

**Revenue Budget and Proposed Council Tax for 2008/2009**

**Report of the Chief Executive and City Treasurer**

**1. Purpose of Report**

**1.1 To report:**

- the overall revenue budget position for 2008/2009 as detailed in the Corporate Improvement Plan;
- the projected balances position as at 31st March, 2008 and 31st March, 2009 and advice on their level;
- a risk analysis of the Revenue Budget 2008/2009;
- a summary of the emerging medium term financial position facing the Council from 2009/2010 to 2011/2012;
- 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 2008/2009;
- recommend to Council the proposed Council Tax for 2008/2009;
- note the views, if any, expressed by the North East Chamber of Commerce and Trade Unions.

**3. Introduction**

**3.1** Cabinet will be aware that it approved budget proposals for the purposes of ongoing budget consultation at its January 2008 meeting. In addition, at that stage there were a number of uncertainties where clarity was awaited. These included:

- the consideration of the Collection Fund position;
- the final Council Tax Base figures;
- the impact of the Final Local Government Finance Settlement;
- any adjustments necessary to individual budgets in light of final information received and evaluated.

In addition, the outcome of budget consultation is reported and has been taken into account in the final budget proposals.

Finally, Cabinet is asked to consider:

- proposed final budget proposals;
- the proposed use of balances and the position in relation to major reserves.

**3.2** Each of the issues detailed above are dealt with in this report and in the light of the final position facing the Council, the report sets out the main features of the revenue budget proposals for recommendation to Council and inclusion in the Corporate Improvement Plan.

#### **4. Adjustments to the January Position**

##### **Collection Fund**

**4.1** Elsewhere on today's agenda the Collection Fund position is reported. 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**

**4.2** The Council, at its meeting on 30th January, 2008, approved the Council Tax Base for the area covered by Hetton Town Council (£4,056) and the City Council area (£80,036).

##### **Final Local Government Finance Settlement**

**4.3** The outcome of the final Local Government Finance Settlement for 2008/2009 is reported elsewhere on the agenda.

**4.4** The main features of the 2008/2009 final settlement so far as Sunderland is concerned are as follows:

- the Council's final grant entitlement for 2008/2009 has been reduced from the figure announced in early December of £151.527 million by £0.075 million to £151.452 million;
- the inclusion of the public family law fees within the settlement increased the council's grant by £0.214 million;
- the correction of a data error within the capital financing element of the provisional grant settlement, in relation to the Strategic Housing Investment Programme, has led to a reduction in grant of £0.289 million (this correction was expected);
- the Council's indicative grant entitlements for 2009/2010 and 2010/2011 have also been reduced, to reflect the above adjustments:
  - o for 2009/2010 from £154.798 million to £154.643 million, a decrease of £0.155 million; and,
  - o for 2010/2011 from £157.673 million to £157.462 million, a decrease of £0.211 million;
- the final increases in revenue support grant are 2.73% for 2008/2009 (2.93% provisional settlement), and indicative increases of 2.16% for 2009/2010 (2.21% provisional settlement) and 1.84% for 2010/2011 (1.88% provisional settlement);
- there have been no changes to the level of floor increases announced previously, however, the scaling factor for education and social services authorities has been increased from 64% to 67%;
- the Government has restated that it expects average council tax increases of substantially below 5% and has re-emphasised its intention to cap authorities if they place excessive demands on their council tax payers and that no authority is exempt from this action.

## 4.5 Area Based Grants

As part of their first 3 year Local Government Finance Settlement (for the period 2008/2009 to 2010/2011), the government announced an allocation of specific grants which will be transferred into an Area Based Grant allocation for each Council. This decision, by central government, aims to relax the controls over some of its specific grant funding so that Councils have more freedom and flexibility to use this funding.

The amount of Area Based Grant is to increase in the latter two years of the settlement as the government relaxes controls on the use of certain other special grants, most notably the Supporting People grant, which is to transfer into the Area Based Grant from 2009/2010.

The national allocations for Area Based Grant are as follows:

- 2008/2009 - £2,993.1 million;
- 2009/2010 - £4,829.2 million;
- 2010/2011 - £4,742.1 million.

Whilst the introduction of the Area Based Grant does provide more flexibility in how this funding can be used by the Council, each of the grants that have been included within the new Area Based Grant came with clear grant conditions and performance expectations and have been applied to date accordingly. It is considered that in the majority of instances, that these performance expectations will remain, are consistent with the Sunderland Strategy and Local Area Agreement and will be considered through the Comprehensive Area Assessment and other service based inspections in the future.

Accordingly, the budget is based on the passporting of the Area Based Grants to their host Portfolio / Directorate for 2008/2009 and a review will be undertaken during the early part of the next financial year to ascertain whether, in view of the flexibility now available, the best possible use of the grant is being made having regard to a range of factors including value for money, the new national performance framework, the new Local Area Agreement, and alignment with, and impact on, Strategic Priorities. The results of this review will then feed into the budget setting process for 2009/2010 and future years.

The Council's allocation for Area Based Grant for the 3 year period, is set out below, and can be compared to an equivalent grant total of specific grants (which were ring-fenced to spend on specific service areas) for 2007/2008 of £19.7 million:

2008/2009 - £25.2 million; (Connexions £3.3m transfer included)  
2009/2010 - £39.0 million; (Supporting People £11.2m transfer included)  
2010/2011 - £39.0 million.

The new major grants included within the new Area Based Grant are as follows:

#### Working Neighbourhoods Fund

The Neighbourhood Renewal Fund (NRF) has been replaced by the Working Neighbourhoods Fund (WNF). The basis used to allocate the fund has been revised using the latest Index of Multiple Deprivation 2007 which better targets this funding to the most deprived areas of the country. The grant is to be paid to 66 local authorities, which compares to 87 authorities which have been in receipt of NRF. The Council's allocations for the 3 year period are:

<b>Year</b>	<b>£m</b>
2008/2009	8.590
2009/2010	10.456
2010/2011	10.904

The amount of grant has thus increased significantly above the £7.655m allocation of NRF for 2007/2008 with an additional allocation of £6.6m over the 3 year period. However, it should be noted that the increases 2009/2010 and 2010/2011 allocations also reflect a transfer of responsibility and funding from the Department for Work and Pensions in respect of deprived areas for worklessness. Supporting information regarding the government's intended use for the Working Neighbourhoods Fund have yet to be received from government, but it is clear that the grant is intended to be used to address worklessness and economic development within the more deprived areas. This grant forms part of the Area Based Grant and means that this funding will now be paid directly to the Council for allocation.

#### Care Matters White Paper Grant

This grant has been provided to assist local authorities to build further capacity and make changes necessary to implement measures set out in the White Paper - Care Matters: Time for Change, published in June 2007. These measures seek to achieve better outcomes for children in care. The amounts are as follows:

<b>Year</b>	<b>£000</b>
2008/2009	230
2009/2010	302
2010/2011	341

#### **4.6 Other Special Grants**

The government also introduced some new special grants which remain outside of the new Area Based Grant to help meet service pressures and address new legal responsibilities:

#### Social Care Reform Grant

This grant is to support the transformation of adult social care over the next 3 years. The grant is intended to support councils with adult social services responsibilities to redesign and reshape their services and systems to enable them to deliver this transformation. The allocations for Sunderland are as follows:

<b>Year</b>	<b>£000</b>
2008/2009	554
2009/2010	1,288
2010/2011	1,580

#### National Concessionary Travel Scheme For the Elderly and Severely Disabled Grant

A separate grant is to be received by the Tyne and Wear Passenger Transport Authority to fund the government's initiative to support the extension of free bus travel for the over 60's and certain disabled people from 1<sup>st</sup> April 2008.

#### Other Grants

The government has also maintained special grant funding and in respect of certain special grants increased grant funding to address their national priorities particularly in the areas of deprivation, youth and education.

### 4.7 The Dedicated Schools Grant Position

Schools funding is separate from the General Formula Grant system and is instead funded through the ring fenced DSG. However, Non Schools Education Services (Local Authority central education functions) are still financed through the General Formula Grant system.

