

Cabinet 6th October 2010

Budget Planning Framework 2011/2012

Report of the Chief Executive and Director of Financial Resources

1.0 Purpose of Report

This report identifies the key factors influencing the development of the Revenue Budget for 2011/2012 and financial plans into the medium term, and sets out the budget planning framework for the Council for 2011/2012 and provides the basis of developing the Medium Term Financial Strategy.

2.0 Description of Decision

- 2.1 Cabinet is requested to agree the proposed budget planning framework summarised at paragraph 7 which will guide the preparation of the Revenue Budget for 2011/2012.

3.0 Financial Outlook

In developing the budget planning framework for 2011/2012 there is a need to consider:

- the national economic position and various key economic indicators;
- the latest position regarding the impact of the 'in year' reductions to government grants and the impact of the Emergency Budget announced by the Coalition Government, as reported to Cabinet on 21st July 2010;
- how the Council needs to respond both in the short and medium term in order to continue to meet the Council's priorities taking into consideration the wide range of uncertainties.

National Financial Outlook

- 3.1 The following key economic indicators illustrate the overall national economic position and outlook:

Government Borrowing

- 3.1.1 The financial crisis in the banking sector and the economic downturn that followed led to a significant increase in government borrowing as a result of resources being used to support financial institutions and to seek to stimulate the economy. Government forecasts, prior to the action to reduce the current budget deficit, show:
- total borrowing is estimated to increase from £772.1 billion at the end of 2009/2010 to £1,284 billion in 2014/2015;
 - in year borrowing is estimated to increase from £155.1 billion 2009/2010 to £159.9 billion in 2010/2011;

- debt servicing costs are set to increase from £30.9 billion to £67.2 billion by 2014/2015.

As a consequence, in addition to the costs of debt servicing, there is pressure to repay debt in order to reduce the level of debt to a more sustainable level in the longer term.

Inflation

- 3.1.2 The rate of CPI has been above the Bank of England target level of 2% and above the 3% level that requires the Governor of the Bank of England to write to the Chancellor of the Exchequer explaining the reasons why target levels have been exceeded. However, CPI is influenced by Government taxation policy, which will have seen VAT changes both up and down three times during the last three years.

A clearer measure of 'real' inflation can be CPIY which excludes the effect of tax changes. In 2010, CPIY peaked at 2.0% in April and has fallen in consecutive months to 1.7%, 1.6% and 1.4% which gives a much more accurate picture of 'real' inflation. However, there has been recent coverage in the media relating to specific price increases relating to food and clothing.

Latest forecasts suggest that the relatively low level of inflation currently being experienced will remain for 2011/2012. These indicators are set out below:

Average of Forecasts 2011/2012

- Consumer Price Index (CPI) – 2.0%
- Retail Price Index (RPI) – 3.55%

The position will continue to be regularly monitored and revised.

Interest Rates - Base Rate

- 3.1.3 The all time low Bank Base Rate has remained consistent since March 2009 at 0.5%, with views varying on when an increase in interest rates will occur. Major factors will include the levels of growth and inflation within the economy and how those are viewed by the Monetary Policy Committee. The Council's treasury management advisors, Sector, have recently revised their forecast for the timing of an increase in the current Base Rate of 0.5%, from quarter 1 to quarter 3 of 2011.

The position will continue to be regularly monitored and revised.

Local Position - Resources

- 3.2 The latest position in respect of the impact locally of the Coalition Government's announcements on reducing the deficit are set out below:

'In Year' Grant Reductions

- 3.2.1 The Coalition Government announced on 17th May reductions in public expenditure of £6.243bn with direct impact on Local Government funding of £1.165bn. In reality, the impact on Local Government is much greater because Local Government is directly affected by other Departmental reductions. Whilst the detail of managing the implications of the reductions were included in the report to Cabinet of 21st July 2010, in summary, the actions taken to date will enable the full year impact to be addressed in 2011/2012. For budget planning purposes, it is assumed that the 'in year' grant reductions will be ongoing into future years.

