

**CABINET**

**13 FEBRUARY, 2013**

**Revenue Budget and Proposed Council Tax for 2013/2014 and Medium Term Financial Strategy 2012/2013 to 2015/2016**

**Report of the Chief Executive and Executive Director of Commercial and Corporate Services**

**1. Purpose of Report**

1.1 To report:

- the overall revenue budget position for 2013/2014;
- the projected balances position as at 31st March, 2013 and 31st March, 2014 and advise on their level;
- a risk analysis of the Revenue Budget 2013/2014;
- a summary of the emerging medium term financial position facing the Council from 2014/2015 to 2015/2016;
- any views received from the North East Chamber of Commerce and Trade Unions.

**2. Description of Decision**

2.1 Members are requested to:

- recommend to Council the proposed Revenue Budget for 2013/2014 set out at Appendix I;
- note the medium term financial strategy 2012/2013 to 2015/2016 as set out in Appendix E
- recommend to Council the proposed Council Tax for 2013/2014 - see item 3 of Cabinet Report in the Council Summons;
- note the views, expressed by the North East Chamber of Commerce and Trade Unions at Appendix C.

**3. Introduction**

3.1 Cabinet will be aware that it approved budget proposals for the purposes of ongoing budget consultation at its January 2013 meeting. At that stage there were a number of uncertainties still to be resolved primarily;

- transitional costs in relation to the implementation of savings proposals;
- the outcome of the final Local Government Revenue Support Grant Settlement for 2013/2014 and related grant announcements;
- the forecast Income from Business Rates
- the final Collection Fund position.

3.2 In presenting the Revenue Budget 2013/2014 this report covers the following areas

- Current Overall Position 2013/2014 to 2015/2016;
- Adjustments/Final position February 2013;
- Proposals To Meet Funding Reductions;
- Overall Position;
- Outcome of Budget Consultation;
- Summary Budget.
- Medium Term Financial Position;
- Balances and Reserves;
- Presentation of the Detailed Revenue Budget;

3.3 Taking account of the above, Cabinet is asked to consider the final budget proposals and detailed revenue budget as set out in Appendix I, including the proposed use of balances and the position in relation to major reserves, for recommendation to Council.

#### 4. Current Overall Position 2013/2014 to 2015/2016

4.1 The January Cabinet report set out the provisional settlement for the Authority and confirmed that when cost pressures were taken into account reductions to budgets amounting to £37.0 million in 2013/2014 and 31.7m in 2014/15 were required. The report also referred to progress at that stage in relation to proposals to address the position.

4.2 A detailed technical analysis of the data from the provisional settlement has now been undertaken and confirmed via receipt of the final Local Government Settlement on 4 February. The table below sets out variations in individual elements of funding compared to 2012/13 to reflect the actual changes in resource levels between the years:

##### Summary of Government Funding Changes from 2012/2013 to 2013/2014

	£m	£m
<b>Government Grant Reductions</b>		
Reduction in Start Up Funding notified by government	5.3	
<b>Other Relevant Changes to Funding</b>		
Impact of Council Tax Freeze Grant Transferred into start up funding -not included in 2012/13 government figures	2.7	8.0
Reduction in Early Intervention Grant transferred to DSG		3.0
Reduction in grant as a result of LACSEG Topslice		1.1
Reduction in Council Tax Benefit Support Grant		2.4
Council Tax Support Transitional Relief (one off)		-0.6
<b>Adjusted Net Reduction in Grant</b>		<b>13.9</b>
Cost Pressures		23.1
<b>Total Impact of Funding Changes and Cost Pressures</b>		<b>37.0</b>

When all relevant variations to funding are taken into account the funding gap remains at £37m for 2013/2014 with reductions of circa £98.1m estimated required over the three years to 2015/2016. Paragraph 5 below sets out further information about the grant changes and explains where changes to grants reflect increased responsibilities.

## **5. Adjustments /Final Position February 2013**

### **Collection Fund**

- 5.1 The Collection Fund position is reported elsewhere on this agenda. The Collection Fund position remains positive despite the challenging fiscal climate and the surplus available to the Council to be taken into account in the budget and council tax calculations has been estimated at £500,000.

### **Council Tax Base**

- 5.2 The Council, at its meeting on 30th January, 2013, approved the Council Tax Base for the area covered by Hetton Town Council (£3,122) and the City Council area (£64,094).

### **Retained Business Rates**

- 5.3 The Council, at its meeting on 30th January, 2013, approved the Business Rate income forecast for 2013/14 and the amount to be retained by the Council is forecast to be £40.886m.

### **Local Government Finance Settlement**

- 5.4 The final position on the Local Government Finance Settlement for 2013/2014 was announced on 4<sup>th</sup> February 2013. The Government have made some presentational changes to the Revenue Spending Power calculation, and included an indicative additional amount for New Homes Bonus of £0.636m..

- 5.5 The key issues affecting Sunderland are set out below:

- The Councils final Start up Funding assessment level is £187.771m representing a reduction of £5.613m compared to 2012/13;
- The final settlement has confirmed Revenue Support Grant (RSG) of £112.757m in 2013/2014;
- Sunderland's final baseline funding level is therefore £75.014m and within this the Government have assessed the level of Retained Business Rates income which the Council will collect and retain as £40.414m;
- The Council will therefore receive Government Top Up Grant of £34.600m;

- The Safety Net Threshold, set by Government at 92.5% of a Council's baseline funding level, equates to £69.388m for Sunderland;
- An updated position in respect of changes to other Government funding is set out at section 5.7;
- The position in respect of schools funding is set out at section 5.10.

### **Council Tax**

- 5.6 In accordance with the Localism Act the public have the right to approve or veto excessive council tax rises, thereby making this a local decision rather than being dealt with through 'capping'. As part of the settlement Government proposed that a 2% percent referendum principle will apply to all principal local authorities, Police and Crime Commissioner and Fire and Rescue Authorities. This means any increase above this level will require a referendum to give the local electorate the opportunity to approve or veto the increase.

### **Changes to Grants from 2012/2013**

- 5.7 The table below sets out the impact of changes to Council Revenue Spending Power Calculation which includes Revenue Support Grant and Core Grants compared to 2012/2013 following the final settlement. This shows the final reduction to available spending power before Public Health Grant of £4.090m (-1.5%) and start up funding reduction of £5.613m (-2.9%).

	2012/13	2013/14			
	Adjusted	Final		Change	Change
	£m	£m	£m	£m	%
Council Tax excl Parish Precepts	96.302		96.302	0.000	0.0%
Less Council tax Support	-21.313		-20.981	0.332	-1.6%
Top Up Grant			34.600		
Assumed business rates based on proportionate shares			40.414		
Revenue Support Grant			112.757		
<b>Start Up Funding Assessment</b>	193.384		187.771	-5.613	-2.9%
Council Tax Freeze Grant 12/13	2.408		0.000	-2.408	-100.0%
Council Tax Freeze Grant 13/14	0.000		0.967	0.967	100.0%
Inshore Fisheries Conservation	0.014		0.014	0.000	0.0%
Lead Local Flood Authorities	0.037		0.037	0.000	0.0%
Social Fund Admin Grant	0.273		0.254	-0.019	-7.0%
Community Right To Challenge	0.009		0.009	0.000	0.0%
Community Right to Bid	0.005		0.008	0.003	60.0%
New Homes Bonus	1.152		1.704	0.552	47.9%
New Homes Bonus Adjustment (estimated)	0.000		0.636	0.636	100.0%
Local Reform and Community Voices DH	0.272		0.275	0.003	1.1%
NHS Funding to Support Social Care and Benefit Health	4.154		5.611	1.457	35.1%
<b>Revenue Spending Power Excluding Public Health Grant</b>	<b>276.697</b>		<b>272.607</b>	<b>-4.090</b>	<b>-1.5%</b>
Public Health Grant	20.093		20.656	0.563	2.8%
<b>Revenue Spending Power Including Public Health Grant</b>	<b>296.790</b>		<b>293.263</b>	<b>-3.527</b>	<b>-1.2%</b>

5.8 In addition to changes in grants included in the Revenue Spending Power set out above, notification has also been received in relation to the following Specific Grants outside of the Revenue Spending Power Calculation.

	2012/13	2013/14
	£'m	£'m
Housing and Council Tax Support Administration Grant	3.162	2.882
New Burdens - Council Tax Support Scheme	0.000	0.216
Community Safety	0.157	0.000
Extended Rights to Free Travel	0.191	TBC
Weekly Collection Support Grant	1.010	2.231
Education Services Grant	0.000	TBC
Social Fund Set Up grant	0.012	0.000
Social Fund - programme	0.000	1.202
	<b>4.532</b>	<b>6.531</b>

Notification is outstanding in relation to the Education Services Grant (replacing LACSEG) the PFI core grant and the Extended Rights to Free Travel Grant.

## **Impact of Changes to Specific and Core Grant**

5.9 In accordance with the budget planning framework and as reported to Cabinet in January, changes in specific and core grants have been addressed as follows:

- The Council Tax Freeze grant for 2013/2014 has only been offered to compensate those Authorities who decide not to increase their Council tax in that year. As the funding is not of a permanent nature any use of the grant to support on going revenue expenditure will require alternative funding to be identified in the following years should the Council decide to access and accept the grant.
- Local Reform and Community Voices funding has been passported to Health Housing and Adult services to support responsibilities transferring from the NHS including Independent Mental Health Advocacy and Complaints Advocacy Services.
- New Homes Bonus Grant of £1.704m is being used to support the overall budget position in 2013/14 in accordance with the Budget Planning framework with appropriate housing related investment factored into both revenue budget and capital programme proposals. The additional indicative amount of £0.636m estimated by Government for 2013/14 as part of the final settlement will be used to meet transitional costs once the amount is confirmed.
- Additional NHS funding to support Social Care and Benefit Health Grant of £1.457m has been built into planning assumptions.
- Public Health Funding of £20.656m in 2013/14 and £21.234m in 2014/15 has been confirmed. Funding will be used to fund new Public Health responsibilities transferring from PCT's from April 2013 including commissioning services associated with anti-smoking campaigns, interventions to tackle obesity, NHS health check assessments, alcohol and drug misuse services and comprehensive sexual health services.
- A reduction in Housing and Council Tax Benefit Administration grant of £0.280m has been built into the planning assumptions.
- New Burdens funding for the Local Council Tax Support Scheme of £0.216m has been taken into account in assessing the impact of Welfare Reform.
- Weekly Collection Support grant to retain weekly refuse collection arrangements of £2.231m in 2013/2014 was taken into account in budget planning assumptions for waste collection.

- Social Fund Grant of £1.202m in respect of DWP Care and Crisis Loans activities (former Social Fund) and the related administration grant of £0.254m was taken into account in assessing the impact of the Governments Welfare Reform agenda as part of the budget planning assumptions.