A separate announcement was made on 12<sup>th</sup> November 2007 by the Minister for Schools and 14-19 Learners on School Funding for the three year period 2008/2009, 2009/2010 and 2010/2011.

The headline increases confirmed within the announcement were:

	<b>2008/2009</b>	<b>2009/2010</b>	<b>2010/2011</b>
<b>Nationally</b>			
DSG	3.6%	3.3%	4.1%
Per Pupil Increase	4.6%	3.7%	4.3%
<b>Locally</b>			
DSG (estimate only)	2.0%	2.0%	2.3%
Per Pupil Increase	4.4%	3.7%	4.2%

The DSG for Sunderland is forecast to increase in cash terms by 2.0% in 2008/2009, 2.0% in 2009/2010 and 2.3% in 2010/2011, though the precise increases will be determined by the final pupil numbers submitted to the Department for Children, Families and Schools (DCFS) in February each year. The DSG increases locally reflect the falling school rolls experienced in

Sunderland Schools. The per pupil increases are, however, much nearer to the national average increases.

The strong focus on personalising teaching and learning to the needs of every child will continue over the next three financial years, with additional sums of £330 / £535 / £912 million earmarked within the DSG. This additional funding is to support universal roll out of a personalised offer to all pupils – including those with special educational needs.

To complement this increased funding through DSG, the DCSF will roll out funding of £138 million in 2009/2010, and £315 million in 2010/2011, to help improve the rate at which children progress, seeking to ensure that all children can meet their potential, and those who are behind expectations, or are falling behind, get back on track. A current pilot of this approach will run until July 2009, after which the funding will be made available to improve progression in all schools.

The increased funding for progression will be delivered through the Standards Fund for the next 3 years, as will increases in funding to extend the entitlement to free nursery education from 12.5 to 15 hours, announced by the Minister for Children, Young People and Families, (Beverley Hughes), on 7th November 2007.

In addition, the government has prescribed a Minimum Funding Guarantee (MFG) at school level based on a percentage uplift per pupil. The MFG reflects average cost pressures and an assumed efficiency gain of 1.0% for each of the next three years. The MFG for all schools has been set at 2.1% per pupil for each of the next 3 years.

The application of the MFG of 2.1% has also been applied to the majority of School Based Grants. The Learning Skills Council are introducing a new allocation and funding approach across the whole of the post 16 further education sector for 2008/2009. A major change is that the MFG will no longer apply. The Council is awaiting information of funding to be received.

Finally, in order to protect Authorities with sharply falling school rolls a minimum cash increase in DSG of 2% has been established.

The table below details the potential call on the total indicative funding available:

	£m	£m
<b>Total Indicative Funding Available</b>		<b>168.031</b>
MFG Requirement (2.1%)	152.777	
Rates	2.204	
Needs Led Formula Requirement	0.912	
<b>Total ISB Budget</b>		<b>155.893</b>
School Contingency		0.654
School Block - Other Expenditure		10.179
<b>Total Indicative Call on Funding</b>		<b>166.726</b>
Indicative Available Headroom		1.305
<b>Total Indicative Funding Available</b>		<b>162.748</b>

The schools forum at its meeting on the 31<sup>st</sup> January agreed:

- to allocate funding within the DSG to increase the redundancy provision by £360,000 (included within the Schools Block - Other Expenditure of £10.179m);
- to establish a full time Pupil Referral Unit KS1 provision at a cost of £92,000 (included within the Schools Block - Other Expenditure of £10.179m);
- to changes to the formula to distribute funds to schools following consultation with schools; and,
- that remaining available headroom would be distributed based on the personalisation factor with the local management of schools formula to reflect the governments priorities identified within the DSG.

#### **4.8 Local Government Pension Scheme**

When the provisional budget proposals were being drawn up, the information relating to the results of the actuarial review undertaken as at 31st March, 2007 had only been communicated by the administering authority, South Tyneside MBC, at fund level to the major employers within the scheme (the five District Councils).

The high level information provided by the Actuary at that time indicated that there was unlikely to be an additional spending commitment for the Council. These high level results were more positive principally due to better investment returns over the three year period since the last actuarial review.

The Council's specific results have only recently been received and confirm that no additional spending commitment is necessary. The results have been taken into account within the proposals contained within this report.

## **5. Budget Consultation**

**5.1** The Budget and Policy Framework procedure rules contained within the Constitution of the Council requires consultation on budget proposals to take place. In September 2007 Cabinet approved proposals regarding the consultation strategy and framework for the budget for 2008/2009. This included briefings to the following stakeholders:

- Trade Unions;
- North East Chamber of Commerce;
- Youth Parliament;
- Schools Forum, Head Teachers and Governors; and
- Citizen's Panel.

Presentations were made to the first four stakeholder categories and feedback noted.

**5.2** In addition, a telephone survey was undertaken of the citizen's panel - Community Spirit - of potential priorities for further investment resulting in the following top five rankings:

1. Services to help people live in their own homes for as long as possible;
2. Modern apprenticeships for young people;
3. Tackle older housing and market failure;
4. Alternatives for landfill for waste that cannot be recycled;
5. Facilities and activities for young people.

**5.3** Finally, four 'focus groups' were held in different locations throughout the city at which members of the Citizens' Panel were provided with enhanced information to assist them in considering potential budget implications. The Group were asked to rank, in priority order, a variety of spending pressures, if resources were available to invest in service development. Additional priorities to those detailed above emerged from this part of the consultation as follows;

- Support to vulnerable young people to improve their attainment at GCSE;
- Providing subsidised travel for vulnerable young people; and,
- Measures to help the most vulnerable groups into employment.

**5.4** All of the feedback has been considered. The budget proposals in this report, taken alongside outline plans for use of special grants and other initiatives and plans in train, fully recognise the priorities identified and allocate additional resources to address these issues.

**5.5** The outcome of the budget consultation undertaken is detailed at Appendix A. The Revenue Budget Report reported to January Cabinet formed the basis for second stage consultation. Any formal views of the representatives of business ratepayers or unions will be despatched to members as soon as they are received or else tabled at the meeting.



## 6. Budget Proposals

### Spending Pressures

#### 6.1 Adults Services

##### Independent Care Providers

Significant additional provision is proposed to be provided to assist in funding fees for independent care providers for residential, nursing and other social care services in 2008/2009. Notwithstanding the modernisation of Adult Services underway, it is important that capacity is retained and managed in the independent care market. This will address the strategic priority of 'improving health and social care'.

##### Preventative / Independence Services

The new Social Care Reform Grant has been introduced to help Councils modernise Adult Social Services and thereby deliver more cost efficient and effective care packages for the elderly. The grant support allocated is as follows:

Year	£000
2008/2009	554
2009/2010	1,288
2010/2011	1,580

Taking account of the decision to rephase the repayment from Adult Services to fund previous transitional costs associated with the implementation of the Home Care Strategy, which has released a one off sum of £500,000, the total provision available to fund new methods of care which seek to maximise the independence of older people and enable more people to live in their own homes independently for longer is £1,054,000 in 2008/2009.

In addition, Cabinet has recently approved a proposal to implement a significant extra care scheme with a range of community facilities at Silksworth. This will provide 41 x 2 bed apartments on a mixed tenure basis which will bring added capacity and a different type of provision to the overall provision available from Adult Services.

Furthermore, the Adults Services capital programme new starts for 2008/2009 included elsewhere on today's agenda include schemes for development of telecare services including:

- investment in telecare services for overnight services which are aimed at providing appropriate responses during the night to vulnerable older people at significant risk of admission to residential care or hospital in order to keep them in their own home;
- investment in telecare equipment (i.e. Wandering Devices, Fall Detectors, Pressures Mats, etc) at three re-modelled Sheltered Schemes (Emblehope House, Havelock House and Albany House). This will promote independence and will allow older people to live at home independently for longer.

This will address the strategic priorities of 'improving health and social care' and 'improving the quality, choice and range of housing'.

## **6.2 Waste Disposal**

Additional provision of £135,000 has been included to enable the 'Kerb It' collection service to be brought back in house with the objective of improving customer service and providing more flexibility as the wider strategic solution is developed and procured. In addition, provision has been included in the council's contingency provision to improve education and raise awareness in relation to the need to maximise recycling of waste.