Impact of the Emergency Budget and Other Consultation Papers

Overall Resource Position

- 3.2.2 The Emergency Budget announced on 22nd June 2010 was the first step in addressing the government budget deficit. In total £61 billion of Departmental budget reductions over the next 4 years (2011/2012 to 2014/2015) were announced with Health and Overseas Aid budgets to be ring-fenced and schools partly protected. This means that other Departmental Expenditure Limit figures will be cut by at least 25% in real terms over the next 4 years with potential for over 33% reductions because of the impact of protection.

Initial broad assessments based on a 25% - 33% cut in grants would mean a potential reduction of £54m to £71m over the next four years (£13m to £18m per annum) for Sunderland. However, this is before the impact of year on year spending pressures is taken into account, therefore the overall impact will be even greater.

It should be noted that there is significant uncertainty with these initial assessments and that further information will not be known until the Comprehensive Spending Review 2010 is announced on 20th October. However, even then the true impact locally for 2011/2012 will not be advised until the Revenue Support Grant settlement date currently scheduled for early December.

It is also worth noting, that in a speech to the Local Government Association on 27th July, the Secretary of State for Communities and Local Government, Eric Pickles, stated that ministers were contemplating giving councils consecutive two year settlements to cover the next spending review period. As well as pushing significant financial reform back until 2013/2014, such a move would mean councils will know nothing about the level of grant they will receive in 2013/2014 or 2014/2015. Although a final decision has not yet been made on the settlement, it was stated that reform would be the focus of

the second settlement. Obviously, this will reduce the level of certainty within the Medium Term Financial Planning for those years.

Revenue Support Grant - Formula Review

- 3.2.3 The Coalition Government has been reviewing the formula used to allocate Revenue Support Grant. A consultation paper has been issued which proposes a number of changes to the formulae. It should be noted that the outcome of the consultation will not inform the quantum of resource allocation for local government, which will be determined by the Comprehensive Spending Review. However, the revisions to the formulae will determine how the total resource is allocated to individual authorities.

The options presented in the consultation paper are around the source data used in the formulae and whether this should be updated or different formulae used. Details of the proposals and options are set out at Appendix A together with an indication of the impact of each on the Council and the best and worst case scenarios to the Council of each option.

In summary, the range of grant options shows that the Council faces a wide range of possible changes to its grant allocation for 2011/2012 onwards before any reductions are taken into account from the government's Comprehensive Spending Review cut backs. The range of Formula Grant changes for the Council ranges from additional grant of £3.350 million to a loss of grant of £7.492 million depending upon the options selected by ministers.

A response to the consultation paper is currently being progressed by both the Special Interest Group of Municipal Authorities (SIGOMA) and the Association of North East Councils (ANEC), which the Council will help inform to try to achieve the best grant settlement for the Council. The Council will also submit its own response to the consultation paper in an attempt to influence the options selected by ministers.

The Local Government Finance Settlement 2011/2012, to be received in early December, will provide details of the options ministers implement and the impact they will have on the Council's grant allocation and this will be reported to Cabinet.

Council Tax

3.2.4 The following announcements have been made by the Coalition Government regarding income raised through Council Tax. The proposals are expected to be incorporated into the Spending Review:

Council Tax Freeze

The Coalition Government has stated that they will work in partnership with local authorities to freeze Council Tax for 2011/2012 and will offer some limited grant incentive for low spending councils to achieve this impact on the budget for next year.

If grant funding is provided, the difficulty will be the replacement of the one off resource once the grant funding ends, leading to a shortfall in funding for the longer term.

Veto on rises in Council Tax

The Coalition Government is also currently consulting on proposals to introduce a new system in respect of limiting the amount of council tax increases, the details of which are set out below:

- The Secretary of State will have power each year to determine principles in respect of council tax increases based on a comparison with the level in the previous year. These principles are to be published at around the same time as the Local Government Finance Settlement in December/January. The Secretary of State will also have power to determine different sets of principles for different categories of local authorities.
- Any authority which exceeds the published principles will be required to produce two budgets, a proposed budget based on the proposed council tax increase and a shadow budget based on the principles set by the Secretary of State. A referendum of all registered local electors would then have to be held to determine whether or not the proposed budget council tax increase goes ahead. There will be no minimum requirement for voter turnout and the conclusion will be based upon a simple majority vote.
- If the proposed council tax rise is rejected, the Authority will need to adopt the shadow budget, amend its council tax, and issue new council tax bills.