## **Schools Funding**

5.10 As a result of the additional resources through pupil premium, the continued operation of protection to the funding of schools with falling rolls and some additional funding in respect 15 hours free nursery education to a greater number of 2 year old children, the overall quantum of schools funding will increase in 2013/2014. Details are set out below:

### **5.10.1 Schools Funding Formula**

The Government is to continue to apply a national protection arrangement for schools whereby no school will see a per pupil reduction compared to its 2012/2013 budget (excluding sixth form funding) of more than 1.5 per cent before the pupil premium is applied.

### **5.10.2 Dedicated Schools Grant**

The October 2012 census data shows that pupil numbers have decreased by 330 and consequently school block funding has reduced by £1.495m.

In 2013/2014 the expansion of the offer of 15 hours free nursery education to a greater number of 2 year old children who meet criteria for deprivation will be implemented. Sunderland's Early Years DSG will be increased by £3.142m. Part of this funding is movement of funding from the Early Intervention Grant into the Dedicated Schools Grant.

### **5.10.3 Pupil Premium Funding**

The Pupil Premium level of funding for 2013/2014 for Sunderland Schools and Academies is estimated to be £11.346m, based on January 2012 pupil numbers representing an increase of £3.488m compared to 2012/2013.

### **5.10.4 Education Services Grant**

Following consultation during the summer, the Department for Education has announced that a new grant, the Education Services Grant is to replace the Local Authority Central Spend Equivalent Grant (LACSEG) from September 2013. This is not additional funding.

Provisional local authority Education Services Grant allocations are still to be announced. Current planning assumes funding of £3.0m will be received.

## 6. Spending Pressures and Commitments 2013/2016

The following table summarises the estimated position concerning spending pressures and commitments over the period:

	2013/14	2014/15	2015/16
	£m	£m	£m
Total Pay Price and other pressures	6.76	7.55	4.95
Welfare Reform	1.34	-0.27	0.02
Financing Charges	2.50	0.50	3.00
Replacement of prior year one off savings & end to end review savings	4.40	4.52	2.00
HHA demand pressures	5.37	1.59	2.69
Childrens demand pressures	1.68	0.23	-
Waste Disposal	1.05	0.99	-
<b>Total Pressures</b>	<b>23.10</b>	<b>15.11</b>	<b>12.66</b>

### 6.1 Cabinet Secretary

#### Pay ,Prices and Other Inflationary Cost Pressures

##### Pay and Prices

Beyond 2012/2013 the Government has indicated a limit on public sector pay of a 1.0% pay increase. For planning purposes a prudent provision has been built into the MTFS from 2013/2014.

##### Pensions

The results of the Actuarial review of the Local Government Pension Scheme 2010, was implemented in 2011/2012 covering three years to 2013/2014. There is an increase of 5.3% for 2013/2014.

##### Other Pressures

Other inflationary impacts have been provided for including those relating to payments to independent providers of adult and social care and utilities costs .

#### 6.1.1 Welfare Reform

Provision of £1.34m is included for Welfare Reform changes, the majority of which impact in April and October 2013. These include the implementation of new responsibilities resulting from the transfer of former Social Fund responsibilities to Local Authorities, measures that seek to mitigate against the significant adverse impacts anticipated across the city and changes to internal administration and support arrangements.



### 6.1.2 Capital Financing

Provision of £2.5m has been included to enable potential borrowing under the prudential framework for known investments and to enable strategic priorities of the Council to be addressed.

### 6.1.3 Replacement of One off Resources and Planned savings

Provision is included for the replacement of £2.26m one off resources utilised in setting the 2012/2013 budget and the need to replace planned £2.14m savings from end to end service reviews with alternative savings in 2013/2014.

## 6.2 Adults Health and Housing

### 6.2.1 Adult Services Demand / Demographic Issues

The increasing longevity of the national and specifically, the city's, population continues to place significant pressure on Adult Social Services budgets. In addition, increasing demand to support clients with complex needs to enable clients to maintain independent living, is requiring reconfigured services and additional investment.

A sum of £5.37m for cost pressures have been factored into the 2013/2014 budget with contingencies being provided to reflect timing of the delivery of the three year improvement plan.

## 6.3 Children and Learning City

### 6.3.1 Safeguarding – External Placements

There continues to be increasing demand pressures in relation to safeguarding and specifically external placements and an additional £1.68m is included in 2013/2014 for this purpose.

## 6.4 City Services

### 6.4.1 Waste Disposal

The impact of cost variations in relation to waste disposal have been factored into the Medium Term Financial Strategy including landfill tax, volume of waste, recycling implications, and the impact of implementing the Waste Disposal Strategic Solution. A sum of £1.05m is included for 2013/2014.

## 7. Proposals to meet the funding gap 2013/2014

7.1 The overall estimated position is set out below taking into account Government funding changes and cost pressures ;

	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m
Government Funding Changes and Spending Pressures	28.1	37.0	31.7	29.4

7.2 As part of the Budget Planning Framework for 2013/2014 Cabinet agreed in October 2012 to progress the approach to meeting the funding gap by:

- Progressing the existing improvement programme of savings which aims to meet needs and achieve savings while protecting as far as possible frontline services and maximising non frontline savings. Throughout the programme Strategic and Shared Services are being refocused and reduced by an average 50%.
- Continuing to protect so far as possible front line services which are being reshaped and refocused to:
  - Ensure services are responsive to local needs
  - Protect core services particularly those most vulnerable
  - Target resources rather than universal service provision.

7.3 The proposals to meet the funding gap reflect measures being implemented through the refreshed improvement framework focussing on the Community Leadership role of the Council which seeks to understand and meet most important community needs through:

- Demand Management - Developing the strategies and actions that enable the Council to manage demand and deliver services in a different and more agile way within communities;
- Cost of Supply and Customer Services Network (CSN) development - Increased focus on the CSN as the gateway and connector of demand and supply for services with the aim of targeting resources to areas of greatest need alongside continued delivery of efficiencies within Council services;
- Development of Alternative Service Delivery Models for services – continuing to look at the most effective and efficient models of provision for services over the short to medium term and increased collaboration with partners;
- Strategic Services and Fixed Assets – further and continual review to meet the future needs of the Council and its communities, maximise use of assets and deliver significant savings.

7.4 The settlement has confirmed the need to make ongoing reductions of £37.0m to meet the funding gap for 2013/2014. Proposed reductions are summarised in the following table together with an indication of plans for future years.

	2012/13 £'m	2013/14 £'m	2014/15 £'m
<b>Corporate and Cross Cutting</b>			
Strategic and Shared Services	7.49	7.19	0.53
People Based Commissioning Reviews		1.00	3.00
Voluntary and Community Sector Review		0.49	
Integration of Public Health		2.00	
Corporate Resources (ITA /NHB / corporate)	2.70	2.70	0.50
SWITCH Resource Repatriated		5.10	3.20
	<b>10.19</b>	<b>18.48</b>	<b>7.23</b>
<b>Improvement Plans</b>			
Place and Economy	4.78	5.12	0.41
People - Children's Services	2.14	3.76	1.25
People - Health Housing and Adult Services	8.68	5.12	2.45
	<b>15.60</b>	<b>14.00</b>	<b>4.11</b>
<b>Use of One off savings</b>			
Capitalisation of Highways and Repairs spend		1.00	1.00
Temporary Use of balances and potential grant	2.27	3.52	1.00
	<b>2.27</b>	<b>4.52</b>	<b>2.00</b>
<b>Total Ongoing Programmed Savings</b>	<b>28.06</b>	<b>37.00</b>	<b>13.34</b>

Further work is continuing to develop a full suite of proposals to meet the 2014/2015 Funding Gap as well as the further savings forecast to be required in 2015/16 and beyond.

Further updates will be provided to Cabinet in due course and the MTFs 2013-16 will be refined and updated in parallel as this work progresses.

## 7.5 Ongoing Programmed Savings

### 7.5.1 Corporate and Cross Cutting (£18.476m)

- **Strategic and Shared Services (£7.190m)**

A further reconfiguration of support services to meet the future requirements of the Council and deliver efficiencies involving continued refinement and implementation of new ways of delivering support services by redesigning processes and using ICT to maximise efficiencies.

- **People Based Commissioning Reviews (£1.0m)**  
Efficiencies through re-commissioning and integrated working with children's, families adults and health services will deliver savings estimated at £1million in 2013/2014.
- **Review of Voluntary and Community Sector (£0.486m)**  
Savings will be achieved through reviewing commissioning arrangements with the voluntary sector on a strategic basis.
- **Integration of Public Health (£2.0m)**  
Efficiency savings will be achieved through integration of public health arrangements. The proposed savings are based on unallocated spending within the current budget and also forecast savings on overheads when the service transfers from the PCT to the Council.
- **Corporate Resources Savings (£2.7m)**  
Given the Government have top sliced formula grant to support the New Homes Bonus it is proposed that the allocation for New Homes Bonus anticipated in 2013/2014 is used to support the budget. In addition savings arising from the ITA levy can also be taken into account to support the budget.
- **SWITCH Resource Repatriated (£5.1m)**  
Following the implementation of the Severance Scheme and the cessation of SWITCH an updated approach to workforce planning will be implemented alongside the 2013/2014 budget proposals. Budget resources of £5.1m can therefore be released to support the budget for 2013/2014.

#### **7.5.2 Place and Economy (£5.113m)**

- **Smarter Working (Utilisation of premises) (£0.905m)**  
The review of smarter working has already identified savings in premises costs (utilities, repairs and renewals etc.) through the planned closure of administrative buildings and this programme will continue as well as the review focussing on delivering savings from operational buildings as well as opportunities for collaborative service working and co-location.
- **Income Generation and Cost Reduction across Office of the Chief Executive (£0.467m)**  
Planning and Property Services have identified a number of initiatives aimed at increasing income and reducing costs including in relation to additional income from nationally-set planning fees, income delivered by the Control Room, Cash in Transit and Property Services as well as through rent reviews of the Council's property portfolio.

- **Establish New Events Company (£0.115m)**  
 Through establishing a new Events Company, appropriate partnership arrangements will be entered into which will generate additional commercial opportunities and income.
- **Review of Transport and Fleet (£0.866m)**  
 Savings are being realised through better utilisation of vehicles, removing vehicles in line with changes in service in the council, more efficient hire and maintenance arrangements and alternative service delivery of the fleet stores function.
- **Waste Collection (weekly collection and demand management (£0.998m))**  
 Savings will be achieved following the successful bid for Government funding to retain weekly waste collection arrangements. In addition, measures are proposed to better manage customer demand in two services currently provided free of charge in respect of bulky items collection and wheelie bin replacements. Savings will be achieved through reduced waste disposal costs, fee income and lower staff and vehicle costs.
- **Review of Highways and Network Management (including maintenance) (£0.409m)**  
 Savings will be achieved by maximising income earning opportunities, better prioritisation of activity with a focus on fee earning activity, and the evaluation of alternative Service Delivery Models. Additional savings will be delivered from the highways maintenance programme through developing more streamlined processes to carry out repairs, and utilisation of more cost effective materials.
- **Income Generation (Bereavement Services and Car Parking) (£0.288m)**  
 A review of Bereavement Services charges has identified efficiency savings in relation to the simplification of charges and a requirement to offset the cost of installing and operating mercury abatement technology required to meet new legislative requirements. Opportunities to increase car parking income through increasing usage will also be considered.
- **Responsive Local Services (RLS) and Parks Phase II (£0.468m)**  
 Savings will be achieved following the further integration of the Parks function.
- **Management Restructure (£0.270m)**  
 This saving arises from senior management restructuring.