The Council is engaged with Gateshead MBC and South Tyneside MBC in a South Tyne and Wear Waste Management Partnership in order to jointly procure a strategic waste disposal solution. Provision has been made to ensure that the council can fund its share of the preparatory costs associated with a procurement of this size. Whilst the technology to be deployed remains to be decided it is already clear that there is very likely to be a sizeable affordability gap when estimated future costs are compared to those currently incurred. However the 'do minimum' option is even more costly. The overriding intention of the strategic solution is to minimise the use of landfill as a means of waste disposal in the future. Whilst it is not planned for the strategic waste disposal solution to become operational until 2012/2013, it is prudent to start to consider the affordability gap which will arise, at this early stage.

At this stage, and taking account of expenditure that the Council will have to meet in any event next year due to the imposition of landfill tax, provision of £1,055,000 has been included in the budget proposals as a first stage contribution to the Council's share of the affordability gap.

This provision will ultimately address the strategic priority of "developing an attractive and accessible city".

## **6.3 Modern Apprenticeships**

Government policy is placing increased emphasis on workforce development in response to the Leech Report and the Sub National Review. In addition the Neighbourhood Renewal Fund, now re-titled as the Working Neighbourhoods Fund, has a tighter focus on worklessness and economic development issues. Consideration will be given to utilising part of the new Working Neighbourhoods Fund to fund modern apprenticeships and encourage these across all employers across the city, where possible.

## **6.4 Activities and Facilities for Young People**

Children's Minister, Beverley Hughes, outlined plans on 5<sup>th</sup> December for a multi-million pound fund to provide young people in disadvantaged areas with activity areas, such as skate parks, basketball courts and music workshops, stating that the Government was going to 'bring youth facilities and opportunities into the 21st century'.

The Minister has announced a national sum of £420 million as part of a wider £679 million package for young people's services to support the government's 10 year youth strategy.

Whilst full details of the Council's allocations have yet to be received, confirmations to date indicate that the Council is to receive additional sums over and above that being received in 2007/2008 of:

- £311,000 in 2008/2009;
- £578,000 in 2009/2010;
- £696,000 in 2010/2011

across three grant funding streams: Youth Opportunity Fund; Youth Capital Fund and Positive Activities for Young People.

In addition, a total of £225 million has been allocated over the next 3 years to create more safe places to play. This will enable 3,500 new or rebuilt playgrounds made accessible to children with disabilities, funding 30 new pilot schemes of supervised play parks for 8 - 13 years olds, 30 play pathfinders, and piloting new volunteering schemes that will support play. The investment builds on the support for play sites already provided by BIG lottery funding and associated play strategies that local authorities have suggested. A new national strategy on play is to be published in the first half of 2008.

Allocations for Sunderland have yet to be announced. However, the Council has already received notification that it's Big Lottery Funding application of over £759,000 for Childrens Play Facilities has been successful. This will provide 6 new equipped play areas to fill gaps in provision and increase the quality of play areas.

Facilities and Activities for Young People continues to register as a high priority within the annual MORI surveys. These investments will address the strategic priorities of 'reducing crime and the fear of crime', 'raising standards and increasing participation in learning' and 'creating inclusive communities'.

## **6.5 Tackle Older Housing and Market Failure**

Work continues with the acquisition and clearance of properties in Castletown, Hetton Downs and Eppleton. This is being supported by a combination of funding received through the Single Housing Investment Programme, and from English Partnerships, who have acknowledged the success of the approach in these areas and the progress made and are extremely positive that further funding will made available to help continuation of work to regenerate these areas and to support the master plans that have been developed in consultation with local people.

Working with Back on the Map a Neighbourhood Renewal Assessment (NRA) has been carried out for the middle Hendon area, which has identified some key courses of action to be undertaken. An Action Plan is being developed as a result of the findings of the NRA, which will see the improvements to make homes decent, and some selective demolition and the construction of new properties for sale and rent through a partnership with Home Housing and

Tees Valley Housing Association. New Deal for Communities funding will be used to fund a majority of the improvement works and a bid has been made to the Housing Corporation for funding to help support the new build properties.

## **6.6 Other Strategic Priorities**

Members will recall from the January Revenue Budget report that consideration is being given to a range of strategic priorities identified through the budget consultation processes. Areas under consideration include further investment in extra care, streetcare, community sports facilities, environmental improvements and enforcement, and enabling small business start ups. Whilst proposals are still being considered and final proposals will be reported to Cabinet in March as part of a wider plan, at this stage it is proposed to earmark an overall sum of £900,000 to ensure any investments agreed are sustainable into the future and that strategic priorities are addressed.

## **7. Additional Proposals**

### **7.1 Proposed 'One off' Investments**

As referred to in the January Cabinet report additional funds will accrue to balances at the outturn for this financial year arising from savings on debt charges and additional interest from investments and unspent contingencies. It is proposed to temporarily earmark a major part of these savings to the Strategic Investment Reserve to contribute to the temporary financing of the Education Capital Programme to reflect the delay in realisation of capital receipts, the potential cost of further compensation payments for equal pay as they arise, and to potentially assist in funding strategic priorities (to be reported to March Cabinet as referred to in paragraph 6.6 above). In addition, it is proposed to use part of this resource to fund 'one off' expenditure pressures relating to capital and revenue. These are set out below;

### **7.2 Highways Maintenance**

Since the introduction of the additional provision in 2002/2003 highway claims have reduced from 668 to 171 in 2006/2007 and the annual residents survey for 2006/2007 has shown a marked increase in satisfaction for both footways and road maintenance. Whilst the original commitment was to address the backlog over a five year period, due to inflationary pressure over that five year period, there is a clear case for continued funding for 2008/2009. It is proposed to continue to provide a sum of £400,000 to supplement the existing Highways Maintenance budget and thereby address the backlog of maintenance and continue to drive down the incidence of claims. A review of the position will be undertaken during 2008/2009 to assess the strength of the case and relative priority for some additional resources to be provided on an ongoing basis.

This will address the strategic priority of 'developing an attractive and accessible city'.

### **7.3 Absence Management - Additional Occupational Health Unit (OHU) Capacity**

In order to reduce OHU appointment waiting times to as low a level as possible through the period to 31st March, 2009 it is necessary to provide additional resources to enable additional OHU doctor resources to be procured. It is proposed that a sum of £150,000 is earmarked for this purpose.

### **7.4 Revenue Contribution to Capital (RCCO)**

There are a significant number of Capital Programme pressures which need to be addressed as part of the Capital Programme for 2008/2009. These feature as proposals elsewhere on today's agenda. The major areas of investment include;

- Flash Flooding and Highways Drainage - £350,000
- Ryhope Beach Access Works - £325,000
- Economic Development Provision 2008/2009 - £800,000
- Herrington Country Park - Infrastructure Works - £300,000
- Environmental Improvements - Public Art - £250,000
- Barnes Park Development - increased provision - £300,000
- Cultural Centre – The Arrival's Lounge - £1,445,000

### **Proposals for 'Ongoing' Funding**

### **7.5 Business Continuity**

As reported elsewhere in the agenda an authority wide review of disaster recovery arrangements for directorate based and corporate ICT systems is underway. In addition to one off capital cost requirements there are likely to be ongoing revenue consequences arising from maintaining the disaster recovery arrangements once the review has been concluded. Currently there is provision of £100,000 in the ICT unit base budget and £80,000 in the Council's contingency provision. The contingency has been reviewed and revised to £150,000 to give flexibility to strengthen the existing arrangements which is considered likely to be necessary.

### **7.6 Repairs and Maintenance**

The proposed budget has been drafted to include an additional £250,000 for repairs and renewals per annum. This will be used as part of a wider approach of rationalisation and renewal to address the backlog of repairs.

### **7.7 Service Budget Pressures and Legislative Changes and CPA Improvement Plan**

Provision has been included in the contingency to enable the Council to provide resources to address continuing service budget pressures including those due to the changes in legislation relating to land search charges. In addition, whilst the Council has performed well in relation to the Comprehensive Performance Assessment there are increasing expectations in relation to governance, procurement, business continuity, communication

and modernisation which are, and will continue to be, a feature of the CPA and subsequently the Comprehensive Area Assessment, for the foreseeable future. Accordingly, it is proposed to continue to include provision in the contingency to enable these requirements to be addressed.

