council Tax from this group a 1% reduction in the overall collection rate is proposed.

There have been approximately 650 additional band Ds added to the taxbase, offsetting the increased loss on Collection.

The MTFS approved in February assumed that there would be a 2.5% Council Tax increase in 2013-14 and 2014-15. This indicative assumption has been revised down to 2% in accordance with the Government's cap before a referendum is required. The eventual Council Tax proposed is however heavily dependent on the Local Government Finance Settlement, which is not known at the time of writing.

### Collection Fund Surplus

A report on the Collection Fund surplus is being considered elsewhere on this agenda. The surplus for 2012-13 indicated in that report, to be applied in 2013-14 is £1,045k. This is a reduction of £290k on the surplus applied in 2012-13 but an increase on that indicated in the Feb 2012 MTFS of £545k.

Given the anticipated collection difficulties following the introduction of the Council Tax Support Scheme it is proposed to reduce the anticipated surplus included in the MTFS to £500k in 2014-15 and then zero from 2015-16. The figures will be revised in the light of actual performance in each year.

### Capital Financing Costs

Capital Financing costs have been calculated based on the existing Capital Programme approved in February 2012 and quarter 2 monitoring of the 2012-13 programme. The growth in financing costs reflects changes arising from the following causes:

- The later receipt of the proceeds of asset disposals than assumed in February 2012.
- Slippage in the Capital Programme.
- more pessimistic interest assumptions in relation to the delay in the recovery of the economy which reduces interest received on deposits but has little impact on borrowing costs.

### Grant Changes

The number of grants that the Council receives will significantly reduce from 2013-14. This is because they are being rolled into Formula Grant. In some case there are also distributional changes occurring and reductions at a national level. The main grants with significant reductions are Formula Grant, Early intervention Grant and Council Tax Benefit.

Overall Grants are anticipated to decrease by £8.5m in 2013-14 in cash terms compared to the MTFS with further reductions in subsequent years. It is likely that there will be a 2 year finance settlement in December but with little certainty for future years, although the outlook is challenging.

### Grants Being Rolled into Formula Grant

The following is a list of Grants being rolled into Formula Grant in 2013-14.

Grant	2012-13 Allocation £000
Early Intervention Grant	-8,544
Lead Local Flood	-175
Learning Disability and Health Reform	-4,395
Homelessness Prevention Grant	-600
Total	-13,714

### Formula Grant and Business Rates Localisation

This line takes account of Formula grant and the transition to the business rates retention scheme. It has been assumed that the impact formula and data changes have on formula Grant will be broadly neutral, based on consultation papers issued by the Government. The additional grant resulting from recognising Harrow's increased population will be offset by changes that give a greater weight to sparsity. The underlying reduction in rateable value has been assumed to continue at -1%. The substantial increases from major developments in the pipeline are anticipated to be outside the timescale of the MTFS. It should also be borne in mind that when they do occur 70% of the benefit will go to the Government and the GLA. Formula Grant is estimated to increase by £19.8m in 2013-14 compared to 2012-13 but this is a reflection of the grants transferred in to Formula Grant.

### Early Intervention Grant

The budgeted grant in 2012-13 is £8.544m. At the same time as this grant is rolled in to Formula grant there is also a significant reduction in the level of Grant the Government is proposing to give authorities. The funding taken from local authorities is being used to fund the government's 2 year old offer. At a National level the level of Grant is being reduced from £2.370bn in 2012-13 to £1.726bn in 2014-15 and £1.632bn in 2014-15. Given that Harrow's share of the national total is approximately 0.36% this translates to grant reductions of £2.3m in 2012-13 and a further £0.8m in 2014-15. This reduction has been reflected in the estimate of Formula Grant. There is a small offsetting corresponding reduction in Council spend of £314k arising from schools becoming responsible for the 2 year old offer in 2013-14, however the balance of grant reduction of £2.8m represents growth for the Council.