- **Other Streetscene Reviews, including regulatory Services (£0.327m)**

A review of regulatory activities is ongoing and the shape of services is currently being re-examined in light of the new corporate structure. A number of other reviews are being delivered in Streetscene including in relation to a restructure of the Commissioning and Change Management function following the disestablishment of City Services, better procurement of Pathology and Laboratory Services for the Coroner's Service, a restructure of the Registrar's Service and the introduction of a permit system for vans and trailers using the household waste recycling site to reduce incidents of illegal use of the site by traders.

### **7.5.3 Children's Services Reviews (£3.764m)**

- **Full Year Impact of previous year's decisions (£1.059m)**

This is the full year impact of previous year's agreed savings decisions, all of which have been implemented in the current financial year.

- **Review of Children's Services Structures (£0.756m)**

Review of management structures.

- **Children Looked after Strategy (Ongoing) (£0.817m)**

The Council has invested significantly over the past 3 years in foster care recruitment. This strategy is now paying dividends through the gradual reduction in the number of children in Independent Fostering Agency placements.

- **Safeguarding structures (Ongoing) (£0.494m)**

This is linked to the review of management structures that was implemented in 2012/2013 and the flexibilities afforded through the improved stability of the Social Work workforce.

- **Cessation of Childcare sufficiency funding (£0.120m)**

Nationally plans are in place to extend the offer of 15 hours free nursery education to a greater number of 2 year old children who meet criteria for deprivation. This will significantly increase demand for places in 2013/2014 and further in 2014/2015, providing £2m of additional funding in 2013/2014 to fund places in appropriate settings. This should allow all settings to be sustainable and therefore financial support is proposed to be withdrawn.

- **Review of Commissioning & Family, Adult and Community Learning Teams (£0.200m)**

The Family, Adult and Community Learning and Children's Services commissioning functions review will amalgamate teams and produce efficiencies.

- **Review of Home to School Transport (£0.318m)**  
A careful and full review of Home to School Transport to include the consideration of non-statutory 'discretionary' transport costs and a detailed review of how the current statutory home to school transport policy is applied.

#### **7.5.4 Health Housing and Adult Services Reviews (£5.122m)**

- **Future Models of Care and Support (£0.374m)**  
Continuing review of existing Care and Support services for Adult Social Care with the aim of developing alternative models of care to meet customer need. The review will look to provide more community based activity and will look to maximise the usage of existing building based facilities.
- **Expansion of Reablement Model on new customers (£0.115m)**  
The on-going development of the Adult Social Care Re-ablement services to ensure more people maintain their independence within their own homes. Expansion of this service will reduce reliance upon, and the cost of on-going services such as home care and ultimately prevent admissions to residential and nursing care.
- **Further Implementation of Personalisation (£0.836m)**  
The further implementation of personalisation will allow individuals to have choice and control in respect of the care and support they receive to meet their assessed need and prevent admissions to residential and nursing care.
- **Managing the Provider Market (£0.640m) and Demand Management in Social Care (£2.000m)**  
This review will continue to work with the Adult Social Care provider market and partners to develop cost effective solutions to meet peoples care and support needs. This will include reaching agreements with the independent provider market and other partners for services for all client groups that incentivises quality but contains costs.
- **Culture, Sport and Leisure - review of Libraries, Heritage, Arts, Sport, Leisure and Wellness services (£1.052m)**  
A commercial model is being developed for Sport and Leisure services to ensure that the current level of subsidisation for services is reduced through a combination of increasing income, shifting and maximising demand from peak times and through reducing costs. The model will also identify opportunities for alternative service delivery.

In relation to the Libraries service, the focus will be on re-provisioning services with a greater community focus for reading, learning and giving access to information. With regard to Heritage and Museums, new arrangements will involve the Council in leading the delivery of the museums service and include the opportunity for extended working with other partners.

- **Culture, Sport and Leisure – other savings proposals (£0.105m)**  
This will include a focus on developing a relationship with schools and other organisations whereby they commission sports and wellness related services, reviewing operations at F Pit and Fulwell Mill and looking at the potential from invest to save initiatives to enhance income streams.

## **7.6 Use of One Off Resources**

After taking account of total ongoing programmed savings for 2013/2014 of £32.5m, there remains a funding gap of £4.5m. It is proposed to utilise one off funding in terms of £1.0m through capitalisation of Highways expenditure and using £3.5m of transitional funding held in balances on a temporary basis pending achievement of additional savings in 2014/2015.

## **7.7 Projects Supporting Savings Plans 2013/2014 and 2015/2016**

A range of cross cutting projects are being progressed through the Council's Improvement Programme to support the delivery of savings into the medium term including

- Community development - to work within communities and the voluntary sector to help build resilient and sustainable communities
- Customer Insight – to understand community views and needs to form the basis of service transformation
- Website and Intranet Development – to refresh content and on line facilities for advice, guidance and payment services
- Workforce Development – In order to ensure timely delivery of savings proposals a refreshed approach to workforce planning
- Integrated Commissioning – to enable a cross cutting approach to future commissioning of People and place based services

In addition an intensive Customer Service and Demand Management Programme is being developed to transform the customer experience displacing demand where appropriate and resolving demand at the earliest opportunity and at the lowest cost to the council to provide consistent responsive high quality services.

In conjunction with the above, all services are considering alternative delivery models in order to attempt to sustain as many services as possible through the most cost effective route.



## 8. Overall Position

- 8.1 The overall position after taking account of the issues set out in sections 5 to 7 above is set out in the table below which shows a balanced budget position for 2013/2014:

	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m
Government Funding Changes and Spending Pressures	28.1	37.0	31.7	29.4
Total Savings Proposals	-25.9	-32.5	-11.3	
<b>Net Funding Gap</b>	<b>2.2</b>	<b>4.5</b>	<b>20.4</b>	<b>29.4</b>
One off Capitalisation of Highways		-1.0	-1.0	
Temporary Use of Balances	-2.2	-3.5	-1.0	
<b>NET POSITION</b>	<b>0.0</b>	<b>0.0</b>	<b>18.4</b>	<b>29.4</b>

## 9.0 Outcome of Budget Consultation

- 9.1 The Budget and Policy Framework procedure rules contained within the Constitution of the Council requires consultation on budget proposals to take place. In October 2012 Cabinet approved proposals regarding the consultation strategy and framework for the budget for 2013/2014 and proposed briefings to the following stakeholders:
- Trade Unions;
  - North East Chamber of Commerce / Representatives of Business Ratepayers;
  - Voluntary Sector;
  - Youth Parliament;
  - Schools Forum, Head Teachers and Governors.
- 9.2 In addition to the above stakeholder consultation, a survey was undertaken to gain an understanding of views on the overall approaches to meeting the budget challenge.
- 9.3 To supplement the survey, workshops were held, with Community Spirit panel members and representatives from the voluntary and community sector, in different locations throughout the city.
- 9.4 Budget consultation with these groups has concentrated on the overall approaches to meeting the budget challenge to gain views. Further detailed consultation in relation to each of the proposals will be undertaken as each proposal is developed.
- 9.5 At each stage in the budget preparation process Scrutiny Committee is being consulted.
- 9.6 The findings from consultation undertaken indicate that the budget proposals in this report are consistent with the summary findings. More details of the findings of the consultation are included in Appendix B.

9.7 All of the feedback from the various consultations has been considered. The budget proposals in this report, including the necessary proposals for reductions in spending, fully recognise the identified need to prioritise resource allocation accordingly.

9.8 The Revenue Budget Report to January Cabinet formed the basis for second stage consultation. The notes of the meetings with the representatives of business ratepayers and trades unions to meet statutory obligations to consult on the proposed budget are included as Appendix C.

## **10. Equality and the Budget Proposals**

10.1 In accordance with the approach followed in previous years the Council continues to fully consider the impact of its plans by following a robust approach to equalities analysis.

10.2 Actions arising from the equality analysis carried out to date will be taken forward by directorates.

## **11. Detailed Budget 2013/14**

11.1 As set out above since the initial budget proposals were formulated, consideration has been given to the outcome of the budget consultation, the final settlement, the collection fund position, the council tax base, and government guidance in relation to council tax levels.

11.2 The Net Budget Requirement to be approved by the Council is funded through:

- Revenue Support Grant
- Retained Business Rates
- Top Up Grant
- any projected surplus on the Collection Fund and
- Council Tax.

11.3 The General Summary page of the Revenue Budget together with details of the proposed contingency and allocations proposed for investment in strategic priorities are included in Appendix I.

## **12. Medium Term Financial Position**

12.1 In considering the Revenue Budget for 2013/2014 the latest information regarding reductions to public spending, and estimated pressures over the medium term were taken into account and summarised in this report. This position is subject to ongoing update as information emerges. The latest updated Medium Term Financial Strategy 2013/2014 to 2015/2016 is set out at Appendix E. This will be refined in parallel with ongoing work regarding savings proposals for 2014/15 and future years.

## **13. General Fund Balances and Position in Relation to Major Reserves**

13.1 In considering the level of general balances as part of budget preparation decisions, regard is given to:

- known commitments against balances in future years;
- financial risks faced by the Council and the measures in place to mitigate them or meet them financially.

13.2 The estimated level of general balances as at 31st March, 2013 and 31st March, 2014 is set out at Appendix F. This takes into account estimated savings arising in 2012/2013 in relation to Interest on Balances and Debt Charges and planned contingency savings previously reported.

13.3 As agreed previously these will be transferred to the Strategic Investment Reserve to fund the one off spending pressures in respect of transitional costs associated with the Improvement Programme. Any further savings arising from contingency underspendings and other measures will also be earmarked for this purpose and reported to Cabinet as part of revenue budget monitoring reporting as appropriate.

13.4 In accordance with best practice an analysis of the major financial risks has been undertaken in order to inform the level of balances deemed necessary. These are detailed at Appendix G.

13.5 In addition the Council has a range of earmarked reserves e.g. the Strategic Investment Reserve. The major earmarked reserves are also set out at Appendix H.

13.6 In accordance with Part 2 of the Local Government Act 2003 there is a requirement for the Chief Financial Officer (CFO) to report upon the robustness of the estimates and the level of reserves. In making the statement, the CFO places reliance on information provided to him by other officers of the Council as part of the budget setting process. This process involves reasonable checks and other verification, which is undertaken in accordance with the overall system of internal control to validate the information provided.