## 8. Efficiency Savings

8.1 As reported to Cabinet in January 2008, as part of the Budget Planning Framework, all Directorates were asked to provide details of the impact of effecting savings up to 4% with priority being given to those efficiency savings which could be implemented without service or policy implications.

That work, and other work related to the production of forward and backward looking Annual Efficiency Statements in response to the Gershon Efficiency Review, has placed the Council in a good position to respond to the settlement for 2008/2009.

8.2 The efficiency savings submitted were assessed against the following criteria:

- efficiency savings to have no material effect on policy or front line services except where already approved by Cabinet and/or Council;
- efficiency savings that minimise the effect on job losses and seek to ensure, so far as possible, no compulsory redundancies.

The following table shows the financial impact of efficiency savings proposed to be taken into account in the budget for 2008/2009:

<b>Service</b>	<b>2008/2009</b>
	<b>£000</b>
Adult Services	737
Children's Services	480
Community and Cultural Services	450
Development and Regeneration	86
Chief Executive's Office	76
City Treasurer	127
City Solicitor	10
<b>TOTAL</b>	<b>1,966</b>

The nature and detail of the efficiency savings proposed varies across Directorate budgets. The efficiency savings have been reflected in the Corporate Improvement Plan.

- 8.3** As reported to January Cabinet a range of Corporate Efficiency Projects have been in place for 15 months and an overall target of £500,000 was included within the revenue budget assumptions for the current financial year. Overall savings generated in year have exceeded the target set and have been taken into account in relation to 2008/2009 and future years.

As part of the Revenue Budget strategy for 2008/2009 a fresh target for additional savings of £500,000 across all Corporate Efficiency Projects has been set. The following Corporate Efficiency Projects are being progressed:

Voice Over Internet Protocol (VOIP)  
Car Leasing  
Transport  
E payments  
Corporate Procurement  
Water Cooler Replacement  
Energy Management  
Smarter Working  
Printer Rationalisation  
On Line Recruitment

Further opportunities for developing corporate efficiency projects are being explored to assist with the medium term position in the light of new guidance on the efficiency framework.

- 8.4** Cabinet will be aware that a range of service improvement projects are being taken forward as part of the Council's Improvement Agenda. A report elsewhere on today's agenda provides an update on the progress made in relation to those projects. Where efficiency savings are generated through the implementation of these projects which are cashable and not needed for reinvestment, appropriate adjustments will be made to budgets during the year to contribute to the objective of maximising efficiency savings and meeting the target of £500,000 referred to in paragraph 8.3 above.

## 9 Overall Resource Position

### 9.1 Summary Position

	£m	£m
<b>Net Budget Requirement 2007/2008</b>		<b>229,575</b>
<b>Transfers of Specific Grants into General Grant</b>		
Provisional Settlement	5,933	
Final Settlement - Public Family Law Fees	214	<b>6,147</b>
<b>Commitments</b>		
Pay, Prices, Pensions, Service Pressures	6,829	
Fees and Charges	(745)	
Passenger Transport Levy	467	
Waste Disposal/Recycling	645	
Grounds Maintenance New Adoptions	100	
Repairs and Renewals	250	
Port	(604)	
<b>Spending Pressures – Ongoing</b>		
Waste Disposal Strategic Solution	1,055	
Strategic Priorities	900	<b>8,897</b>
<b>Efficiency Savings</b>		
- Corporate Efficiency Savings	(500)	
- Directorate Efficiency Savings	(1,966)	<b>(2,466)</b>
<b>Spending Pressures – One Off</b>		
Revenue	2,150	
Capital	2,899	<b>5,049</b>
<b>Contribution from Balances</b>		<b>(4,049)</b>
<b>Net Budget Requirement 2008/2009</b>		<b>243,153</b>

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

- the grant received from government (the Council's share of Revenue Support Grant and National Non – Domestic Rates); and
- Council Tax.

9.3 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.

9.4 The formal decisions of the major precepting bodies are awaited regarding their precept proposals for 2008/2009. Consequently, the Proposed Council Tax for 2008/2009 will be tabled as an Appendix to this report at the Cabinet meeting on 13th February 2008.



## **10. Medium Term Financial Position**

**10.1** In considering the Revenue Budget for 2008/2009 it is important to have regard to the medium term position, covering 2009/2010 through to 2011/2012. There are a number of assumptions included in the Medium Term Financial Strategy and a range of scenarios, which may emerge. Those particularly significant commitments, which have been considered when estimating the resources position for future years are set out below:

### **10.2 Pay and Pensions**

The government has indicated that they expect public sector pay awards to be no higher than 2.0%. Account has been taken of this policy stance and also the impact of the implementation of the Single Status Agreement and other available information in preparing the Medium Term Financial Strategy.

With regard to pensions, the next actuarial review is planned for 31st March 2010, the results of which will be implemented in 2011/2012. Taking account of the phased financial impact of the introduction of the new pension arrangements it is not anticipated, at this stage, that there will be any need for an increased employer contribution in 2011/2012.

### **10.3 Debt Charges and Revenue Consequences of Capital Expenditure**

The prudential framework for the control of local authority capital expenditure provides flexibility to borrow to fund capital expenditure. As reported elsewhere in detail on today's agenda, the level of government support within the revenue support grant settlement and the expectations of individual government departments to see a certain level of capital investment in the areas they are responsible for continues to place constraints on local authorities. Allowance has been included on the best information to meet anticipated government supported borrowing.

With regard to the revenue consequences of capital expenditure, other than financing costs, the medium term planning assumption is that these will be met from within Directorate cash limits. For major corporate developments additional provision may be included in the Medium Term Financial Strategy.

### **10.4 Passenger Transport Levy**

The position relating to the PTA levy in future years is based on the latest estimates which provide for an increase of 2.5% in future years.

### **10.5 Waste Disposal**

The impact of increases in the costs of waste disposal have been factored into the Medium Term Financial Strategy including landfill tax, volume of waste and recycling requirements and the need to address a sizeable, but as yet unknown, affordability gap associated with the Waste Disposal Strategic Solution. The provisions for waste disposal in the short to medium term will continue to be affected by the annual increases in landfill tax (£8 per tonne per year) and the need to continue to make progress in the area of recycling.

## **10.6 Adult Services Demand and Performance Issues**

The increasing longevity of the national and specifically, the city's, population continues to place pressure on Adult Social Services budgets and indeed health budgets generally. In addition, client expectations and demand for support which enables them to maintain independent living is requiring reconfigured services and the growth in establishing and operating individualised budgets to meet client care needs will create transitional pressures. These factors have been recognized in previous year's budgets, in this year's budget specifically, where significant additional resources have been allocated, and the Medium Term Financial Strategy.

The government is currently undertaking a review of how Adult Social Care is funded and the results will be factored into the Medium Term Financial Strategy when known.

### **Funding**

## **10.7 Spending Review 2007**

The Spending Review 2007 has set out indicative funding in terms of general and special grants for 2009/2010 and 2010/2011. The indicative settlements have been factored into the Medium Term Financial Strategy.

In light of the outlook, it is important for the Council to continue to identify and maximise efficiency gains and savings.

## **10.8 Impact of European Funding Changes**

There is a fall in the quantum of European funding and changes in the way funding is distributed which will impact on the council's ability to attract the level of funding it has in recent years. The vast majority of funding is attracted to specific projects which are either capital investments or time limited. Every effort will continue to be made to maximise funding from this source consistent with addressing the Council's Strategic Priorities.

## **10.9 Outcome of the Lyons Review**

The final Lyons Report 'Place-shaping: a Shared Ambition for the future of Local Government' was published in March 2007 and contained numerous recommendations for both central and local government. Specific recommendations were made for different sectors and services with the overall view that local and central government should pursue a developmental approach to reform and that flexibility is more important than the balance of funding. Whilst the government initially ruled out the implementation of certain recommendations, it did indicate that these would be kept under review and brought forward if appropriate over the medium term. Specifically, the government has already reformed Empty Property Business Rate Relief and indicated that it will facilitate the introduction of a supplementary business rate by 1st April, 2010.