### Council Tax Support Grant

This is a new grant consequent on the introduction of the localisation of Council tax benefits. Unlike previous years this grant is not credited to the Collection Fund but to the General Fund and is expected to be part of formula Grant. The indicative notification for Harrow as part of CLG's consultation in May 2012 was £14.073m. This indicative allocation has been reduced by 10% compared to the 100% funding under the current scheme. Following the Government's announcement of a Council Tax Freeze grant for 2013-14 it is possible that the indicative indication will be further reduced, but this has not been factored in at this stage. The allocation is subject to confirmation, which is anticipated November / December.

	2013-14	2014-15	2015-16	2016-17
	£000	£000	£000	£000
Existing MTFS	0	0	0	0
Proposed	-14,073	0	0	0
Change	-14,073	0	0	0

### **New Homes Bonus**

This grant rewards authorities for new build and for net homes brought back into use. There is also an addition of £350 for each affordable home built. The data is largely based on the CTB1 form as at October each year but also affordable homes built in the last financial year. Each year's allocation is payable for 6 years.

The projections of grant below are based on 723 new homes in 2012-13, based on near final data and then a more cautious figure of 353 new homes per year.

	2013-14	2014-15	2015-16	2016-17
	£000	£000	£000	£000
Existing MTFS	-650	-530	0	0
Proposed	-1146	-591	-525	-525
Change	-496	-61	-525	-525

### **Council Tax Freeze Grant 2012-2013**

This grant was made in 2012-13 to enable Council Tax to be reduced by 2.5%. This was a one off grant and so gives rise to growth of in 2013-14 of £2.608m growth.

### **PCT Funding**

This is funding that is paid to the PCT in the first instance and there is an agreement to pay this to the Council. Harrow receives £2.497m in 2012-13 and the changes to this are set out below. The future after 2014-15 is not certain, however the risk around this funding is captured as part of the Formula Grant assumptions.

	2013-14	2014-15	2015-16	2016-17
	£000	£000	£000	£000
Existing MTFS	-546	233	0	0
Proposed	-546	233	0	0
Change	0	0	0	0

### **Community Safety Grant**

This grant is paid to the Mayor of London who subsequently distributes it to boroughs and the police. The grant has declined as part of the coalition's deficit reduction proposals, however Harrows share declined a further £50k in 2012-13 when grant anticipated to be directed to Harrow was redirected to the police. The projected grant to be received from 2013-14 is £62k after the changes shown below. This is not confirmed and it is not anticipated that confirmation will be received until 2013. There is therefore some risk that the assumption of a remaining grant of £62k might not be achieved.

	2013-14	2014-15	2015-16	2016-17
	£000	£000	£000	£000
Existing MTFS	48	0	0	0
Proposed	98	0	0	0
Change	50	0	0	0

### **Freedom Passes**

The cost of Freedom Passes is met by a levy on London Boroughs to cover the cost of the scheme for their residents. In 2012-13 the levy is £8.3m. The distribution is mainly on the basis of oyster card data averaged over a 2 year period. The main driver for increases is the level of fares set by the mayor. In recent years increases have tended

to be higher than either RPI or CPI and initial indications received from London Councils are that there will be a 5.5% increase for 2013-14. For future years a 4% increase has been assumed as the increase in fares tends to exceed other inflation indicators.

	2013-14	2014-15	2015-16	2016-17
	£000	£000	£000	£000
Existing MTFS	300	300	0	0
Proposed	500	350	360	370
Change	200	50	360	370

### **Contribution to provision for litigation**

There is a base budget contribution of £425k, which the existing MTFS planned to increase to £500k. A review of the current level of likely provision required indicates that it is not necessary to increase the contribution further.

### **Contribution to insurance provision**

Harrow maintains an insurance provision in order to facilitate self insurance, which is cheaper than external insurance, although needs to be set against the risk carried. The existing contribution to the insurance provision is £1.5m, and the balance on the provision was £6.1m at 31 March 2012. This matched the value of outstanding claims. The advice of the actuary is that we should increase the annual contribution to £1.8m. The planned increase of £300k would take the annual contribution to £1.8m.