13.7 Based upon the information used in determining this Revenue Budget 2013/2014 report, including specifically:

- the Medium Term Financial Position;
- the outcome of budget consultation set out at Appendix B;
- the Statement of General Balances set out in Appendix F;
- the Risk Analysis set out in Appendix G;
- the Major Reserves set out in Appendix H;

The Revenue Budget is considered robust and the level of reserves considered to be adequate for 2013/2014 after an assessment of the financial risks and future plans of the Council have been taken into account. The underlying level of General Fund Balances at £7.570m to the end of 2013/2014 are in accordance with the existing policy and are considered prudent and robust given the overall level of reserves.

## **14. Presentation of the Revenue Budget**

### **General**

14.1 Appendix I sets out the detailed Revenue Budget 2013/2014 for each Portfolio. All changes with the exception of the adjustments relating to final considerations of council tax levels, have been incorporated into the Budget.

### **Service Reporting Code of Practice**

14.2 The presentation of the budget reflects the requirements of the Service Reporting Code of Practice (SerCOP), published by CIPFA. The purpose of the Code is to standardise the way Local Authorities account for expenditure so that comparisons can be made with other Authorities and external providers. The Code defines 'best practice' for the purposes of financial reporting and therefore assumes the status of statutory guidance. Compliance with the requirements of the Code is therefore mandatory.

14.3 It should be noted that variations between the budget for 2012/2013 and 2013/2014 have arisen as a result of:

- the implementation of the budget reductions referred to in the report;
- the implementation of the new business operating model and the associated realignment of budgets to the new service providers;
- a review of charging for central support services, necessary as the new operating model has embedded to reflect the new ways of working and changes to services provided. While having no overall impact on the Council budget position, charges to individual services have been realigned;
- technical adjustments in relation to IAS19 pensions accounting and the impact of revaluation of assets.

Members will appreciate that these changes, where applied, do not enable a valid year on year comparison, and some significant variations between years may be apparent during this period of transition to the new Business Operating model.

### **Revised Estimates**

14.4 Quarterly budget reports have been reported to Cabinet during the year. The revised estimates reflect changes notified within those reports. In addition the revised estimate reflects variations in asset charges arising from revaluation of assets, the revised approach to central support costs referred to above and a number of technical adjustments e.g. contingency transfers

### **15. Suggested Reason for Decision**

15.1 To comply with statutory requirements.

### **16. Alternative options to be considered and recommended to be rejected**

16.1 There are no alternative options recommended for approval as the budget has been developed on the basis of an agreed framework with consultation carried out throughout the process.

### **Background Papers**

Cabinet Reports 16<sup>th</sup> January 2013

- Provisional Revenue Support Grant Settlement for 2013/2014 and Indicative Settlement 2014/2015
- Revenue Budget 2013/2014
- Council Tax Base 2013/2014
- Business Rate Income Forecast 2013/14

### Final Settlement 2013/2014

#### Impact for Sunderland

The position for Sunderland is largely unchanged as a result of the final settlement:

- There are no changes to the key funding elements for 2013/14. The amounts previously notified set out below:
  - Start up Funding Assessment, £187.771m
  - Revenue Support Grant £112.757m
  - Baseline Funding Level £75.014m
  - Retained Business Rates Income £40.414m
  - Top up Grant £34.600m
  - Safety Net Threshold £69.388m

There are no changes to the indicative amounts previously notified for 2014/15 for the above key funding elements.

- Changes by Government to the methodology for calculating Revenue Spending Power have resulted in a net decrease in revenue spending power before Public Health Grant of £4.090m (-1.5%) compared to 2012/2013 or £3.527m (-1.2%) after Public Health Grant. (previously £4.757m or -1.6%).
- The final position for 2013/14 includes for an estimated additional allocation of New Homes Bonus for Sunderland of £0.636m. The indicative settlement for 2014/15 includes for a further additional estimated amount of £0.495m (total additional £1.131m).

**Budget Consultation Results**

**1. Introduction**

The Budget Consultation for 2013/2014 was undertaken within the context of the need to significantly reduce spending for a third year in light of the Government funding reductions. The Budget Consultation process has therefore had the following objectives:

- To improve people's knowledge and understanding of the budget position and council's approach to budget setting
- To gain peoples views on meeting the budget challenge overall
- To explore views on what we are doing/planning to do, what else we can do to meet the budget challenge and areas for improvement.

**2. Background**

The annual budget consultation commenced during October / November 2012 comprising a survey and workshops.

Presentations on the budget planning framework were made to a range of stakeholder groups in accordance with the approach to Budget Consultation agreed by Cabinet in October 2012, and feedback was noted.

The following stakeholder groups were consulted:

- Trade Unions;
- North East Chamber of Commerce;
- Youth Parliament;
- Schools Forum, Head Teachers and Governors;

In addition to the presentations, members of Sunderland's citizens' panel, and voluntary and community sector were invited to take part in a self completion survey to ascertain residents' views on the issues set out at 1 above. The survey was also available online for completion by the general public.

**3. The survey**

A total of 611 respondents completed the survey including 589 Community Spirit panellists. The remaining 22 respondents largely comprised residents, and representatives of VCS organisations.

**4. Workshops**

Workshops were held across Sunderland with Community Spirit panel members and representatives from the voluntary and community sector (VCS) during November 2012. The workshops comprised:

- A presentation about the budget context followed by an opportunity to ask questions.

- An opportunity for participants to discuss with council officers their views on what we are doing/planning to do, what else we can do to meet the budget challenge and areas for improvement in relation to:
  - Children's Services
  - Street Scene Services
  - Culture, Sport and Leisure
  - Adult Social Care

Four workshops were held with Community Spirit panellists and a total of 62 panellists attended. One workshop was held with representatives from the VCS. A total of 15 small groups participated in the group discussions across the five workshops.

With regard to the workshops, participant feedback was positive. Of the 54 respondents who expressed an opinion, 98% were very/fairly satisfied overall

## 5. The findings

Findings of the survey and discussions at the workshops are summarised in sections 6 to 11 below. In summary, the findings demonstrate general support amongst respondents for the councils overall approach to making savings.

## 6. The councils overall approach to meeting the budget challenge

The survey findings:

Overall Approach	Extent of agreement %		
	Agree	Disagree	Don't Know
Supporting Business and encouraging investment in Sunderland to support job creation and employment	96	3	1
Reorganising the way we deliver services so that we have local teams who are able to deliver a wider range of services	90	6	4
Placing services together in one location instead of having dedicated standalone buildings	87	10	3
Focussing Resources on those families and individuals who are most in need	79	19	3
Making further savings in all back office and support services	69	23	8
Encouraging customers to access services using the internet rather than by telephone or in person	56	42	2
Introducing and / or increasing charges for some free or subsidised council services	48	46	6

The table above shows the majority of respondents are in agreement with each of the overall approaches to meeting the budget challenge.



## 7. Further use of approaches to providing council services in the future

The survey findings:

Further use of Approaches	Extent of agreement %		
	Agree	Disagree	Don't Know
Encouraging communities to do more for themselves such as keeping their areas clean and tidy	83	13	4
The use of volunteers, where possible and appropriate, to help deliver services alongside trained staff	69	24	7
Charities, voluntary and community sector organisations and other providers delivering some services on behalf of the council	62	27	11

The table above shows the majority of respondents are in agreement with the three approaches

## 8. Importance of maintaining quality of services

The survey findings:

Mean score where 5 is critically important and 1 is not important at all

	Average score of importance
Social Care Services for Children and disabled and vulnerable adults	4.68
Refuse Collection	4.48
Maintenance of Roads, pavements and cycleways	4.39
Street Cleaning	4.32
Street Lighting	4.22
Recycling Services	4.18
Environmental Protection Services	4.02
Homelessness and Housing advice	4.02
Facilities and activities for Children	3.74
Parks and open spaces	3.66
Sport and Leisure Centres	3.66
Libraries	3.65
Facilities and activities for young people	3.52
Car Parks	3.51
Tourism and events across the city	3.47
Museums and Heritage	3.44

As can be noted, social care services for children and disabled and vulnerable adults is perceived to be the most important service to maintain quality followed by refuse collection and a number of street scene services.

## 9. Acceptability of options for meeting the budget challenge in service areas

Survey respondents were asked which, if any, of three different options might be acceptable to help meet the budget challenge for a range of services. The options are:

- Focus the service on those most in need/where most needed
- Provide the service less frequently
- Introduce/increase charges.

They were also asked for any additional comments or further suggestions to help meet the budget challenge. In addition participants at the workshops were asked for their views on what we are doing and suggestions as to what else we can do to meet the budget challenge. The sections below provide feedback in respect of these questions.

### 9.1 Services for adults, families and children

#### 9.1.1 Children's services and Adult Social Care

The acceptability of different options in respect of children's and adult's services is shown below. The option of focusing the service on those most in need is the most commonly selected option for these services. The option to provide the service less frequently is acceptable to around one-fifth of respondents for all services except social care services (5%). Introducing/increasing charges is only acceptable to a minority in terms of social care services and homelessness and housing advice services but a greater proportion of respondents in terms facilities and activities for young people (26%) and children (16%).

	Focus on those most in need	Provide less frequently	Introduce / increase charges	None are acceptable
Social care services for children and disabled and vulnerable adults	79%	5%	9%	12%
Homelessness and housing advice services	65%	20%	5%	9%
Facilities and activities for children	48%	21%	16%	15%
Facilities and activities for young people	42%	20%	26%	14%

- In terms of feedback from the workshops and qualitative survey comments, in overall terms the importance of children's and adults social care and need to protect/focus on the young, old and vulnerable/most in need was recognised and there was support for the Council approach of affording children's and adults social care high priority.

#### How are we responding?

The feedback suggests we are on the right track in terms of early intervention as an approach, better targeting of services and extending the use of services where possible.

It was generally agreed that facilities should be used for wider community benefit and so we will progress this work.

### 9.1.2 Sport, leisure and cultural services

The acceptability of different options in respect of sport, leisure and cultural services is more evenly divided as shown below. Introducing / increasing charges tends to be more acceptable for these services than others and is most acceptable for sport and leisure centres. Whereas the option of providing services less frequently is less acceptable for sport/leisure centres.

	Focus on those most in need	Provide less frequently	Introduce / increase charges	None are acceptable
Sport and leisure centres	33%	14%	41%	13%
Libraries	35%	23%	24%	19%
Museums and heritage	27%	23%	33%	18%
Tourism and events across the city	28%	24%	35%	14%

In terms of feedback from the workshops and qualitative survey comments, the most popular aspects arising relate to:

- A range of suggestions about how best to provide sport and leisure services in a sustainable way including aspects such as making greater use of them, the need for accessible leisure activities, pricing and promotion, partnership working and private investment.
- A range of suggestions about how best to provide library services in a sustainable way including aspects such as co-location, making greater use of them, private investment, support from volunteers, opening hours and the importance of accessibility.
- Positive comments about tourism and events and support in the main for the need to do more to encourage visitors to the city and generate income
- The need for more/better information about activities, facilities and events.