The potential additional costs of a referendum and rebilling could be up to £280,000 in a year when no local government elections take place. Therefore, any proposal to increase council tax above the Government's principles would need careful consideration, as, regardless of the outcome of the vote, there are costs which could in effect negate the benefits from the council tax increase.

Income from Fees and Charges

- 3.2.5 The Coalition Government announced in the Emergency Budget in June 2010 that the standard rate of VAT is to increase from 17.5% to 20% from 4th January 2011.

Consideration will be given to the Council's fees and charges policies to reflect the new VAT rate and the timing of increases in fees and charges, to reduce administrative costs. In proposing increases in charges the economic context will be taken into account to ensure that increases are appropriate and sustainable.

Schools Funding Latest Position

- 3.2.6 Schools funding is separate from the Revenue Support Grant system and is funded through the ring-fenced Dedicated Schools Grant (DSG). However, non-schools Education services (Local Authority Central Education Functions) are still financed through the Revenue Support Grant system.
- 3.2.7 The Department for Education is consulting, until October 2010, on school funding for 2011/2012. This includes proposals for a pupil premium and the distribution of the Dedicated Schools Grant.

Review of DSG and Pupil Premium

The pupil premium will be in the form of a separate grant which schools will decide how to use. The amount will not be known until the Comprehensive Spending Review is announced in October and the consultation is focused on the most appropriate means by which deprivation can be measured at individual pupil level. The Coalition Government is considering using eligibility for free school meals (FSM) and the annual looked after children return made by Local Authorities to distribute funding.

This data provides transparent pupil level analyses however there are well acknowledged problems with low and uneven take up of FSM. Additional consideration is to include all pupils who have been eligible in either the past 3 or 6 years. This additional element will provide additional funding to schools where pupils move in and out of FSM eligibility. Sunderland's FSM numbers would increase from 20% to 25% and 30% respectively.

The Pupil Premium will vary between Local Authorities to reflect the level of funding currently received for deprivation. The consultation seeks views on whether the pupil premium should be higher in areas with pockets of deprivation. This would take funding away from areas with high levels of deprivation such as Sunderland.

To allow for the smooth introduction of the pupil premium from September 2011, the Coalition Government proposes that the current methodology for allocating the Dedicated Schools Grant (known as the 'spend plus' system) should continue for 2011/2012. Subject to the spending review, some existing grants will be 'mainstreamed' into the Dedicated Schools Grant.

However, it should be recognised that whatever basis is used the introduction of the premium would cause variation in funding between schools compared to the existing formula as the current deprivation total would need to be top sliced before the remaining sum is allocated through the current formula. The School's Forum formula review group is currently considering the implications and potential mitigation of large variations through transitional arrangements. The response to the consultation will take these issues into account.

Academies / free schools

The principle of Academies' funding is that they should receive the same level of per-pupil funding as they would receive from the local authority as a maintained school. In addition, they receive top-up funding to meet additional responsibilities that are no longer provided for them by the local authority. The methodology for funding Academies from 2011/2012 onwards, including the calculation of the Local Authority Central Services Equivalent Grant is subject to review. It is essential that the funding to be retained by Local Authorities reflects the areas and ongoing commitments for which the local authority retains responsibility, especially School based redundancies and SEN support services.

Minimum Cash Increase Element

Included within the current Dedicated Schools Grant methodology is a minimum cash increase of 2% which was established to protect authorities with sharply falling school rolls. Sunderland, over the last few years has benefited from this floor protection. At this stage it is unclear whether this arrangement is to continue. Any change or removal of this floor will impact on funding received to support the local authority and schools.

A response to the consultation paper which needs to be returned by 18th October 2010 is being progressed by Officers and Sunderland's Schools Forum.