### **Reduce reliance on capitalisation**

The Council has been reviewing the way costs are split between capital and revenue in line with best practice and has had a programme to transfer recurring costs to revenue. £1m is required to complete this exercise, and is not anticipated that any further transfers will be required after 2013-14.

### **Print Contract Costs**

A one off budget of £421k was provided for the end of contract costs of the main Annodata contract in September 2012. This budget will no longer be required in 2013-14.

### **Pinner Road Costs Prior to Disposal**

A £10k budget was provided in 2012-13 for the anticipated costs incurred on the building prior to its disposal. This budget will no longer be required in 2013-14.

### **Change in SSC Charge to HRA**

As the total cost of providing support services reduces the amount charged to the HRA will also reduce. Work is still taking place on updating SSCs, however it is estimated that this will reduce by £150k in 2013-14 and a further £150k in 2014-15.

### **Budget Planning Contingency**

Given the uncertainties facing the Council and the limited knowledge currently available in relation to many of them, directorate proposals inevitably are not completely comprehensive in relation to future years. This provision makes allowance for this. For 2013-14 this budget will be removed on the basis that the growth and budget pressure proposals remove the need for this. For future years there is a provision of £3m p.a. to allow for as yet unidentified growth.

### **Contingency**

There is a base budget of £1m for contingency items. It is proposed to add a further £1m in respect of the additional financial uncertainties the Council faces in 2013-14, including in relation to Welfare Reform.

## Pay and Inflation

### Pay Award

The existing MTFS provided for 2% pay awards p.a. The Government has announced a public sector pay policy of 1% p.a. for 2013-14 and 2014-15. This has been reflected in the figures below, returning to 2% p.a. from 2015-16.

### Employers pension contributions

The current employer contribution rate is 19.10%. This has been increasing at the rate of 0.25% p.a. in order to address the fund deficit over a period of years. The next revaluation is due at 31 March 2013 with any changes as a result of this starting in 2014-15. Initial discussions with the actuary indicate that the financial position of the pension fund has deteriorated for the following reasons

- The new scheme not delivering the expected savings for the fund.
- The cost of accrual increasing due to the falling gilt yields (and therefore discount rate); and
- Deficit repair contributions increasing to meet the widening funding gap.

It is clear that higher contributions than previously planned will be required from 2014-15 and an assumption has been made that employer contributions will increase by 0.5% p.a. from 2014-15, however there is a risk that the increase required will be higher.

	2013-14	2014-15	2015-16	2016-17
	£000	£000	£000	£000
Existing MTFS	200	200	0	0
Proposed	200	400	400	400
Change	0	200	400	400

### Ending of contracted out NI rebate

The Government signalled in the March 2012 budget that the contracted out rebate would end in 2015-16. This is the discount given to employers and employees where employees are members of pension schemes. The estimated cost of the loss of the employer discount is £1m.

### Prices Inflation

Prices inflation has been provided at 2% p.a. As at October 2012 CPI stood at 2.7% and RPI 3.2%.

The actual inflation suffered on individual spending areas will vary from this either up or down depending on market pressures. Where inflation is more than 2% directorates will manage expenditure to keep within the funding available, primarily by negotiating prices down.

	2013-14	2014-15	2015-16	2016-17
	£000	£000	£000	£000
Existing MTFS	1,810	1,810	0	0
Proposed	1,810	1,810	1,810	1,810
Change	0	0	1,810	1,810

### **Gas and Electricity**

Gas and Electricity increases above 2% are anticipated and an allowance has been made of 10%.

### **National Non Domestic Rates**

Business rates vary in line with RPI and £17k has been allowed for the excess over 2% in 2013-14 provided for inflation generally.