The recommendations, and any action planned or taken by government, will be kept under review and the incorporated within the Medium Term Financial Strategy as appropriate.

## 10.10 Maximising Efficiency Savings

In October 2007, the DCLG published a document entitled 'Delivering Value for Money in Local Government: Meeting the CSR07 challenge' which sets out the government's approach to achieving the efficiency requirements for the period of the Comprehensive Spending Review 2007.

The Comprehensive Spending Review 2007 includes national targets for efficiency for Local Government of £4.9 billion cash releasing efficiency savings by the end of 2010/2011 equating to an overall target of 9.3% for the three-year period or 3% per annum. This compares to a 1.25% per annum 'cashable' efficiencies target under the Spending Review 2004.

There are no mandatory individual targets for Councils as the 3% target is for the sector overall. However monitoring of achievement of efficiency by individual authorities will be through the new National Indicator set. National Indicator 179 on Value for Money will record:

*'the total net value of ongoing cash releasing value for money gains that have impacted since the start of the 2008/2009 financial year.'*

The Council has an excellent record in responding to the efficiency targets set alongside the Comprehensive Spending Review 2004 and achieved the Governments three year target of 7.5% one year early with achievement to the end of 2006/2007 of 8.9%.

However the 3% cashable efficiencies target is clearly a more stretching target. In addition, the Council has a clear imperative to seek to maximise efficiencies in order to avoid having to effect budget reductions which impact on service delivery. The Council is therefore currently revisiting its Efficiency Strategy to take account of the Government's revised requirements. However, the following approaches will continue to contribute to addressing the need to maximise efficiency savings into the future:

- Service Modernisation Programmes including the Children's Placement Strategy, the Leisure Services Review, Adults Home Care Strategy etc.;
- Corporate Efficiency Projects, for example, Voice over Internet Protocol, Corporate Procurement and Energy Management;
- The implementation of the Council's Improvement Agenda projects;
- The use of a cash limited budget approach to budget preparation and management which stimulates the identification of directorate based efficiency savings.

## Overall Outlook

**10.11** The table below sets out a range of Net Budget Requirements for each of the next three years. They are based on a range of assumptions.

	<b>2009/2010 £m</b>	<b>2010/2011 £m</b>	<b>2011/2012 £m</b>
Net Budget Requirement	251.9 - 254.3	262.4-264.2	270.4-273.1
% increase	3.5% - 4.6%	4.1% - 3.8%	3.0% - 3.3%

**10.12** Clearly there is a wide range of potential Net Budget Requirements for 2009/2010 and future years. This reflects the uncertainty regarding a number of factors including:

- the level of pay awards and the impact of other pay related developments including pensions;
- the level of inflation;
- any further changes to specific grants e.g. transfer to general grant funding or cessation;
- the steps taken by the government in response to the Lyon's report;
- the level of Council Tax.

**10.13** The wide range of net budget requirements potentially requires a range of options to be explored and if necessary implemented to meet the demands placed on the budget, including:

- reducing the base budget through the generation of efficiency savings, implementing alternative financing options, incurring capital expenditure on an invest to save basis, or reducing services;
- generating additional income including through maximising resources via external funding streams;
- ensuring effective exit strategies are in place in relation to services funded by time limited external funding streams;
- working with partners and utilising technology to implement more efficient models of service delivery and thereby reducing costs.
- identifying areas of priority for additional investment if resources are available.

**10.14** As stated above there are many uncertainties. Given the estimated levels of future Total Budget Requirements, the position is tight, with no room for growth without the generation of efficiency and other savings. On this basis, the budget is nevertheless sustainable in the medium term, with the use of some or all of the options identified above.

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

**11.1** In considering the level of general balances as part of budget preparation decisions, regard is had 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.

**11.2** The Council is mounting a strenuous and robust defence to the outstanding claims which are before the Employment Tribunal. Consideration continues to be given to the case for maintaining reserves to assist in meeting potential liabilities which might arise and the level of those reserves in light of legal advice received which is regularly updated to reflect changing case law.

**11.3** The estimated level of general balances as at 31st March, 2008 and 31st March, 2009 is set out at Appendix B.

**11.4** 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 C.

**11.5** 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.

**11.6** Based upon the information used in determining this Revenue Budget 2008/2009 report, including specifically:

- the Medium Term Financial Position set out at paragraph 11;
- the outcome of budget consultation set out at Appendix A;
- the Statement of General Balances set out in Appendix B;
- the Risk Analysis set out in Appendix C;
- the Major Reserves set out in Appendix D;

the Revenue Budget is considered robust and the level of reserves is considered to be adequate for 2008/2009 after an assessment of the financial risks and future plans of the Council have been taken into account.

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

## 12. Presentation of the Revenue Budget

### General

12.1 As reported at Part i) of this Agenda Item, the budget is presented as part of the Corporate Improvement Plan. All changes with the exception of the adjustments relating to final considerations of Council tax levels, have been incorporated into the Plan.

### Best Value Accounting Code of Practice

12.2 The presentation of the budget reflects the requirements of the Best Value Accounting Code of Practice, 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 constitutes a 'proper 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. For next year:

- the bases of allocation of central support service and departmental support service costs have been reviewed to better reflect the actual use and or activity of each support service;
- the impact of revaluation of assets has been incorporated.

Members will appreciate that these changes, where applied, do not enable a valid year on year comparison, and significant variations between years may be apparent because the original budgets will not reflect the amended practice or valuations.

### Revised Estimates

12.3 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.

## 13. Reasons for Decision:

To comply with statutory requirements.

## 14. Alternative Options

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**

Local Authority Finance (England) Revenue Support Grant 2008/2009 and related Matters

Cabinet Reports to 16th January, 2008

- Provisional Revenue Support Grant Settlement for 2008/2009
- Calculation of Council Tax Base 2008/2009
- Revenue Budget 2008/2009

Cabinet Reports to 13th February, 2008

- Final Local Government Finance Settlement 2008/2009
- Collection Fund 2007/2008

### Budget Consultation Results

Presentations on the budget planning framework were made to a range of stakeholder groups in accordance with the agreed approach to Budget Consultation.

In overall terms indications were that consultees recognised that the financial position facing the Council was tight with little scope to address spending pressures and an understandable need to generate maximum efficiency savings.

The consultees acknowledged the consultation as being an in-depth approach to ascertain the views of the stakeholders consulted.

With regard to the Community Spirit questionnaire, the following rank order for additional investment and priority resulted:

1. Services to help people live in their own homes for as long as possible;
2. Modern apprenticeships for young people;
3. Tackle older housing and market failure;
4. Alternatives for landfill for waste that cannot be recycled;
5. Facilities and activities for young people;

With regard to the Community Spirit Focus Group sessions, participant feedback was excellent in terms of the steps the Council had taken to engage people as evidenced below:

- 98% rated the presentation on budget prospects as being good / very good;
- 91% rated the question and answer sessions with Directors / Heads of Service as good / very good;
- 94% rated the break out group sessions as being good / very good.

Responses gathered during the workshops highlighted other priorities in addition to those identified through the questionnaire as follows:

- Support to vulnerable young people to improve their attainment at GCSE;
- Providing subsidised travel for vulnerable young people; and
- Measures to help the most vulnerable groups into employment.

It needs to be recognised that the manner in which participants were chosen - they volunteered - means that the sample cannot be regarded as being statistically representative of Sunderland citizens. Nevertheless the approach taken last year was built upon through holding a number of local consultation sessions across the City at different times of day in order to get a more representative profile of workshop participants. Further, to consult properly the Council needs to inform, so that participants can get a better understanding of the complexity and the issues that have to be addressed in the budget setting process and thereby make better informed judgements and the presentations given prior to the discussion sessions were effective in achieving this. This means that, although the results of the workshop cannot be regarded as being statistically representative, they do give an indication of the thinking of the panel members in arriving at decisions and coming to judgements on priorities.