Funding Changes for 16-19 year olds

- 3.2.10 The Coalition Government intends to simplify the administration of funding to 16-19 year olds in General Further Education colleges and sixth forms. This involves transferring the local authority responsibility for payment and monitoring to the Young People's Learning Agency. The implications on how the new arrangements will operate in practice are still to be received and these will be considered as part of the Budget process in 2011/2012.

Area Based Grant (ABG) and Specific Grant Funding

- 3.2.11 As previously reported to Cabinet, the Coalition Government announced reductions to revenue grants of £5.150m in 2010/2011, principally area based

grants (£4.054m). In addition, some de-ring fencing of grants to allow councils to exercise flexibility in meeting reduced funding allocations was notified in June. It is anticipated that greater relaxation of rules regarding the use of specific grant funding will be a feature of the Comprehensive Spending Review.

In accordance with the previously adopted approach to the passporting of area based grants to relevant service areas, it is proposed that where grant reductions are announced for both specific and area based grants, that services reduce their activity accordingly to reflect the reduced level of resources available.

3.3 Transfers of Responsibility

Learning Disability Commissioning Transfer Grant

3.3.1 Responsibility for the funding and commissioning of social care for adults with learning disabilities transferred from the NHS to local government in April 2009. This funding is historical and relates partly to the closure of long stay hospitals in the 1980's resulting in clients moving to residential care homes or supported living arrangements and NHS campuses. Funding was transferred to Local Authorities from PCT's. It was agreed that, for the remaining years of the current spending review, 2009/2010 and 2010/2011, transfers would be carried out and reported to the Department of Health (DOH). From 1st April 2011, funding will be transferred centrally from the NHS budget to Social Care and issued directly to local authorities.

A consultation is due to end on 6th October for local authorities to comment upon the proposed options for the distribution of the grant from 1st April 2011. Sunderland currently receives £10.806m in funding. There are two options for how this grant will be distributed:

- The first option is for the grant to be distributed in proportion to the current arrangement and would therefore result in £10.806m continuing to be received, i.e. no loss of grant.
- The second option is to distribute the grant using the younger adults social care relative needs formulae which is used as part of the calculation of the Formula Grant and is used to distribute many of the DOH Social Care grants. This option would result in a reduction of grant to Sunderland of approximately £1.4m.

The DOH's and the Council's preferred option is option 1 and Sunderland will be responding to the consultation on that basis.

Other potential transfers

3.3.2 In July 2010 the Coalition Government released The White Paper Equity and Excellence: Liberating the NHS which sets out the Government's strategy for the NHS. The white paper is accompanied by a suite of papers to allow the government to carry out public consultation on specific aspects of the White paper.

'Local democratic legitimacy in health' provides information on proposals for increasing local democratic legitimacy in health, through a clear and enhanced role for local government. Through elected members, local authorities will bring greater local democratic legitimacy to health. They will bring the perspective of local place - of neighbourhoods and communities - into commissioning plans. Local authorities can take a broader, more effective view of health improvement. They are uniquely placed to promote integration of local services across the boundaries between the NHS, social care and public health.

Role of Local Authorities

A Public Health Service will be created, local health improvement functions will be transferred to local authorities, strengthening the role of local authorities in improving public health, improving local accountability and rewarding the progress that communities make. Councils will become responsible for a newly ring-fenced public health budget, currently around £4bn a year. Local Directors of Public Health will be employed by local authorities and jointly appointed by local authorities and the Public Health Service. Local Directors of Public Health will have statutory duties in respect of the Public Health Service. No indication has yet been given to individual authority allocations that form part of the overall £4bn a year funding available but it is an important development for the council to consider.

The consultation period ends on 11th October 2010. The Adult Social care partnership board are considering the implications and the board are formulating a response, led by officers within Health Housing and Adult services. The implications of the transfer will be taken into account as we go through the budget process.

Place Based Budgeting / Community Budgets

- 3.4 The government has strongly indicated that it is ready to introduce Place Based Budgeting or Community Budgets following the successful Total Place pilots last year. The pilots considered the impact local public sector budgets have on outcomes for a range of services – including local government, health and criminal justice and considered the potential for improved outcomes if budgets were merged. This would involve a more holistic approach to decisions about how the funding was to be spent and what services were prioritised to improve outcomes.