#### How are we responding?

The feedback suggests that the Council is on the right track as far as looking at a range of options:

##### Sport, leisure and wellness services

With regard to the provision of more leisure activities within facilities the new Centre at Washington is being designed to provide a modern, fun, affordable, leisure destination. This will include leisure features within the swimming pool - including hydro slides. In addition to swimming and learner pools, a sports hall, sauna and steam facility, squash courts and soft play are included within the development brief along with external football pitches. The intention is that the new facility will provide an accessible leisure destination for the whole family.

#### Pricing, marketing and communications

In response to queries surrounding the price of activities and the programming of facilities, new arrangements are under development and will be introduced in 2013/14. These new arrangements will take account of the feedback in relation to charging and the view that services should be focused on those who would most benefit. As such we will continue to promote affordable access for all and have regard to the times of the day the different sectors of our community wish to participate. Having regard to the prevailing economic environment we will additionally be taking a more commercial approach to promoting the service and incentivising participation through marketing activity and special offers.

#### Provision for children and young people

We are updating our Play and Urban Games Strategy and will continue to develop and improve local play areas where there is evidence of need and we are able to secure investment.

#### Libraries

We are developing proposals for Sunderlands' Future Library Services. It is intended that the new service model will promote access for all to high quality reading materials and learning environments, that will embrace modern technological and e-based service developments and incorporate these within the overall service offer. We are also proposing to take services into local communities, to engender reading and learning. A variety of locations such as schools, children's centres, community centres, and other neighbourhood venues that local people have affinity with and that are accessible to them will be used to deliver these services. This approach has the potential to increase the overall number of locations where the Library services are accessible. Our residents and partners will be fully engaged in developing these proposals so that we can ensure that needs are met – in particular for those who would most benefit from the service.

#### Tourism and events

The planned establishment of a Local Authority Trading Company will help us to continue to increase the number of events within the city, attract more visitors and maximise opportunities to attract commercial partners.

The council has also recently introduced a Visitor Information Service (VIS) to expand the information provided throughout Sunderland and make it easier for visitors and residents across the city to obtain information about events and attractions in the city. The new VIS is available in the ten main Customer Service outlets. The new service reflects the growing trend for people to access information through digital media, such as websites and mobile applications. With this in mind Sunderland's on-line offer is being refreshed and improved for visitors, as are core materials. How Sunderland promotes itself to attract visitors is also being refreshed and the outcome of this work will be seen over the coming months.

## 9.2 Street scene services

The acceptability of different options in respect of street scene services is shown below. The option of focusing resources on those most in need is the most commonly selected option for all street scene services, and is most popular for maintenance of roads, pavements and cycleways (70%) and street lighting (61%). Introducing / increasing charges is virtually unacceptable for all services except car parks (27%) and environmental protection services (15%). The acceptability of providing the service less frequently is lowest for the maintenance of roads, pavements and cycleways (9%) and environmental protection services (12%) and highest for recycling services (30%) and refuse collection (26%). These two services are also the two to have the greatest proportion of respondents thinking that none of the options are acceptable (refuse collection - 32% and recycling services - 28%).

	Focus on those most in need	Provide less frequently	Introduce / increase charges	None are acceptable
Environmental protection services	58%	12%	15%	17%
Car parks	38%	17%	27%	17%
Maintenance of roads, pavements and cycleways	70%	9%	2%	20%
Street cleaning	58%	21%	2%	22%
Street lighting	61%	16%	1%	23%
Parks and open spaces	43%	24%	4%	24%
Recycling services	39%	30%	4%	28%
Refuse collection	40%	26%	2%	32%

In terms of feedback from the workshops and qualitative survey comments, the most popular aspects arising relate to:

- The opportunity for less frequent refuse collections although there were also some concerns about the potential impact on large families, and fly-tipping
- Positive comments about progress on recycling, suggestions about increasing recycling, minimising costs and maximising income
- The importance of/need for improvements to clean streets including aspects around dog fouling and litter and also some positive comments about services
- The potential to dim or switch off street lights to make savings whilst ensuring safety aspects are addressed
- The importance of road and footpath maintenance
- Suggestions around the need for cheaper or free parking to encourage visitors and also some parking issues

### How are we responding?

#### Refuse collection arrangements

The Council was successful in securing £4.7m grant from DCLG to retain weekly refuse collection, which will continue for at least the next four financial years under the terms of the grant. The grant offsets the financial burden on the Council keeping weekly collections.

#### Recycling and handling waste

In respect of improving recycling - all residents will get an information pack on the increased range of items that can go in the blue bin included cartons and yogurt pots from December 2012.

#### Litter and dog fouling

In terms of dog bins / enforcement, these issues are discussed regularly at Place Boards and targeted actions undertaken where issues in localities are identified.

#### Road and footpath maintenance

In respect of maintaining roads and footpaths we will try and minimise the impact of inefficiencies by working smarter and getting better value from our procurement of supplies.

#### Customer service and communications

In respect of increasing public awareness and education around litter and other environmental issues, this is clearly in line with our "Love Where You Live" campaign engaging communities in taking greater responsibility for their local environment.

#### Street lighting

In respect of Street Lighting we are currently in discussion with our PFI provider on how the energy bill can be reduced through better controls and introducing new technology.

#### Positive comments about the service

Positive comments in the respect of general service provision is further vindication that the Responsive Local Service approach is working

### **Notes of Budget Consultation meeting between representatives of the Council and the Chamber of Commerce held at Sunderland Civic Centre on Friday 1 February 2013 at 10.00am**

#### **Present:**

#### **Council Representatives**

Councillor Henry Trueman	-	Deputy Leader of the Council
Councillor Mel Speding	-	Cabinet Secretary
Dave Smith	-	Chief Executive
Janet Johnson	-	Deputy Chief Executive
Malcolm Page	-	Executive Director, Commercial and Corporate Services
Sonia Tognarelli	-	Head of Financial Resources
John Rawling	-	Deputy Director of Human Resources and Organisational Development

#### **Chamber of Commerce Representatives**

Jonathan Walker	-	NECC
David John Parker	-	Stagecoach North East
Hirohito Imakoji	-	Liebherr Sunderland Works Ltd
Sheila Bamber	-	Sunderland Minster
Nicola Johnston	-	Sunderland Marriott
David Cook	-	TTR Barnes
Mike Smith	-	Ashmore Consulting

The Deputy Leader of the Council welcomed representatives from the Chamber of Commerce and thanked them for their attendance. He asked Malcolm Page, the Executive Director of Commercial and Corporate Services to outline the current position with regard to the Council's revenue budget for 2013/2014 and the Medium Term Financial Strategy 2013 – 2016.

The Executive Director of Commercial and Corporate Services outlined the context within which the Council was working and highlighted that there was a clear link between the national economic outlook and public sector finances. The scale of budget reductions had increased greatly and they were expected to last until at least 2018. The system of financing local government had been overhauled in recent months and there had been changes to schools and health funding as well as council tax benefit.

The Council had received its provisional settlement from the Government on 19 December 2012 and having worked this through, the authority now estimated it would need to make spending reductions of around £100million over the period 2013-2016. The Executive Director explained how reductions in Government funding had to be

combined with unavoidable cost pressures from areas such as waste disposal, children's services and adult social care to arrive at an overall sum for reductions to budgets.

The Council's approach to meeting the savings requirement continued to be strategically focused and based on robust and prudent financial management. The approach would also include:

- Continued aggressive targeting of Strategic and Shared Services
- Increasingly commercial approach bringing significant benefits – LABV, Airport, Port, ICT, Regeneration etc.
- Balanced approach to Income Generation opportunities
- Creative with our Corporate Resources
- Financial resilience maintained
- Financial grip tightened
- Front line services shielded in 2013/2014 draft proposals
- Updated approach to workforce planning.

The Executive Director provided detail on the Improvement Plans for Place and Economy, Children's Services and Health, Housing and Adult Services and also highlighted existing Capital Programme projects and new priorities for investment and growth.

The Council's Cabinet would consider the Revenue Budget, Capital Programme and Council Tax proposals at its meeting on 13 February 2013 and the reports would be taken to Council on 6 March 2013.

The Deputy Leader of the Council invited views and comments from the Chamber of Commerce representatives.

Jonathan Walker asked about the Council's resilience in relation to other authorities in the region and the Executive Director stated that Sunderland had a strong financial management culture which had led to it having a strong and robust balance sheet and to be in a better position for reserves and contingencies than some other councils. He also highlighted that the Council was prepared to take risks and make the right kind of investments to support the development of the City.

It was asked how successful the Council had been in developing partnerships for projects which form part of the Capital Programme. The Deputy Chief Executive advised that wherever possible the Council would seek to maximise its investment with a combination of commercial and non-commercial partners. The Executive Director added that the Local Asset Backed Vehicle (LABV) was designed to bring in private expertise and finance whilst using the local authority investment as a cornerstone.

Councillor Speding commented that there was a long period ahead, with difficult choices to be made but the Council had made a commitment with its Capital Programme which demonstrated how it wanted to move forward.

Mike Smith highlighted that there were developments in the private sector coming forward and through his work on the Business Improvement District (BID) he had observed a willingness and commitment on behalf of the private sector to take



ownership of the scheme. He had noticed momentum building in the City and local businesses were being inspired by the Capital Programme. Jonathan Walker echoed these comments and noted that there was an appetite in the private sector to design services which were good for all the residents of the city.

The Chief Executive referred to the Voluntary and Community Sector and that the Council's core spend in this area had not altered in the last three years while spending reductions had been made elsewhere. This would not be a sustainable position in three years time and dialogue was required in the city on how the voluntary and community sector could reconfigure to become more efficient.

Jonathan Walker asked if representations were being made by the Council and its neighbouring authorities about the disproportionate impact of the cuts in the region. Councillor Speding indicated that he was making this case at every opportunity and that the Leader of the Council, in his capacity as Chair of the Association of North East Councils (ANEC), was also making these points with politicians and civil servants.

The Chief Executive highlighted that although Members would work hard to demonstrate the unfairness of the settlement, the Council still had to find ways to balance the budget with the least impact on services. He reported that against the backdrop of £100million savings over the last three years, the Council had achieved high levels of satisfaction both within the city and from elected Members and staff. The business community had never been as strong as it was currently and the voluntary and community sector was also very robust and dynamic. There were good relationships between elected Members and local community groups and these were just some of the things which should inspire energy and confidence in the City.

The Deputy Leader thanked those present for their attendance and their comments which would be taken into consideration by the Cabinet. He stated that the Council was always glad to hear the views of the Chamber of Commerce and valued their contribution. The Deputy Leader then closed the meeting.