As in previous years, participants indicated that the sessions had increased their understanding of the complexity of the decisions the Council faces. Participants also indicated that they are happy to listen to others' expertise, provided they feel the information they are given is clear and accessible and that opportunities for comment are made easily available. Furthermore, during the discussion sessions it became evident that differences of opinion, whilst leading to constructive discussion and debate, made it extremely difficult for participants to reach a consensus about more detailed priorities.

By taking cognisance of these results and Members own knowledge and feedback from constituents, the budget setting process becomes more informed. In addition, in considering the results of the consultation and its impact on the mainstream budget decisions of the Council, regard should be had to past investments which are still being implemented, and any special funding streams which are being used to address the issues highlighted.

Within that overall context each of the priorities identified has been considered and addressed within the budget proposals contained within this report and as detailed within the Corporate Improvement Plan as follows:

*Services to help people live in their own homes for as long as possible* – please see paragraph 6.1 of the main report where additional resources of £1,054,000 in 2008/2009 are identified to fund new methods of care which seek to maximise the independence of older people. In addition, Cabinet has recently approved a proposal to implement a significant extra care scheme with a range of community facilities at Silksworth and the Adults Services proposed capital programme for 2008/2009 includes provision for the development of telecare services. These initiatives increase the scope and quality of services available to enable people to live in their own homes for as long as possible.

*Modern apprenticeships for young people* – please see paragraph 6.3 where reference is made to the Working Neighbourhoods Fund, which will be considered to fund modern apprenticeships and encourage these across all employers across the city.

*Tackle older housing and market failure* – please see paragraph 6.5 which refers to funding levered in from English Partnerships and investment of £4.2 million to address issues in Castletown, Hetton Downs and Eppleton. In addition, the Council is working in partnership with Back on the Map in Hendon on an investment programme for improvement to homes in that area.

*Alternatives for landfill for waste that cannot be recycled* – please see paragraph 6.2 which refers to the development of a strategic waste disposal solution in partnership with Gateshead and South Tyneside Councils to minimise the use of landfill as a means of waste disposal in the future. Provision has been made to ensure that the Council can fund it's share of the preparatory costs for a joint procurement. In addition, provision has been made as a first stage contribution to the Council's share of the project affordability gap.

*Facilities and activities for young people* – please see paragraph 6.4 which refers to Government plans to provide young people in disadvantaged areas with activity areas such as skate parks, basketball courts and music workshops. In addition,

funding is being provided to create more safe places to play allowing new or rebuilt playgrounds to be made accessible to children with disabilities etc. The investment builds on the support for play sites provided by BIG Lottery funding.

*Support for vulnerable young people to improve GCSE attainment* - targeted provision is included within the DSG allocation to further develop and support personalised learning for all pupils. Additional support is provided through School Development Standards Fund grant that has been transferred into the Area Based Grant. This transfer and additional flexibility allows for a more responsive approach that allows initiatives to be developed across the whole city according to need.

*Measures to help the most vulnerable groups into sustainable employment* - the Working Neighbourhoods Fund has a tighter focus on worklessness and economic development issues. The Council will develop proposals in response to these Government initiatives through a Youth Strategy to address the youth employment agenda.

*Providing subsidised travel for the most vulnerable young people* – Cabinet approved a report in September 2007 to become one of nine national pilots for the Empowering Young People Pilot Programme, which seeks to empower individual disadvantaged young people to take part in positive activities of their choice through access to spending power. The scheme will capture within the cohort, young people who cut across risk taking behaviours such as anti-social behaviour, offending, teenage pregnancy, substance misuse and homelessness. The pilot is based on a subsidy being allocated to a “smart card”, to give young people access to activities that previously they could not afford. As the pilot develops the use of the card to subsidise transport costs will be explored.

## **Stage 2 - Budget Proposals**

The presentations on the budget proposals have been made to the following stakeholder groups:

- North East Chamber of Commerce;
- Trades Unions;
- Schools Forum.

Feedback will be reported to Cabinet at its meeting as appropriate.

## Statement of General Fund Balances

	£000s	£000s
<b>Balances as at 31<sup>st</sup> March 2007</b>		<b>15,194</b>
Additions to Balances 2007/2008		
- Repayment of temporary financing	65	
- Contingency, debt charge and interest savings	9,790	
Local Authority Business Growth Incentive Scheme	<u>306</u>	10,161
Use of Balances 2007/2008		
- Contribution to Revenue Budget	(2,550)	
- Contribution to fund the Capital Programme	(4,050)	
- Transfer to the Strategic Investment Reserve	<u>(6,747)</u>	(13,347)
<b>Estimated Balances 31<sup>st</sup> March 2008</b>		<b>12,008</b>
Use of Balances 2008/2009		
- Contribution to Revenue Budget	(1,150)	
- Contribution to the Capital Programme	(2,899)	<u>(4,049)</u>
<b>Estimated Balances 31<sup>st</sup> March 2009</b>		<b><u>7,959</u></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:

- Green Book employees pay has been provided for 2008/2009 at 2.5%;
- Teacher's pay for the three year pay settlements of September 2008, September 2009, and September 2010 has been settled at 2.45%, 2.3%, and 2.3% respectively;
- currently RPI is 4.0%, RPIX is 3.1%, and the Consumer Price Index (CPI) is 3.1%
  - the government's guidance is that they expect public sector pay awards to be no higher than 2.0%;
- provision for price increases has been included in the budget on the basis of:
  - income related budgets - 2.5%;
  - contract related budgets - 3.0%; and,
  - other budgets - 0%
- 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 remained volatile over the past year. Supplies have been secured at low points in the market. Council procurement officers are monitoring price changes in order to take advantage of any further purchasing opportunities that may arise.
- the inflation outlook (CPI) for the year ahead is within the 1.7% - 2.5% banding.

### Debt Charges

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

This is very unlikely to arise due to:

- a prudent estimate has been made for 'in year' ring fenced Supported Capital Expenditure and a limited sum for utilisation under the new prudential framework;
- our current level of variable rate debt is £31.2m and our fixed level of debt is £169.0m. The requirement to borrow in 2008/2009 is estimated to be £5.6m. This relates to replacement of an existing market loan at 11.75% which matures in November 2008. Provision for replacement of this loan is included in the budget and the Treasurer will review the position in the light of prevailing market conditions to decide the most appropriate action for this loan (i.e. whether to replace the loan or alternatively use investments). There is therefore a limited risk, which is not considered material, in respect of interest rate increases in 2008/2009;
- the consensus regarding the economic outlook for the year ahead is that base rates will decrease to 4.75% in the third quarter of 2008 and remain at that level through to the third quarter of 2009 before rising again to 5.0%. Long-term PWLB rates are expected to change little throughout 2008 and 2009 with 25 year rates and 50 year rates of 4.50%;
- allowance has been made 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 a prudent rate of return has been included.

## **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;
- the total contingency provision is set at £14.416m – 5.93% of the net revenue budget;
- specific contingencies have been created for all known spending pressures in 2008/2009;
- past experience suggests an underspending against contingency provision;
- general contingencies have been set at £0.900m.

## **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;
- 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 fund;
- risk management practices have received external recognition.

## **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;

The position regarding equal pay claims is subject to rigorous monitoring and review. Reserves and provisions have been created to address the potential liability and appropriate action will be taken as necessary.

## **Revenue Budget - Budgetary Control**

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

This is very unlikely to occur due to:

- monthly budget monitoring is in place in all Directorates;
- 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 Corporate Improvement Plan;
- demonstrable track record.

## **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:

- prudent level of capital receipts have been included in the financing of the Programme;
- project sponsors are identified for each capital programme project and recorded within the Corporate Improvement Plan;
- quarterly Council-wide Capital Programme Budgetary Control reviews undertaken, reported to Cabinet and corrective action agreed or set in train;
- Revenue Contribution to Capital and Prudential 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 very unlikely to occur due to:

- the reductions to budgets planned have all been subject to due diligence and there are no significant barriers to implementation;
- 4% efficiency savings were identified as part of the Budget Planning Framework but were only accepted in part and could be made available if required.