The initiative is seen as a way of empowering localities to tackle public service challenges according to their own particular local needs and make the best use of resources – by reducing government and centralist interventions and reducing potential duplication in supporting and providing those service priorities. Councils, and in particular directly elected council leaders, are envisaged to play a key role in co-ordinating a wider range of public services than they currently do.

The minister for local government, Eric Pickles, said that he supported the 'Total Place' initiative and indicated that he wanted this to become more radical and that it would be discussed in the Spending Review.

Local Government Finance Review

- 3.5 The government has recently announced that it is to carry out a review of local government finance in a year's time and that this will take place once the Localism Bill has gone through parliament and after the funding set out in the Spending Review has been made available to local government.

Local Government Secretary Eric Pickles commented that 'the government needed to look at borrowing, prudential borrowing, charges, trading and by then there will be the General Power of Competence, which will make things a lot easier. We will be repeating about 95% of Lyons because it was an excellent report. Then it will be up to us to make a political decision'.

However, he did rule out a local income tax option.

The review of local government finance would have been more helpful if it had been carried out in time to inform the Spending Review (SR) to be announced in October. This means that the funding set out in the SR may be subject to further changes once the outcome of this review is announced some time next year. It is hoped that any changes are not radical and that any transfer of responsibilities and/or changes in funding are transparent, fair and assist local government in what is seen to be a tough and very challenging period.

Summary of Estimated Resources for 2011/2012 and over the Medium Term

- 3.6 There are a range of uncertainties, both short and medium term, which are dependent on the outcome of the Comprehensive Spending Review in October as detailed below:
- the level of all grants over the period of the spending review including any transfer of responsibilities from other agencies and public bodies;
 - the outcome of reviews for the allocation of Revenue Support Grant and Dedicated Schools Grant;
 - Government directions on council tax levels;
 - the outcome of various consultation documents;
 - the level of interest receipts from investments in the light of low inflation levels.

4. Spending Commitments and Pressures

It is proposed to take into account the following spending commitments in the Budget Planning Framework for 2011/2012. However, at this stage the position is uncertain and will be subject to review and refinement throughout the budget setting process:

Pay Awards

- 4.1 A two year pay freeze for public sector workers (2011/2012 and 2012/2013), except for those workers earning less than £21,000 a year, who will receive an increase of £250 per year was announced as part of the Emergency Budget in June 2010.

Subsequent to this, the Secretary of State for Education confirmed that the Coalition Government remains committed to honouring in full the three-year pay award recommended by the School Teachers' Review Body, confirming that the teachers' pay uplift for this year will be implemented from September 2010, marking the last instalment of their three-year pay award.

The Coalition Government has confirmed that its assumptions about pay awards in local government for the next two years will be fed into the forthcoming spending review.

Pensions

- 4.2 An Independent Public Services Pensions Commission (IPSPC) has been established, chaired by John Hutton the former Secretary of State for Pensions, to undertake a fundamental structural review of public service pension provision. The IPSPC will produce an interim report in September ahead of the Comprehensive Spending Review in October. A second report on the longer term approach to public service pensions, including the LGPS, is due in Spring 2011 in time for the Budget 2011. Whilst prudent provision will be made as part of this budget planning framework, the detailed impact will not be known until a review of the implications has been undertaken by the Pension Authority.

Prices

- 4.3 Current inflation levels are relatively low as set out in paragraph 3.1.2 and this is forecast to reduce further into next year. However, individual budgets, such as energy costs, still remain volatile and appropriate provisions will be made as necessary.

In addition, prudent provision for increases in contract prices will be made, including additional provision for fees for independent providers of care services.

Landfill Tax/Waste Disposal Strategic Solution

- 4.4 Resources will be earmarked to meet the additional cost of landfill tax, which increases by £8 per tonne in each of the next three financial years. This will supplement the additional resources which have been provided as part of the policy of gradually building provision within the base budget to meet the costs of the strategic waste solution when it comes into operation in 2013/2014. This will enable the affordability gap to be fully met prior to the treatment

facility becoming operational. Ongoing inflationary increases over the period of the contract are also incorporated in the medium term financial plan.