### **Transformation**

#### **Mobile and Flexible working**

The current MTFS assumes that the savings arising from this project will be treated as corporate savings. It is proposed to remove the corporate saving target and allow for the savings to be included within directorate proposals.

The anticipated implementation and running costs of the project are being provided corporately.

#### **Terms and Conditions**

The savings from Terms and conditions assumed in the February MTFS have been updated with the latest estimate of the savings.

	2013-14	2014-15	2015-16	2016-17
	£000	£000	£000	£000
Existing MTFS	-530	0	0	0
Proposed	-960	-320	-140	0
Change	-430	-320	-140	0

### **Review of Fees and Charges and maximising existing income**

The current MTFS assumes that the savings arising from this project will be treated as corporate savings. There is a corporate adjustment of £100k to remove this saving target with savings being included within individual directorate proposals.

## School Budget 2013-14

- **Introduction**

The Dedicated Schools Grant (DSG) is a ring fenced grant the majority of which is used to fund individual school budgets. It also fund certain central services provided by the local authority such as Early Years (private and voluntary sector nurseries) and fees for out of borough pupils at independent special schools.

In March 2012 the DfE announced their intention to introduce a new school funding methodology with effect from April 2013. A summary of the changes and the impact on Harrow school funding, including the revised school funding formula, is detailed below.

- **School Funding Reform**

In the future the DSG will be split into the following three blocks:

- School Block
- High Needs Block
- Early Years Block

The DfE have issued the draft 'School and Early Years Finance (England) Regulations 2013' which introduces significant changes to school funding with effect from April 2013. The regulations:

- Require the implementation of a new school funding formula from 2013/14 which can only use a few limited factors and must use the data provided by the DfE
- Introduce new funding arrangements for pupils with high value special educational needs
- Significantly restrict the DSG that can be held by the local authority to fund central services

### **3. Implementing a revised School Formula Funding for 2013/14**

The legislation requires all authorities to revise their school funding formula, details of which had to be submitted to the DfE by 31 October 2012. Schools Forum, through a dedicated working group, looked to develop a revised formula that would:

- Comply with the new statutory requirements
- Minimise turbulence in school budgets
- Recognise pupil need
- Preserve funding across sectors, which prevents movement between the primary and secondary sectors

The draft revised formula was issued to all Harrow schools for consultation in September and was formally agreed by Schools Forum on 16 October. This enabled the proposed revised formula to be submitted to the DfE by the 31 October deadline.

Cabinet are asked to approve the following factors to be included in the 2013/14 school funding formula:

1) Basic Per Pupil Entitlement

Primary – The DfE only allows one rate to be used for primary age pupils (reception to year 6)

Secondary - The DfE is allowing separate Key Stage (KS) 3 and KS4 per pupil funding in secondary and the formula maintains the current relativity of 22% between Key Stages 3 and 4.

2) Deprivation

A deprivation factor is mandatory. The deprivation factor in the revised formula is:

50% of deprivation funding is allocated based on eligibility for Free School Meal (FSM) in the current year

The remaining 50% is allocated using the Income Deprivation Affecting Children Index (IDACI) across 6 banding levels, with higher levels of deprivation attracting a higher funding rate.

3) Looked After Children (LAC)

The Looked After Children factor allocates funding to support pupils who have been LAC for at least 12 months allocated at the level of IDACI 6 banding.

4) Low Cost High Incidence SEN - Use of Prior Attainment Data

Funding allocated as follows:

Primary: pupils who score fewer than 73 points as measured by the Early Years Foundation Stage Profile.

Secondary: pupils who fail to achieve a level 4 in both English and Maths at Key Stage 2

5) English as an Additional Language (EAL)

Funding allocated to EAL pupils recorded on the census as follows:

Primary Schools using 3 years data

Secondary Schools using 1 year's data

6) Pupil Mobility

Funding to be allocated to pupils identified by the DfE mobility data.