## **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 e.g. Strategic Investment Reserve.

## Appendix D

## Major Earmarked Reserves - Position Statement

Title and Purpose of Earmarked Reserve	Opening Balance 1/4/2007 £'000	Estimated Movement in the Year £'000	Estimated Balance 31/3/2008 £'000
<b>Strategic Investment Reserve</b> A reserve established with the proceeds of the Housing Stock Transfer and Airport Share Sale to allow capital investment to be funded to address the Council's Strategic Priorities and address other major liabilities.	60,485	(3,746)	56,739
<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. The majority of the balances held are earmarked for investment in specific projects.	6,988	(3,899)	3,089
<b>Schools Delegated Budget Surpluses</b> Statutory provisions allow schools to carry forward surpluses and deficits in accordance with the Local Management of Schools delegation scheme.	4,172	(1,072)	3,100
<b>Service Pressure Reserves</b> This reserve was established to cover service budget pressures. All sums are earmarked for specific purposes.	3,662	(1,375)	2,287
<b>Insurance Reserve</b> This reserve has been established to provide for potential claims associated with the housing stock transfer, future claims increases and risk management funds.	6,099	(1,000)	5,099
<b>Street Lighting PFI Smoothing Reserve</b> The reserve was established in order to smooth the financial impact of the contract across the 25 years of the contract life. In the early years of the contract surpluses are 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. Additionally under the reducing balance methodology of receiving grant higher levels of grant would be received in early years with this amount reducing over time. From 1st April 2005 Government changed to the annuity method of paying PFI grant where the amount is consistent across the contract life.	6,907	262	7,169
<b>Standards Fund Surplus Reserve</b> The allocation of standards fund grant spans a 17 month period, e.g. from April 2007 to August 2008. This reserve represents the balance of the funding unspent as at 31st March each year. The balance will be utilised by the following 31st August, or returned to the DfES if necessary.	5,705	1,352	7,057

**Notes of a Budget Consultation meeting between representatives of the Council and Chamber of Commerce held at Sunderland Civic Centre on Wednesday 7<sup>th</sup> February, 2008 at 10.00 a.m.**

Present:-

**Council Representatives**

Councillor Symonds	-	Leader of the Council
Councillor P. Watson	-	Deputy Leader of the Council
Councillor Allan	-	Resources Portfolio Holder
Mr K Beardmore	-	City Treasurer
Mr P Barrett	-	Director of Development and Regeneration

**Chamber of Commerce Representatives**

Mr M Thirlbeck  
Mr R Smith

The Leader welcomed Mr Thirlbeck and Mr Smith and carried out introductions. He expressed his appreciation for their attendance at the meeting and advised that, whilst earlier informal consultation meetings had taken place, this meeting formed the formal part of the statutory consultation process for the Council's budget proposals. He advised that any views and comments would be presented to the Council's budget meeting with the Cabinet's budget recommendations. He confirmed that the consultations were around the budget proposals contained in the copies of the Revenue Budget Reports which had been supplied to the Chamber and which also set out the background to the next year's budget.

The Leader advised that most Local Authorities had expected a tight settlement from government and this had proven to be the case across the country. He stated that the Council were set to receive a 2.7% grant increase from central government.

The Leader was pleased to report that following lobbying at a local level from MPs and SIGOMA the use of floor damping (or setting of minimum increases) within the Children's and Younger Adults element of the formula had been removed. He stated that this had paid dividends and had made a huge difference to the budget for the Health, Housing and Adult Services directorate. He advised that there was a concern relating to the population figures used within the formula grant settlement and that the Council believed the figure to be underestimated and requests had been made to the government asking for a recalculation to a figure more in line with the Council's.

He then turned to the preparation for the budget for next year and how the Council was positioned to deal with a low settlement. The Council had always adopted a prudent approach to budget setting and budget management and he reminded the meeting that when the Budget Planning Framework was set in October of the previous year, Directors, in consultation with Cabinet Members, had been asked to bring forward reductions of 4%. It was noted that these were efficiency savings with



no cuts to front line services and no compulsory redundancies. The Chamber's representatives were advised that these savings amounted to approximately £2.5m and were available to support next year's budget and allocate and protect front line services.

The Leader then turned to the budget proposals for next year. He believed that the approach to seeking efficiency savings had put the Council in a position to address a number of very high priority issues, whilst also seeking to ensure that the Council's budget was sustainable over the medium term.

He then highlighted some of the priority issues as follows:

- **Supporting people to live in their own homes for longer** meant that additional investments totalling over £1m had been made available for independent care services such as telecare and night care.
- **Environment and Sustainability Issues**  
**Waste Management** – The Leader advised that a partnership had been put in place with Gateshead and South Tyneside Councils with a view to jointly procuring a long term solution on waste management. He emphasised that contrary to local press opinions, no decision had been made on the methods of disposing of waste or on potential sites. The meeting was advised that the recent Council report was only on the financial aspects of the agreement. The Leader advised that just over £1m had been set aside to cover a funding gap that would require to be addressed. He stated that the proposed budget provided for further funds to encourage and educate people on the importance of recycling.

In order to continue to address the backlog of **highway maintenance** an additional £400,000 was to be allocated to the highway maintenance budget next year. This was the sixth year in succession that this had been done and the fact that there was a greater satisfaction and a significantly reduced number of claims was testament to how well the extra funding was being used.

- **Activities for Teenagers / Facilities for Young People**  
The Leader advised that there had been a significant grant increase from government on a national level. He stated that there was also extra funding that the Council were awaiting details of as well as over £700,000 of lottery funding which had been confirmed.
- The Leader advised that significant funding had been set aside to deal with 'non headline' grabbing schemes but which were absolutely necessary to the City. These included such things as drainage and flash flooding works.
- Finally the Leader advised that a sum of £900,000 had been earmarked within the budget to address additional strategic priorities and that detailed proposals would be worked up and brought forward later this year. These proposals were very likely to include provision for street care, community sports facilities, and actions to address environmental issues such as littering.

Taking all these issues into account, the Leader advised that the Council Tax level would be well within the 5% limit set by government guidelines. He reported that for many years Sunderland residents had paid the lowest Council Tax level in Tyne and Wear and last year saw them paying one of the lowest in the North East region.

The Leader then invited views and questions from the Chamber representatives.

Mr Thirlbeck began by stating that the NECC were pleased to continue the good partnership working with the Authority. He stated that he fully endorsed what the Leader had said in particular in relation to the issues around the reporting of the waste management. He offered the NECC's support in highlighting any issues that the Council needed to convey to businesses around the City.

Discussions turned to the Unitary Development Plan (UDP) with Mr Thirlbeck stating that there were concerns raised about its future. Mr Barrett responded that the UDP had been replaced the Local Development Framework (LDF) and £400,000 had been earmarked to be used, if necessary, to take it through to fruition. He stated that the LDF had proven to be no quicker or cheaper than the UDP and although it wasn't any more streamlined, the LDF would provide a better plan when completed.

Mr Thirlbeck queried the plans in relation to the Rainton Bridge site given the uncertainty surrounding Northern Rock's future. The Leader advised that it would be a case of waiting to see how the reorganisation of the bank went but very much hoped that the bank would take up occupancy as planned. Mr Barrett advised that regardless of whether Northern Rock were to move into the site the phase would be completed as it was a private development and still presented a great opportunity. Councillor Allan added that the developers had indicated that they did have contingency plans in place and were confident that they would have little problems letting out the building or the office space.

Following this Councillor Allan queried how the Northern Rock scenario had affected business confidence in the city. Mr Thirlbeck replied that membership was very positive at present. He stated that the number of new businesses coming into the City was very good with two PLCs recently moving into the Sunnyside area. He stated that the evening economy was not doing as well as it previously had and stated that it was unknown why this was the case, whether it had been affected by the smoking ban or people having less disposable income. Mr Thirlbeck pointed out however that this was a nationwide issue and was not just an issue for Sunderland. Mr Smith echoed the views of his colleague, agreeing that confidence was incredibly high. He advised that there was a dip in confidence when the news regarding Northern Rock broke however businesses had seemed to recover from this very quickly. The Leader pointed out that the City's retail trade had done extremely well this year somewhat bucking the trend compared to other cities that had struggled.

With reference to next years budget, Mr Smith, whilst acknowledging the fact that the Council was under pressure to make the necessary efficiency savings, requested assurances that these savings would not impact on services that were important to businesses such as planning and public procurement. He stated that there was always concern in times of tight spending that the attitude would become resorting to accepting the lowest bid which was not always necessarily the best value.