Integrated Transport Levy

- 4.5 Past practice has been to restrict the increase in the levy to that of the level of the lowest grant increase of the five Tyne and Wear district councils. For 2010/2011 this was the 2% floor grant increase. A similar approach will be adopted for the 2011/2012 budget planning framework in that the ITA will be expected to reduce its levy in line with the expected grant reductions for each district council.

Carbon Reduction Commitment Energy Efficient Scheme (CRCEES)

- 4.6 The Carbon Reduction Commitment Energy Efficient Scheme (CRCEES) is a mandatory carbon trading scheme, that came into effect on 1st April 2010. Participation is a legal requirement for organisations that used a minimum of 6,000 MegaWatt hours of electricity during the calendar year 2008. Sunderland City Council, is required to participate in the scheme and registered in August 2010. The first sale of allowances for the year ahead only, will be in April 2011 at £12 per tonne, with the current year being classified as a 'footprint' year. For Sunderland, this would equate to £540,000 (based on 45,000 tonnes of CO₂).

Whilst the CRCEES will be broadly revenue neutral, overall it will not be cost neutral to individual participants and the Council is putting in place actions to ensure that the overall impact is minimised.

Service Pressures

- 4.7 Modernisation programmes are being progressed for some key areas of service pressure in respect of Children's and Adults Social Care. Prudent provision will be made to recognise any transitional costs as services move to new ways of operating whilst securing the same outcomes. In addition, there is a need to replace temporary use of WNF funding to support mainstream grants to small businesses.

Debt Charges

- 4.8 Prudent provision will be made to meet prudential borrowing costs in the light of reduced government funding. This will need to consider the revenue budget position and the need to meet the capital costs of regeneration priorities.

Economic Downturn

- 4.9 Whilst significant resources have already been earmarked to support service pressures and actions in response to the economic downturn as part of the previous years' budgets, given the continuing uncertainties, this will need to

be kept under review and appropriate provision made throughout the budget preparation process.

5. Spending Priorities

- 5.1 Given the potential scale of public spending reductions, spending commitments and the uncertainties in relation to the scale of liabilities which may need to be faced in 2011/2012 and future years, the scope to address spending priorities will be limited in 2011/2012.

Nevertheless, it is appropriate to examine areas of need and priority. Factors that the Council will take into account in determining priorities include:

- the relative importance of each Strategic Objective in any one year given changing circumstances;
- the need to address the Corporate Improvement Objectives;
- the results of corporate and service based consultation with the public and other stakeholders;
- local priorities identified by Elected Members and Officers of the City Council;
- national performance requirements;
- the need to generate efficiency savings to address government funding reductions.

Outcome of Public Consultation

- 5.2 Consultation with the public through a variety of surveys including for example the MORI, Place and Community Spirit Summer Surveys and Workshops has identified the following key priorities for improvement:

- Facilities for young people
- Level of Crime /Community Safety;
- Road Maintenance
- Clean Streets
- Enabling people with a disability, illness or health condition to access services and live independently

The areas identified have featured as high priorities for a number of years, The Council has taken action to address these issues in recent years. Some of these actions are part of a programme being implemented e.g. implementation of the Extra Care Schemes, Youth Commissioning.

There are a number of other spending priorities emerging from the findings of consultation which include:

- City Centre and Wider City: regeneration and accessibility
- Job/Business Opportunities
- Affordable decent housing
- Maintaining and Improving Health and Fitness Services

- Community Integration
- Speeding Traffic

Consultation

- 5.3 It is proposed that the issues and themes highlighted in above paragraphs 5.1 to 5.2 form the basis for the budget consultation in the context of finite resources available, the process and approach for which was approved by Cabinet at its last meeting.