**Notes of Budget Consultation meeting between representatives of the Council and the Trade Unions held at Sunderland Civic Centre on Friday 1 February 2013 at 11.30am**

**Present:**

**Council Representatives**

Councillor Henry Trueman	-	Deputy Leader of the Council
Councillor Mel Speding	-	Cabinet Secretary
Dave Smith	-	Chief Executive
Malcolm Page	-	Executive Director, Commercial and Corporate Services
Sonia Tognarelli	-	Head of Financial Resources
John Rawling	-	Deputy Director of Human Resources and Organisational Development

**Trade Union Representatives**

John Kelly	-	UNITE
Dave Riddle	-	GMB
Maxine Bartholomew	-	GMB
Alyson Bryan	-	GMB
Tom Usher	-	UCATT
Helen Coomer	-	Unison
Lisa Foot	-	Unison
George Pearson	-	Unison
Keith Ratcliffe	-	NUT
Gillian Mitchell	-	NUT

The Deputy Leader of the Council welcomed representatives from the Trade Unions and thanked them for their attendance. He asked Malcolm Page, the Executive Director of Commercial and Corporate Services to outline the current position with regard to the Council's revenue budget for 2013/2014 and the Medium Term Financial Strategy 2013 – 2016.

The Executive Director of Commercial and Corporate Services outlined the context within which the Council was working and highlighted that there was a clear link between the national economic outlook and public sector finances. The scale of budget reductions had increased greatly and they were expected to last until at least 2018. The system of financing local government had been overhauled in recent months and there had been changes to schools and health funding as well as council tax benefit.

The Council had received its provisional settlement from the Government on 19 December 2012 and having worked this through, the authority now estimated it would need to make spending reductions of around £100million over the period 2013-2016. The Executive Director explained how reductions in Government funding had to be combined with unavoidable cost pressures from areas such as waste disposal,

children's services and adult social care to arrive at an overall sum for reductions to budgets.

The Council's approach to meeting the savings requirement continued to be strategically focused and based on robust and prudent financial management. The approach would also include:

- Continued aggressive targeting of Strategic and Shared Services
- Increasingly commercial approach bringing significant benefits – LABV, Airport, Port, ICT, Regeneration etc.
- Balanced approach to Income Generation opportunities
- Creative with our Corporate Resources
- Financial resilience maintained
- Financial grip tightened
- Front line services shielded in 2013/2014 draft proposals
- Updated approach to workforce planning.

The Executive Director provided detail on the Improvement Plans for Place and Economy, Children's Services and Health, Housing and Adult Services and also highlighted existing Capital Programme projects and new priorities for investment and growth.

The Council's Cabinet would consider the Revenue Budget, Capital Programme and Council Tax proposals at its meeting on 13 February 2013 and the reports would be taken to Council on 6 March 2013.

The Deputy Leader of the Council invited views and comments from the Trade Union representatives.

Gillian Mitchell commented that the pressures which the Council was under were fully appreciated, however there would be a point where there would be nothing left to cut and she expressed concern that this would have a negative impact on the quality of services offered to schools. She highlighted that some schools were buying in services from other sources and this would affect income for the authority.

The Executive Director stated that although there had been a reduced requirement from schools in some areas of service, there had also been an increase in buy back from some schools. As part of the strategic approach, there had been success in re-engineering services to be more efficient without a loss in quality. The Head of Financial Services added that there was a lot of work going on with schools so that their needs and the market for services in the future was fully understood.

Helen Coomer expressed concern about the development of alternative service delivery models and that if services were placed outside of the Council now, should there be opportunities for reinvestment in the future, there would not be anything to build upon. The Chief Executive stated that unfortunately, the Council could not wait and hope for a change in external factors but would continue to discuss and negotiate how alternative service delivery would be implemented. The Council was committed to working in partnership with staff, trade unions and partners.

The SWITCH programme had been very successful in achieving savings for the Council over the last three years, however it was acknowledged that this model would not be able to deliver in the same way over the next three year period and new solutions would have to be developed. The Council would involve the trade unions in all discussions and accepted the points made about the communication of messages about this to staff.

Keith Ratcliffe noted that, from his experience in Children's Services, it was important to retain expertise within the city, as making savings in certain areas would result in more money being spent on services outside the authority. The Executive Director agreed that this was the case and that it was planned to make some investment into services which would achieve efficiencies and reduce out of city placements for looked after children. It was up to professionals and management to find the right balance for children and young people and for the Council.

The Deputy Leader thanked those present for their attendance and their comments which would be taken into consideration by the Cabinet. He stated that the Council was always glad to hear the views of the Trade Unions and noted the concerns which had been expressed. The Deputy Leader then closed the meeting.

**Medium Term Financial Strategy 2012/2013 – 2015/2016****Report of the Executive Director of Commercial and Corporate Services****1. Purpose of the MTFS**

1.1 The MTFS is a key part of the Council's Budget Policy framework which aims to ensure that significantly reduced resources are aligned to ensure that the residents of Sunderland are offered the best possible public services in future through the development of the Community Leadership approach which looks at opportunities to deliver services in new ways. The MTFS sets out the strategic financial position and financial direction of the Council over the next four years taking into account council policy objectives, government funding levels, other resources and service pressures. It is regularly updated to reflect the dynamic changes in local government finance. The key objectives of the strategy are:

- Continued strong financial resilience of the authority
- To identify and draw together strands of activity that will meet the savings requirement
- Continue to facilitate investment in alternative forms of service delivery and key priorities.

This summary draws out the current financial position and underpinning strategies and actions being followed to address the budget challenge.

**2. National Funding Position****2.1 Deficit Reduction Plan**

The Government confirmed in the December 2012 Autumn Statement that it intends to continue to address the deficit by following its deficit reduction plan. The latest position shows overall reductions of 3.9% in 2013/2014 and 10.7% in 2014/2015 with public sector funding reductions envisaged until at least 2017/2018.

**2.2 Local Government Resource Review**

As part of the 2011/2012 settlement, the government confirmed there were to be changes to the local government finance system from 2013/14 arising from its Local Government Resource Review (LGRR). The key funding elements to support the Council revenue budget from 2013/14 comprise:

**2.2.1 Start Up Funding**

- Retained Business Rates – the Business Rates Retention system replaces formula grant funding from 2013/14. Key features are:
  - 50% of Business rates will form part of the national 'central' share retained by Central Government to be redistributed; 50% will be retained locally.
  - A safety net arrangement is included with the intention of protecting Authorities from significant falls in their Business Rates income which has been set at 92.5% of their base line funding limit.

- Revenue Support Grant - From 2013/14 a number of Core revenue grant funding allocations have been incorporated into the new Business Rates Retention system including Formula Grant, Early Years Intervention, Learning Disabilities, Council Tax Support and Preventing Homelessness.
- Top up Grant - 'Top up' councils such as Sunderland will have their allocations fixed but will be index linked to RPI each year.

### 2.2.2 Other Core Grant and Revenue Funding

The significant core and revenue grants which remain separate to Revenue Support Grant include New Homes Bonus, Social Fund Grant, Public Health Grant; NHS funding to support Social Care and Benefit Health Grant; Education Support Services Grant.

### 2.2.3 Council Tax

- From 2013/14 the government has also implemented the Localisation of Council Tax support which means those who might have benefited from the previous Council tax benefit support scheme may need to pay towards Council tax from April 2013.
- As part of the settlement government proposed that a two percent referendum principle will apply to all principal local authorities. This means any increase above this level will require a referendum to give the local electorate the opportunity to approve or veto the increase.

## 3.0 Local Funding Position

### Government Funding

3.1 The overall position in terms of grant income changes for Sunderland are set out below

	2013/14	2014/15	2015/16	Total
	£m	£m	£m	£m
Government Funding Changes	13.9	16.6	16.7	47.2

## Spending Pressures and Commitments

3.2 A summary of the financial implications of spending pressures and commitments is set out below

	2013/14	2014/15	2015/16
	£m	£m	£m
Total Pay Price and other pressures	6.76	7.55	4.95
Welfare Reform	1.34	-0.27	0.02
Financing Charges	2.50	0.50	3.00
Replacement of prior year one off savings & end to end review savings	4.40	4.52	2.00
HHA demand pressures	5.37	1.59	2.69
Children's demand pressures	1.68	0.23	-
Waste Disposal	1.05	0.99	-
<b>Total Pressures</b>	<b>23.10</b>	<b>15.11</b>	<b>12.66</b>

The detail relating to spending pressures for 2013/14 are included in the Cabinet Report attached

### 3.3 Overall Local Position 2013/2014 to 2015/2016

The final Local Government Finance settlement for 2013/2014 confirmed a savings requirement of £37m for 2013/2014 and £29.4m for 2014/2015 and three year savings requirement for 2013/14 to 2015/16 is likely to be in the region of £98million. However, this position may change as the government provide further updated information as part of the next spending review.

The settlement covered the two year period 2013/14 and 2014/15 and estimates have been made for 2015/2016 based on high level data provided.

	2013/14	2014/15	2015/16	Total
	£m	£m	£m	£m
Government Funding Changes	13.9	16.6	16.7	47.2
Spending Pressures	23.1	15.1	12.7	50.9
<b>Overall position / Funding Gap</b>	<b>37.0</b>	<b>31.7</b>	29.4	98.1

#### 4.0 Strategy for meeting the Funding Gap

4.1 As part of the Budget Planning Framework for 2013/2014 reported in October 2012, Cabinet agreed to progress the approach to meeting the funding gap for 2013/14 and the medium term by:

- Progressing the existing improvement programme of savings which aims to meet needs and achieve savings while protecting as far as possible frontline services and maximising non frontline savings. Throughout the programme Strategic and Shared Services are being refocused and reduced by an average 50%.
- Continuing to protect so far as possible front line services which are being reshaped and refocused to:
  - Ensure services are responsive to local needs
  - Protect core services particularly those most vulnerable
  - Target resources rather than universal service provision.