7) Lump Sum

The agreed rate is £154,230, which must be applied to all mainstream schools. This figure includes additional delegation of £12,000 in respect of funding for 2 high cost statements.

8) Rates

Rates are the only factor where Local Authorities must fund schools on an actual cost basis. Any in year adjustments arising from timing differentials must be adjusted for in the following year's budget.



- **New funding arrangements for pupils with high value special educational needs**

The most significant area of change is in respect of SEN provision with local authorities becoming commissioners of provision for high needs pupils aged up to 25. The DfE are defining high needs pupils as those which require provision costing more than £10,000 per year. In addition it includes school age pupils in Alternative Provision (AP).

These pupils will be funded from the High Needs Block which includes funding for the following:

1. Harrow Special Schools
2. Additional resourced provision in Harrow mainstream schools
3. Places in out of borough special schools and independent special schools
4. High Value Costed Statements in mainstream schools
5. Post-16 SEN expenditure including FE settings
6. Special Educational Needs (SEN) support services and support for inclusion
7. Alternative Provision including Pupil Referral Units & education out of school

From April 2013 high needs pupils will be funded on a mixture of places and pupils, which the DfE is referring to as 'place-plus'. Under the place-plus approach funding comprises the following three elements, which is being applied across all provision for high needs pupils.

**Element 1, or 'core funding'**: the mainstream unit of per-pupil education funding (DfE assumed level of £4,000).

**Element 2, or 'additional support funding'**: a clearly identified budget for providers to provide additional support for high needs pupils or students with additional needs up to an agreed level (DfE assumed level of £6,000).

**Element 3, 'top-up funding'**: funding needed in addition to Elements 1 & 2 to meet the total cost of the education provision required by an individual high needs pupil or student, as based on the pupil's or student's assessed needs. This is commissioned and funded by the local authority from the High Needs Block

From April 2013 the place plus funding replaces the current formulas for both Harrow special schools and additional resourced provision in mainstream schools.

The introduction of place plus funding for high value costed statements in mainstream schools has necessitated changes to the school funding formula. Schools will receive Element 3 top up funding from the local authority whereas Element 1 and 2 has to be allocated through the schools budget. This has necessitated additional delegation of SEN funding for high value costed statements agreed as a two stage process:

- Allocate £12,000 (2 places at £6,000 per place) through lump sum
- Allocate further £6,000 per high value costed statement in excess of 2, as recorded on the previous October census.

There are growing concerns about the financial risks posed by the changes to the funding for SEN provision. The 2013/14 High Needs Block is frozen at the 2012/13 budget level and does not make any allowance for the increase in pupil numbers. The DfE have not confirmed how they will fund growth in the High Needs Block in the future. In addition from August 2013 new responsibilities are being transferred in respect of Post 16 responsibilities.

The legislation also removes the current inter authority recoupment arrangements for SEN funding. This duty now transfers to individual schools.

- **Restrictions on the DSG that can be held to fund central services.**

For services currently funded from centrally retained DSG these are either included in the High Needs block or Early Years block where appropriate, with the remaining falling into the School block. All the funding in the schools block has to be passed to schools apart from the following named exceptions which can still be retained but are frozen at 2012/13 levels:

- Co-ordinated Admissions,
- Carbon Reduction Commitment
- Servicing of Schools Forum

In addition the following services will be delegated to schools from 2013/14:

- Behaviour Support Services
- Support to underperforming ethnic minority groups and bilingual learners
- Trade Union Facilities Time

If maintained schools in a phase collectively agree – through the Schools Forum – these services can be provided centrally by returning funding to the local authority. Academy schools will not be part of these collective agreements. They would receive the funding and would have to buy back separately. These proposals remove the DSG clawback in respect of academies and enable the Education Funding Agency to fund academies directly. Schools Forum have indicated they would consider a de-delegation request is expected in respect of Trade Union Facilities Time.