6 Council Response to the Government Funding Reductions

Sunderland Way of Working

- 6.1 The Council has been preparing for the significant cuts in public spending, with plans under development through the Sunderland Way of Working project over the last year.
- 6.2 The Business Transformation Programme is examining every aspect of the way we work by looking at the organisation in a different way with two main objectives:
- To challenge what we are doing, how we are doing it and how effective it is;
 - To organise in a way that maximises value for money.

These reviews are progressing and will provide significant efficiency savings which are to be taken into account in the 2011/2012 budget and over the next three years. Plans are being implemented in respect of the following key strands of business.

- Strategic and Shared Services

For Strategic Services key considerations include:

- Organising services to support enable and regulate the Council by unification and pooling of support services;
- Improving asset management – ensuring maximum contribution to meeting regeneration objectives, improving utilisation and rationalising to meet organisational needs.

For shared services:

- Dealing with all transactional services in the same way in one place where it is most efficient and effective to do so and rationalising and improving processes to reduce cost and improve effectiveness.
- Procurement – building on existing arrangements and realising existing plans for securing significant efficiency savings.

- ICT – key considerations are to rationalise the number of ICT systems and organise the ICT infrastructure in the most efficient and effective way to meet the needs of the business.
- Customer Contact – key considerations include how best we can meet customer needs through organising ourselves to:
 - maximise resolution at the first point of contact,
 - avoiding unnecessary contact,
 - further develop transactional website functionality.
- Service Commissioning and Review – key considerations include gaining a comprehensive understanding of customer need and how best that need can be delivered in respect of front line and other services in the most productive manner. Service reviews are progressing in respect of Facilities Management and Health Inequalities. In addition, a service review programme is being developed to support delivery of additional savings over that period

Productivity and Efficiency Strategy

6.3 The Councils Efficiency Strategy for the medium term has been updated to reflect both the new way of working and financial context. The Productivity and Efficiency Strategy 2011/2012 to 2014/2015 will provide a framework for developing plans for future service delivery, ensuring that the main priorities are to support the most vulnerable residents in the city and enable economic regeneration to attract new businesses to invest in the city, despite the prevailing economic conditions. The strategy supports the aim of ensuring the most productive use of resources is maintained during this period of financial restraint.

Given the anticipated significant long term pressure on public finances and funding gap the strategy proposes that:

- plans are drawn up based on 10% year on year efficiency savings;
- there will be full passporting of Government Grant reductions to services in receipt of specific and Area Based grant funding as appropriate;
- that efficiency targets and planning should cover a four year period in order to ensure timely action is taken as necessary to assist to maximise efficiency savings;
- that whilst for planning purposes a 10% target has been set for each of the next four years, targets will need to be reviewed and reassessed as changes in Government funding are announced.

6.4 The identification of efficiency savings for inclusion in the 2011/2012 Budget Planning Framework will be tackled through a combined approach of:

- Specific efficiency savings arising from the Business Transformation Programme;

- Efficiency savings arising from policy and service reviews, including through modernising and improving services across the Council and the Sunderland Way of Working;
- Directorate cash limits being tightly drawn and prompting the identification and reinvestment of efficiency savings;
- Directorate specific targets for preparation of the 2011/2012 Revenue Budget.

7. Budget Planning Framework 2011/2012

Options for Savings

- 7.1 In accordance with the efficiency strategy set out in paragraph 6, Directors have been asked to explore and to bring forward options for savings, equivalent to 10% of their net delegated budgets for each of the next four years.

Balances

- 7.2 A Statement of General Fund Balances is attached at Appendix B. Uncommitted balances are provisionally forecast to stand at £7.569 million at 31st March 2011. At this stage, it is anticipated that balances will increase beyond that level to reflect one-off underspendings on debt charges in 2010/2011 as a result of debt restructuring, uncommitted prudential borrowing and reprofiling of capital expenditure. The position will be kept under review as clearly there are a number of budget pressures, both one-off and ongoing, and the scope to utilise balances temporarily to support these pressures will be explored during the budget preparation process. The level of General Balances will be risk assessed nearer to the finalisation of the Budget for 2011/2012.