The Leader responded that there were no reductions to the planning budget for 2008/2009. He stated that, as earlier indicated,, the budget had provided for an additional £400,000 in respect of the Local Development Framework which was effectively the planning blueprint for the city. The meeting was informed that the Council's performance in relation to development control processing planning applications had improved significantly over the last few years with the figures for 2007/2008 showing that 82% of major applications were determined within 13 weeks and 86% of minor applications were determined within 8 weeks. Mr Barrett interjected that at present the Council was exceeding the Government's standard of 86% with 100% of day to day planning applications being delivered within the specified time.

In terms of the issues raised with procurement, Councillor Allan advised that as vice chairman of the North Eastern Purchasing Organisation he could assure Mr Smith that the Council did not opt for the cheaper option. He stated that the specifications were written in such a way to ensure that the best value offer would always be chosen. Mr Beardmore suggested that it might be helpful to discuss matters further with Theresa Belcher, Head of Corporate Procurement in an attempt to maximise the ability and position of Sunderland based companies to compete for Council contracts.

Following a query in relation to the uses of the Working Neighbourhoods Fund, the Leader stated that discussions were at an early stage between the Council and the Local Strategic Partnership but consideration was being given to a wide spectrum of economic themed issues. He stated that it was up to the Council to be innovative and ensure that good ideas were produced which the fund could be used for.

Mr Smith sought the views of the Council representatives on the use of the Transport Innovation Fund and road charging. The Leader replied that a consultants report had been received asking the Council to look into road charging. He advised that there was no policy decision in Tyne and Wear at the present time.

In response to a query regarding the Business Rate Supplement, Mr Beardmore advised that it was a medium term issue and would not become possible to levy a supplementary business rate until April 2010. He stated that the Business Rate Supplement had come from the recommendations of the Lyons Inquiry by proposing a power for local authorities to raise and retain local supplements on the national business rate. The government's proposals were currently being reviewed and were welcomed as adding to local decision-making. Mr Beardmore stated that consultation with the business community would be necessary prior to any proposal to introduce a supplementary business rate taking place. He mentioned that initial evaluation showed that a supplementary business rate of 2p would generate approximately £3.4 million per annum for the council. The Leader confirmed his awareness of some scepticism around the Business Rate Supplement but expressed hopes that following consultations with the business community confidence would be gained.

The Leader thanked the Chamber's representatives for their attendance and for their helpful comments on the budget proposals which, he assured them, would be taken into consideration by the full Council. He ensured that a full depth reply of the

questions asked and points raised would be provided to the NECC. He then closed the meeting.

12 February 2008

Mr John Healey MP  
Minister for Local Government  
Department for Communities and Local Government  
Eland House  
Bressenden Place  
London  
SW1E 5DU

Dear Mr Healey

### Population data used in Local Government Finance Settlements

I write to express the North East Chamber of Commerce's concerns regarding the population data used to calculate the recent Local Government Finance Settlements for the periods 2008/2009, 2009/2010 and 2010/2011, and in particular the impact on Tyne and Wear.

The North East Chamber of Commerce (NECC) is the North East's leading business membership organisation and the only regional chamber of commerce in the country. We represent more than 4,500 businesses located in an area co-terminus with Government Office for the North East, including 2,010 businesses in Tyne and Wear. Our members are drawn from all sizes of business across all sectors and employ about 30% of the region's workforce.

Sunderland City Council has shared with us its concerns over the use of the Labour Force Survey (LFS) for allocating estimates of international migration regionally. This concern stems from the limited sampling size of the LFS used for the North East region, which is England's smallest region, and means that it is unable to provide consistently reliable data on this issue. Consequently the figures used are considered to be unrepresentative of the numbers of international migrants in the region. The population projections used in the settlements are therefore understating the actual population of local authority areas in the North East region. This appears to have a particularly punitive impact on Sunderland and Newcastle upon Tyne.

In addition, the estimated internal migration figures for Sunderland, which show a net outflow of 1,300 people for 2006, appear not to correlate with local observation or to be consistent with statistics for other parts of the North East. While some outward migration from the city may be occurring, NECC has not seen evidence which would support this level of population change.

NECC Head Office, Aykley Heads Business Centre, Aykley Heads, Durham DH1 5TS  
Tel: +44 (0)191 386 1133 Fax: +44 (0)191 386 1144 E-mail: [information@necc.co.uk](mailto:information@necc.co.uk) Web: [www.necc.co.uk](http://www.necc.co.uk)

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NECC is concerned that this potentially flawed data is reducing the level of grant available to Tyne and Wear local authorities for local services. We are therefore anxious that this should be addressed as soon as possible and not left until the end of the current three-year settlement period.

Yours sincerely



Ross Smith  
Head of Policy and Research

25 February 2008

Cllr Bob Symonds  
Sunderland City Council  
Civic Centre  
Burdon Road  
Sunderland  
SR2 7DN

Dear Cllr Symonds

### Sunderland City Council Budget Consultation

The North East Chamber of Commerce (NECC) is pleased to respond to the above consultation. NECC is the North East's leading business membership organisation and the only regional chamber of commerce in the country. We represent more than 4,500 businesses located in an area co-terminus with Government Office for the North East, including 430 in Sunderland. Our members are drawn from all sizes of business across all sectors and employ about 30% of the region's workforce.

We recognise the pressure placed on council budgets through tight settlements and demands for efficiency savings. However, we are concerned that this should not lead to cuts in services which are important to business growth in the city. We therefore appreciate the opportunity to have input in this process and the authority's willingness to engage constructively with business.

NECC has recently launched the 'Buy North East' campaign on public procurement. This does not straightforwardly equate to 'buy local', but is rather a call for a more sophisticated consideration of how public procurement can add maximum value to the North East economy. We have had constructive discussions on this issue with Sunderland City Council and hope we can continue to work together. NECC would in particular urge Sunderland City Council to sign and implement the Small Business Friendly Concordat on procurement published by the Office of the Deputy Prime Minister in March 2005.

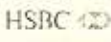
We are concerned that current Government policy pulls local authorities in two directions. On one hand there is encouragement towards sustainable procurement, in terms of economic, social and environmental factors. On the other hand, there is pressure to make cost savings wherever possible in order to meet Gershon targets. NECC is concerned that the overall contribution of procurement to the regional economy is given paramount importance, with issues of value considered in much broader terms than simply the bottom line. We are encouraged by the reassurance in our discussions that Sunderland City Council understands this concern.

NECC, Head Office, Aykley Heads Business Centre, Aykley Heads, Durham DH1 5TS  
Tel: +44 (0)191 386 1133 Fax: +44 (0)191 386 1144 E-mail: [information@necc.co.uk](mailto:information@necc.co.uk) Web: [www.necc.co.uk](http://www.necc.co.uk)

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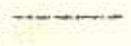
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The direction of policy on planning, with the aim to give local authorities a greater responsibility for promoting economic development, requires a commitment to ensuring planning departments are efficient, effective and well resourced. We are heartened by assurances from Sunderland City Council that efficiency savings will not affect the delivery of planning services, and the performance in terms of hitting Government timescales for dealing with planning applications. We believe it is important to economic development in the city that this improvement in performance continues.

The priority for investment placed on apprenticeships is encouraging and NECC looks forward to hearing more detailed proposals for how this can be taken forward.

NECC also welcomes the commitment to ensure business is consulted on longer term decisions including development of Transport Innovation Fund proposals and possible use of Business Rate Supplements. On each of these issues it is crucial that the impact on business is at the forefront of decision making and NECC will play a full part in communicating members' views.

NECC shares Sunderland City Council's concerns over the impact of inadequate population data on funding settlements for Tyne and Wear authorities. I have enclosed a copy of a letter sent to John Healey MP, the Local Government Minister, echoing these concerns.

I hope these comments are useful. Please do not hesitate to contact me if you require any further information on the issues set out above. I look forward to Sunderland City Council and NECC continuing to work together constructively in future.

Yours sincerely



Ross Smith  
Head of Policy and Research

ENCS