4.2 Proposed reductions are summarised in the following table together with an indication of plans for future years.

	2012/13 £'m	2013/14 £'m	2014/15 £'m
<b>Corporate and Cross Cutting</b>			
Strategic and Shared Services	7.49	7.19	0.53
People Based Commissioning Reviews		1.00	3.00
Voluntary and Community Sector Review		0.49	
Integration of Public Health		2.00	
Corporate Resources (ITA /NHB / corporate)	2.70	2.70	0.50
SWITCH Resource Repatriated		5.10	3.20
	<b>10.19</b>	<b>18.48</b>	<b>7.23</b>
<b>Improvement Plans</b>			
Place and Economy	4.78	5.12	0.41
People - Children's Services	2.14	3.76	1.25
People - Health Housing and Adult Services	8.68	5.12	2.45
	<b>15.60</b>	<b>14.00</b>	<b>4.11</b>
<b>Use of One off savings</b>			
Capitalisation of Highways and Repairs spend		1.00	1.00
Temporary Use of balances and/ or grant	2.27	3.52	1.00
	<b>2.27</b>	<b>4.52</b>	<b>2.00</b>
<b>Total Ongoing Programmed Savings</b>	<b>28.06</b>	<b>37.00</b>	<b>13.34</b>

4.3 The proposals reflect measures being implemented through the new improvement programme framework including through:

- CSN development and Demand Management - The objective of the programme is to manage demand and cut the cost of the supply chain and in doing so deliver high quality and consistent customer service, gathering valuable



customer intelligence to shape future delivery arrangement, meet need and improve outcomes. The programme will look for opportunities to:

- Migrate or deepen customer contact and assess and decide activity split between services that are currently delivered within the Customer Service Network and those which are, at present delivered within the host directorate – This involves enabling decision making at the earliest point in the customer interaction. It relies on all channels of access being managed consistently and via generic processes such as; making an appointment, assessing need / eligibility etc.
- Cut the cost of the supply chain – This involves removing all non-value adding activity from the customer journey by ensuring as much contact is resolved at the first contact with any interactions that require specialist support being issued directly to the service delivery agent without the need for re-work, re-checking, re-assessing etc. This involves removing where possible, any administrative layers and leveraging the use of mobile technologies. It also includes enhancing community and alternative provision so customers can be signposted away from the Council as appropriate.
- Enhancing e-enablement / automation – This includes improving web content, developing 'request it', 'report it', 'apply for it' type services and where appropriate, enabling customers to access personal data and transact via service systems directly i.e. Libraries system, Planning portal. This area of work will also include pursuing automated telephony options.
- Development of Alternative Service Delivery Models for services – continuing to look at the most effective and efficient models of provision for services over the short to medium term as the Council is clear that to ensure the residents of Sunderland are offered the best possible public services in future that the development of ASDMs draws together our public sector ethos with opportunities to deliver services in new ways, whilst putting elected members and customers (and their insight) at the centre of decision-making. All this has to be done within the continuing budget reductions which in the period 2009-15 will be in the region of £200m. To support the development of ASDM, a dedicated team of staff that are working with and supporting Directors and Heads of Service on the development of a programme pipeline including individual project areas to focus over the next 36 months. The team will bring excellence in transformation activity, project management and business planning together with the experience and expertise in other parts of the council to ensure all ASDM are supported to deliver sustainable, high quality services in the future.
- Strategic Services and Fixed Assets – further and continual review to meet the future needs of the Council and its communities, maximise use of assets and deliver significant savings.

The framework has led to a range of cross cutting projects which are being progressed through the Council's Improvement Programme to support the delivery of savings into the medium term including:

- Community development - to work within communities and the voluntary sector to help build resilient and sustainable communities that can also support the delivery of services in the future
- Customer Insight and Intelligence – to support greater understanding of demand and trend analysis alongside understanding community views and needs to form the basis of service transformation
- Website and Intranet Development – to refresh content and grow the demand for low cost, on-line facilities for advice, guidance and a range of transactional services such as making a payment
- Workforce Development – In order to ensure timely delivery of savings proposals a refreshed approach to workforce planning
- Integrated Commissioning – to enable a cross cutting approach to future commissioning of People and Place based services to ensure the council commission services that meets changing needs whilst reducing the overall cost of the function

## **5.0 Strategy for Maximising Income Levels**

In addition to pursuing strategies to meet the budget requirement focus needs to be made on maximising income levels given the significant risks inherent in the new system of funding for local government.

### **5.1 Retained Business Rates**

#### **Business Rates and Local Council Tax Support Scheme**

- 5.1.1 Under the new local government funding arrangements, the Government makes assumptions about the level of Business Rates which will be achieved and retained by a Local Authority in determining its Start Up Funding Assessment. However the Council must determine for itself the anticipated level of Business Rate Income collection. The Council, at its meeting on 30th January, 2013, approved the Business Rate income forecast for 2013/14 and the amount to be retained by the Council is forecast to be £40.886m. This compares to a £40.414m government assessed level .
- 5.1.2 The Government will only fund losses on business rate collection after a certain level of loss has been incurred through the Safety Net mechanism. Based on our assumptions on business rate income collection, income retained by the Council could fall by up to £6.1m before the Government will provide 100% safety net funding. This means that business rates collected would have to fall by £12.4m circa 15% before the threshold is triggered and the Council receives any safety net funding.
- 5.1.3 An increased focus on monitoring and management of the various strands that impact on levels of income collection will require strong performance management in order to ensure that income levels are maximised . This will involve collaboration across the Council to gain intelligence about potential growth or reduction in the

business rate base, performance and trends in terms of collection as well as gaining external intelligence from the Valuation office and Gentoo. New processes and procedures are being introduced to ensure that the position can be understood and action taken as appropriate. A reserve will be established in 2013/2014 to reflect the uncertainty of income levels in this first year of the new system.

## **5.2 Other Core Grant and Revenue Funding**

Grant funding will be considered in the context of overall funding position and additional responsibilities.

## **5.3 Council Tax Levels**

The Council Tax Freeze grant for 2013/14 (and 2014/15) has only been offered to compensate those Authorities who decide not to increase their Council tax in 2013/14. As the funding is not of a permanent nature any use of the grant to support on going revenue expenditure will require alternative funding to be identified in the following years should the Council decide to access and accept the grant.

## **5.4 Fees and Charges**

In 2013/14, the Council is budgeting for in excess of £54m from sales, fees and charges. Benchmarking studies have identified the Council to be in the highest quartile compared to single tier local authorities outside of London. In addition compared to other ANEC authorities, the Council generated the second highest level of sales, fees and charges income. A review of all fees and charges takes place on an annual basis to ensure that opportunities to maximise resources are followed through. Areas where comparative data suggests lower charges compared to others will continue to be reviewed to consider potential opportunities for increased or additional charges.

Opportunities for new charges continue to be actively pursued by Directors as part of the improvement planning process.

## **5.5 Other External Funding**

The availability of external funding for public authorities to undertake economic regeneration has reduced significantly within the government's public expenditure framework. The government's emphasis is to involve the private sector directly in stimulating economic recovery, through mechanisms such as the Regional Growth Fund and the creation of Local Enterprise Partnership's which are being allocated additional resources such as through the Growing Places Fund. These avenues will continue to be pursued and factored into medium term planning assumptions.

## **5.6 Other Options for Future Funding**

The reduction in both revenue and capital funding requires the Council to focus on new and existing opportunities for funding for example:

- Capital Funding - Bonds, TIF, asset backed partnerships, European support
- Trading opportunities
- Alternatives to revenue funding

This will be used as a checklist for the Council and services to maximise opportunities for funding priority spending.

Some avenues are already being explored and will be proactively developed as part of improvement planning activity.

## **6.0 Community Budgets**

**6.1** Community Budgets were announced as part of the Spending Review 2010 and the first 16 Community Budgets were launched in April 2011. On 21<sup>st</sup> December 2011 14 Community Budget areas were announced, 4 Whole-Place and 10 Neighbourhood-Level Community Budget Pilots.

**6.2** In December 2012 the LGA reported that in their view 'the work of the pilots indicates that community budgets offer a way of living within smaller budgets that will not only make savings and protect public services but make outcomes better'.

**6.3** The Secretary of State for Communities and Local Government, the Minister for Health, and the Head of the Civil Service have stated publicly that they are persuaded that the pilots' proposals were worth pursuing and committed themselves to support a move to implement community budgets. In addition the Autumn Statement identified community budgets as an important factor in enabling the local public sector to live within its available funding.

**6.4** The impact of Community budgets will be factored into plans as the initiative develops.

## **7.0 Capital and Prudential Borrowing**

**7.1** The revenue implications of the Council's Capital Programme are considered as part of the process for setting the Capital Programme. The revenue impact of the Capital Programme is reflected in the MTFs, in particular the costs associated with the level of prudential borrowing required to deliver the Capital Programme.

**7.2** The four year Capital Programme for 2013/14 to 2016/17 was set to take account of the reductions in available external funding and the increased pressure on the Council's resources.

- 7.3 A number of proposed capital schemes are currently being considered to ensure that the Council continues to achieve and promote economic regeneration and other key priorities. The borrowing strategy sets out parameters to ensure VFM considerations are safeguarded.

## **8.0 Reserves and Balances**

The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

In establishing reserves, the Council must comply with the Code of Practice on Local Authority Accounting in the United Kingdom. The Executive Director of Commercial and Corporate Services is required, as part of the budget setting process, to provide a statement on the adequacy of reserves.

### **8.1 Reserves Policy**

The Council's policy on reserves is as follows:

- The Council will maintain its general reserve at a minimum of £7m to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.
- The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFS and reviewed annually.

All reserves are earmarked for specific purposes.

A general reserve of £7.6m is held to provide a level of contingency and meet any unforeseen expenditure and support the budget as planned as set out in Appendix F. A full analysis of reserves is included annually in the Statement of Accounts.

## **9.0 Budget Consultation and Equalities Impact**

- 9.1 The annual budget consultation commenced during October / November 2012 comprising a survey and workshops. In summary, the findings demonstrate general support amongst respondents for the councils overall approach to making savings.

- 9.2 In accordance with the approach followed in previous years the Council continues to fully consider the impact of its plans by following a robust approach to equalities analysis. The Council continues to seek to meet its obligations in relation to equality and diversity and has procedures in place at both a general and budget specific level to incorporate equality and diversity issues into decision making processes and the assessment of proposals.

## **10.0 Risk Assessment**

A comprehensive financial risk assessment is undertaken for the Revenue and Capital Budget setting process to ensure that all risks and uncertainties affecting the Council's financial position are identified. These are reviewed each year as part of the refresh of the MTFS. The key strategic financial risks to be considered in developing the MTFS are as set out at Annex 1.

## **11.0 Conclusion**

- 11.1 The Government has announced funding levels for 2013/2014. Indicative funding levels for 2014/15 are £6m worse than previously anticipated. However if the reductions demonstrated in the 2014/15 indicative settlement feed through into 2015/2016 then at this stage the three year savings requirement for 2013/14 to 2015/16 is likely to be in the region of £98million. This is in addition to the £100m savings already achieved in the period 2010/11 to 2012/13.
- 11.2 The Government's intention to eliminate the public sector spending deficit by 2017/18 results in extremely challenging funding cuts for the Council.
- 11.3 The new local government funding arrangements from April 2013 under the Business Rates Retention Scheme and the Local Council Tax Support scheme also have the effect of transferring significant risk to the Council. The combined effect presents a real challenge to ensure delivery of priorities as set out in the Sunderland Strategy and to protect frontline services.
- 11.4 Government and regional support for capital investment will also be much tighter over the life of the MTFS. If the Council wants to continue to invest in capital projects to deliver priorities it will need to be even more self sufficient and raise income or reduce service costs to support borrowing. There will be an increased focus on use of alternative funding models to support priorities and future service provision.
- 11.5 A combination of spending pressures, funding cuts, increased risk transfer and the need to support capital investment means that difficult choices will need to be made to ensure that the Council's current sound financial position is sustainable.
- 11.6 In the short term, all funding options, including budget savings and council tax levels, will be considered to allow a balanced and sustainable budget to be considered by Council on 6 March 2013.