Summary of the Budget Planning Framework

- 7.3 The following budget planning framework for 2011/2012 is proposed:
- that provision for spending commitments be included at this stage on the basis set out at paragraph 4 and kept under review;
 - that the spending priorities detailed in paragraphs 5.2 be included at this stage and subject to consultation as set out in paragraph 5.3;
 - that budgets be prepared on the basis that all spending pressures not specifically identified above as commitments be accommodated within Directorate cash limits;
 - that taking into account the Sunderland Way of Working and existing initiatives, Directors be requested to prepare longer term efficiency plans to identify efficiency savings, wherever possible without service or policy implications, covering a four year period based on 10% year on year targets, to be reviewed and reassessed as confirmed changes in Government funding are announced and as the Business Transformation Programme progresses;

- that commitments against general balances be noted and the scope to utilise balances temporarily be explored.

Appendix A

Revenue Support Grant - Formula Review

Details of the proposals in respect of reviewing the source data upon which the grant is allocated together with an indication of the impact of each of the proposals on the Council and the best and worst case scenarios to the Council of each option are set out below:

- Day Visitors – It is proposed that this indicator is replaced with ‘foreign night visitors’ as the data for day visitors no longer exists. This would have the effect of a net reduction in grant of £0.328 million to the Council.
- Area Cost Adjustment – It is proposed that some of the weights for the labour cost adjustment are reduced; this would have a positive impact on the grant allocation to Sunderland of additional grant of £0.735 million.
- Central Allocation Scaling Factor – It is proposed that the weighting between the central block, the relative needs block and the relative resources block are adjusted. Increasing the weighting of the relative needs block would have the effect of increasing the grant allocation to Sunderland of £0.737 million however an alternative option exemplified to increase the weight of the central block element (which is population driven) would mean a loss of grant of £0.835 million. It is important that the weight applied to deprivation is at least maintained or increased in the formula to reflect the additional needs and costs faced by authorities such as Sunderland
- Floor Damping – The option is whether to set the floor close to, or further away from, the average grant increase or decrease. If the floor is set close to the average grant, the distribution will be similar to that for the adjusted prior year’s grant. However, if the floor is set further away from the average, more of the formula allocation change will come through for those authorities above the floor, such as Sunderland. No options have been exemplified for this.
- Working Tax Credits – The proposal is to replace the indicator ‘children in income support families’ with ‘child tax credit’; this would be detrimental to the Council’s grant allocation where a loss of grant of £2.667 million would be expected if this option was implemented by ministers.
- Concessionary Travel – The changes in the formula for this area falls into 2 separate categories.

The first is a transfer of formula funding from the EPCS District Services block to the EPCS County Services block – to recognise that the distribution and administration of concessionary travel is be

controlled by the County or Single tier Authorities from 1st April 2011. For the Council this transfer of grant will have a neutral impact as the government has stated that this will be a straight swap for those in receipt of both elements of the formula Grant. This position applies to Sunderland.

The second element is the transfer of the specific Concessionary Travel Grant (that funds free concessionary travel for those aged over 60 and those that are disabled) to all County or Single Tier Authorities only. For Metropolitan Areas the specific grant funding has previously been made directly to the relevant Integrated Transport Authority and was not part of the Formula Grant allocation. There are arguments to maintain a specific grant which will help retain its transparency but the government are keen to include this funding within the Formula Grant from 1st April 2011.

There are numerous funding options that have been exemplified by the government in this area and this is where the greatest variation exists. Depending upon the options chosen, the Council could gain grant of £1.224 million or potentially lose grant of £2.987 million.

In summary, the range of grant options shows that the Council faces a wide range of possible changes to its grant allocation for 2011/2012 onwards before any reductions are taken into account from the government's Comprehensive Spending Review cut backs. The range of Formula Grant changes for the Council ranges from additional grant of £3.350 million to a loss of grant of £7.492 million depending upon the options selected by ministers.

Appendix B**Statement of General Fund Balances**

	£000	£000
Balance as at 31st March, 2010		14,748
Use of Balances 2010/2011		
Approved Contribution to Revenue Budget	3,307	
Approved Contribution to fund the Capital Programme	3,872	(7,179)
Estimated Balances 31st March 2011		7,569