The legislation also allows authorities to seek Schools Forum approval to create a ring fenced Growth Fund from the DSG in order to fund in year pupil growth. This is important for Harrow given the scale of additional classes identified through the Primary Expansion Programme. The following funding for pupil growth and the draft Growth Fund for 2013/14 was agreed by Schools Forum on 16 October:

- **Additional Class Funding**

The growth fund will allocate £63,000 of revenue funding for each additional class for to provide for staffing plus some equipment for the period September to March (this equates to 7 months 2012/13 reception per pupil funding). This will cover additional classes in both maintained and academy schools but not Free Schools.

It is proposed that this funding is allocated by Schools Forum from the Growth Fund in the preceding summer term to enable the funding to be allocated prior to incurring the additional expenditure in September.

At this stage it was not felt that a similar funding allocation is needed for the secondary sector. This will be reviewed annually and is likely to be reconsidered when the growth in pupil numbers feeds through to the secondary sector.

- **Trigger funding**

In the secondary sector in year pupil growth is concentrated in just a few schools where there are spare places. For the secondary sector it is proposed to provide

additional funding where pupil numbers on the January census exceed those recorded in the previous October by more than 2%. The funding is based on average per pupil funding though it will be capped at £100,000. Again this would be paid to maintained schools and academies but not to Free Schools.

- **2013/14 Settlement**

The DSG in 2012/13 totalled £173.4m based on a per pupil funding rate of £5,536. The Department for Education (DfE) are expected to confirm the final school funding settlement for 2013/14 in December. Under the new funding methodology the DSG will be made up of the following:

- School Block Funding – based on a revised school per pupil funding multiplied by pupil numbers in primary and secondary schools as recorded on the October 2012 census. The DfE have issued an indicative per pupil rate of £4,919
- Early Years Block Funding - based on a revised early years per pupil funding multiplied by pupil numbers in primary and secondary schools as recorded on the January 2013 census. The DfE have issued an indicative per pupil rate of £4,314.
- High Needs Block Funding – frozen at 2012/13 level regardless of pupil growth. The 2013/14 funding will not be confirmed until at least December as it is being adjusted for hospital school funding, the ending of recoupmnt and the transfer of post 16 responsibilities.

A legal Minimum Funding Guarantee (MFG) is retained for individual schools budgets to provide some protection to school funding however it is a negative figure. The regulations state that no school will experience a reduction in their school budget greater than 1.5% per pupil.

Schools also receive the Pupil Premium in respect of pupils who have ever been eligible for Free School Meals (FSM) in the last 6 years plus Children Looked After continuously for more than 6 months. In 2012/13 the rate per eligible pupil was £619. The rate has not yet been confirmed for 2013/14 although given the total funding available nationally it is expected to rise. In addition a pupil premium is allocated to children of service personal at a rate of £250 in 2012/13. Again the rate has not been confirmed for 2013/14. The pupil premium is a specific grant that the council has to passport onto schools. Schools can decide how they will use the additional funding to achieve improved outcomes for deprived children.

#### **4. School Budgets 2014/15 onwards**

The DfE have yet to confirm any details of the school funding settlement for 2014/15 however they have confirmed the MFG of -1.5% will remain in place. They also wrote to the authority in October to state that there is likely to be a MFG in subsequent years however they did not confirm an amount. The revisions to schools funding are been viewed as a step towards a national school funding formula that could be in place as early as 2015/16.

## Stakeholder Meetings

A series of meetings with key stakeholders to share information are scheduled to place in December and January. They are listed below:

<b>Stakeholder</b>	<b>Meeting</b>	<b>Date</b>
Overview and Scrutiny	Special meeting of O&S to review the budget	9 January 2013
Tenants and Leaseholders	Tenants and Leaseholders Consultative Forum	January 2013
Partner organisations	The Partnership Board	6 December 2012
Local Businesses	Harrow Business Consultative Forum	28 January 2013
Unions	Employees Consultative Forum	31 January 2013
Schools	Education Strategy Consultative Forum	30 January 2013