## MTFS 2012/2013 to 2015/2016 Risk Assessment

Risk	Likelihood	Impact	Risk Management
1. Future available resources less than notified. For 2014/15 the settlement is indicative and no form information is available for 2015/16. This is likely to be impacted upon by the SR13	Likely	High	Annual review of reserves and reserves policy to identify future resources. Settlement confirms funding for 2013/14 and indicative information for 2014/15. Assumptions beyond 2014/15 based on best information available and will be updated regularly for government announcements.
2. Pay Awards and price inflation higher than assumed.	Possible	Low	Central contingency budget for pay and price increases set on the basis of the best available evidence.
3. Future spending plans underestimated.	Possible	Medium	Service planning process identifies future budget pressures. Operational Reviews modelling delivery linked to Council priorities.
4. Anticipated savings/efficiencies not achieved.	Possible	High	Regular monitoring and reporting take place but the size of the funding cuts increase the likelihood of this risk into the future. None achievement of savings would require compensating reductions in planned spending within services. Enhanced monitoring arrangements using project management and assurance resources will tighten further accountability and early intervention to mitigate the position. Principles to maintain General Reserve at £7.5m. Availability of Transitional Funding enables phasing of savings if appropriate.

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Risk Management</b>
5. Revenue implications of capital programmes not fully anticipated.	Unlikely	Low	Capital bid approval identifies revenue implications and links to Council priorities. Full analysis of revenue implications assessed and considered in scenario planning.
6. Income Targets for Business Rates and Council Tax not achieved	Possible	High	A prudent approach has been taken in setting the forecast income levels. The establishment of enhanced monitoring processes to identify any shortfall and remedial action will be taken. Provision exists to meet any shortfall in business rates business rate income above the safety net threshold.
7. Other Miscellaneous Income targets not achieved	Possible	Medium	Current economic climate likely to impact, mitigated by planned short term use of reserves. Regular monitoring and reporting and full review of fees and charges undertaken.
8. Budget monitoring not effective	Unlikely	High	Regular monitoring and reporting in line with corporate framework. Action plans developed to address problem areas.
9. Exit strategies for external funding ceasing/tapering not met.	Possible	Medium	Regular monitoring and reporting. Government policy to remove ring fencing provides greater flexibility. External Funding Strategy in place.
10. Loss of principal deposit.	Unlikely	Medium	Limited by the controls in the Treasury Management Strategy which focus on security of deposit rather than returns. Impact limited due to the strategy of a diverse portfolio and top rated institutions and greater use of low risk, government Debt Management Office.



<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Risk Management</b>
11. Interest rates lower than expected.	Unlikely	Low	Regular review, monitoring and reporting on interest rates. Prudent assumptions on likely interest rates for 2012/13 onwards have been incorporated into the MTFS.
12. Changes to Government and/or policy.	Likely	High	Source alternative funding options including short term use of reserves. Pressures factored into MTFS.
13. All MTFS risks not adequately identified.	Unlikely	Low	Council's Risk Management Profile ensures all operational and strategic risks are identified as part of the annual service planning process.

## STATEMENT OF GENERAL BALANCES

	£m
<b>Balances as at 31st March 2012</b>	<b>7.570</b>
<b>Use of Balances 2012/2013</b>	
- Contribution to Revenue Budget	(2.272)
<b>Additions to Balances 2012/2013</b>	
- Transfer from Strategic Investment Reserve to support transitional costs	2.272
<b>Estimated Balances 31st March 2013</b>	<b>7.570</b>
<b>Use of Balances 2013/2014</b>	
- Contribution to Revenue Budget	(2.572)
<b>Additions to Balances 2013/2014</b>	
- Transfer from Strategic Investment Reserve to support transitional costs	2.572
<b>Estimated Balances 31st March 2014</b>	<b>7.570</b>

## General Balances – Financial Risk Analysis

### Inflation

*Risk is that pay and price increases may exceed the levels provided for within the budget.*

This is very unlikely to occur due to the realistic prudent provisions made:

- the Government has indicated a limit on public sector pay of a 1.0% pay increase from 2013/2014 onwards;
- The CPI at December 2012 was 2.7% and the inflation outlook (CPI) for 2013 is the government target of 2.0% will be reached in early 2013;
- Appropriate provision for price increases has been included in the budget including a prudent provision for increases in contract prices and additional provision for fees for independent providers of care services;
- expenditure in respect of most of the budget heads can be either influenced or controlled;
- separate provision has been made for fuel and utility costs, which have been subject to significant price variations over the last year. Council procurement officers are continuously monitoring price changes in order to take advantage of any purchasing opportunities that may arise.

### Debt Charges

*Risk is that Debt Charges will be greater than budgeted.*

This is very unlikely to arise due to:

- a prudent provision has been made to enable potential borrowing under the prudential framework with some limited headroom for unplanned borrowing;
- the market consensus regarding the economic outlook for the year ahead is that base rates will remain at 0.5% throughout 2013/2014;
- a contingency exists for any additional new borrowing costing more than forecast.

### Investment Interest

*Risk is that income generated will not match budget provision.*

This is unlikely to arise as the base budget has been adjusted and a prudent rate of return has been estimated and included in the budget, which reflects the investments made to date, the prevailing market conditions and the economic forecasts for the year ahead.

### Contingencies

*Risk is that the contingency provision will be insufficient to meet the needs identified.*

This is unlikely to occur due to:

- prudent estimates being included in respect of each category of contingency provision and specific contingencies have been created for all known spending pressures in 2013/2014;
- the total contingency provision is deemed sufficient in the context of the net revenue budget;

### **Risk Management**

*Risk is that all risks have not been identified and that major financial consequences may result.*

This is very unlikely to occur due to:

- existence of Bellwin Scheme;
- the Council has a corporate risk profile in place, which is regularly and formally reviewed, and action is taken to mitigate and manage risks;
- corporate and directorate risk management action plans are maintained;
- comprehensive self and external insurance arrangements are in place;
- adequate self insurance funds including both provisions and reserves;
- risk management practices have been subject to external assessment and found to be robust and highly rated.

### **Financial Planning**

*Risk is that a major liability or commitment is currently known but has not been taken into account in the financial planning of the Council.*

This is unlikely to arise due to:

- the existence of a comprehensive Medium Term Financial Strategy process with regular updates during the year;
- benchmarking and networking with other senior finance staff in other authorities who are likely to identify similar liabilities;

### **Revenue Budget - Budgetary Control**

*Risk is that the budget will be overspent in the year.*

Whilst the scale of changes in the budget and levels of savings are significant compared to previous years, enhanced monitoring arrangements were established for 2011/2012 to deal with the increased risks associated with this to support the normal arrangements in place for financial management set out below including;

- monthly budget monitoring is in place in all Directorates;
- 6 weekly exception reporting to the Executive Management Team and corrective action agreed or set in train;
- quarterly Council-wide Revenue Budget Budgetary Control reviews are undertaken, reported to Cabinet and corrective action agreed or set in train;
- Financial Procedure Rules relating to delegated budgets provide for virement and carry forward of under / over spending to be used / met the following financial year;
- clear budget management responsibilities are in place and recorded within the Revenue Budget and Capital Programme.

- Arrangements are being further enhanced through integrated working with the Transformation Projects and Programme Support team and the Integrated Assurance Team.

### **Capital Programme Implications**

*Risk is that funding will not be available as planned or that over spending may occur.*

This is unlikely to happen due to:

- project sponsors are identified for each capital programme project and recorded within the Capital Programme;
- quarterly Council-wide Capital Programme Budgetary Control reviews are undertaken, reported to Cabinet and corrective action agreed or set in train;
- budgeted revenue contributions to fund capital expenditure and the Prudential Borrowing regime gives added flexibility in terms of financing the Capital Programme.

### **Reductions to the Revenue Budget**

*Risk is that planned reductions to the Revenue Budget will not occur or are unachievable.*

This is unlikely to occur due to:

- the budgetary control processes that are in place will identify any shortfall and remedial action will be taken;
- contingencies exist to safeguard against the non - realisation of some of the efficiency reductions.

### **Income from Business Rates and Council Tax**

*Risk is that forecast levels of income from Business Rates and Council Tax are not achieved*

This is unlikely to occur due to:

- a prudent approach taken in setting the forecast income levels;
- the establishment of enhanced monitoring processes to identify any shortfall and remedial action will be taken;
- provision exists to meet any shortfall in business rates business rate income above the safety net threshold.

### **Availability of Other Funds**

*Risk is that the Council could not call on any other funds to meet unforeseen liabilities.*

This is very unlikely as the Council has a range of other funds which whilst earmarked are not wholly committed in 2013/2014.

## Appendix H

### Major Earmarked Reserves - Position Statement

Title and Purpose of Earmarked Reserve	Opening Balance 1/4/2012 £'000	Movement during 2012/2013 £'000	Closing Balance 31/3/2013 £'000
<b>Strategic Investment Reserve</b> A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities	68,578	(26,980)	41,598
<b>Council Directorates - Delegated Budget Surpluses</b> The Council has approved the operation of a delegated budget scheme in accordance with Financial Procedure Rules which provides specific flexibility in the management of Directorate Budgets, for instance by allowing the carry forward of delegated budget under spend from one financial year to the next. There is a balance held by Directorates at the end of each financial year.	5,410	(3,923)	1,487
<b>Schools Delegated Budget Surpluses</b> These are the financial reserves held by schools under the Local Management of Schools/Fair Funding arrangements.	10,641	(2,641)	8,000
<b>Insurance Reserve</b> This reserve has been established to provide for potential claims associated with the housing stock transfer, future claims increases, the Port and risk management funds. The Reserve is also intended to cover the excess element of any significant claims in relation to Fire Insurance and Official and Professional Indemnity liability claims should they arise in future	3,685	0	3,685
<b>Street Lighting PFI Smoothing Reserve</b> The reserve was established in order to smooth the financial impact of the Street Lighting PFI contract across the 25 years of the contract life. In the early years of the contract surpluses were achieved as the full level of unitary charge is not incurred until the core investment programme for the installation of the new street lighting and highways signs is completed.	6,682	(390)	6,292
<b>Unutilised RCCO Reserve</b> This reserve consists of unutilised direct revenue financing and is fully earmarked to fund capital projects previously approved.	3,176	(1,299)	1,877
<b>Strategic Investment Plan Reserve</b> A reserve to fund the Council's contribution to its Strategic Investment Plan approved by Council in April, 2008.	8,049	(1,073)	6,976