

## **Cabinet - 21st July 2010**

### **Government Grant Reductions for 2010/2011 and the Emergency Budget**

#### **Report of the Director of Financial Resources**

##### **1. Purpose of Report**

- 1.1 The report provides details of the impact of government grant reductions for 2010/2011 and subsequent amendments to the revenue budget and capital programme for 2010/2011 in the light of the reductions. The report also provides details of the Coalition Government's Emergency Budget and the emerging medium term financial position.

##### **2. Description of Decision**

- 2.1 Cabinet is requested to recommend to Council the proposed actions set out in section 3 of the report in respect of addressing the government grant reductions for 2010/2011 and subsequent amendments to the revenue budget and capital programme for 2010/2011 to accommodate those reductions.

##### **3. The Impact of Government Grant Reductions**

###### **3.1 Background**

- 3.1.1 As reported to Cabinet on 24th June 2010, HM Treasury confirmed on 17th May that the Coalition Government would seek to achieve £6.243bn public expenditure savings in the current financial year 2010/2011 of which local government would make a contribution of £1.165bn through reductions to individual grants. However, local government is also impacted upon by reductions to other Government Departments, for which information continues to slowly emerge.
- 3.1.2 There is no reduction to the formula grant to local authorities, the main Government grant to local authorities, and similarly Dedicated Schools Grant is unaffected as this goes direct to schools. Grants to local government which are affected include:
- Area Based Grant;
  - Special revenue and capital grants;
  - Specific one off grants.
- 3.1.3 In addition, the Coalition Government has stated that it is undertaking a re-examination of all spending approvals made since 1st January 2010.
- 3.1.4 The Coalition Government has lifted restrictions on how local government spends its money by the removal of ring-fencing of a number of grants totalling over £1.7bn in 2010/2011, which it believes will give councils maximum flexibility to deliver efficiencies.

3.1.5 The Coalition Government will not be proceeding with additional free school meal pilots, or the extension of free school meals to some primary school children, pending the outcome of the Autumn Spending Review. This was a development area that was planned to be implemented in September 2010, but will not now go ahead.

3.1.6 In addition, the Coalition Government has referred to spending plans where funding was reliant on under spending through the Departmental End of Year Flexibility system or through additional funding from the Government Reserve. Following a review, four Government Departments have agreed to reductions in unfunded spending commitments totaling £1.5bn. The Government Departments are to manage these reductions by cancelling or re-prioritising spending plans. At this stage it is unclear how local government will be affected by this.

## 3.2 Financial Impact on Sunderland

3.2.1 Whilst details of grant reductions have been slow to be confirmed, the position appears to be becoming clearer, but announcements are still awaited in some areas.

3.2.2 The following table sets out the current confirmed government grant reductions:

Confirmed Grant Reductions	Sunderland Original Allocation £000	Sunderland Reduction £000
<b>Revenue</b>		
<b>Area Based Grants</b>		
DCSF	11,325	2,714
Working Neighbourhood Fund	11,024	1,084
Prevent	164	48
Cohesion	140	33
Young Persons Substance Misuse (Children's)	87	31
Community Call for Action	2	2
Supporting People Admin	142	142
Supporting People	11,263	0
Other ABG grants	5,764	0
<b>Total Area Based Grants</b>	<b>39,909</b>	<b>4,054</b>
<b>Other grants</b>		
Local Authority Business Growth Incentives Scheme	261	261
Housing Planning Delivery Grant*	230	230
Sure Start 0-7 Partnership (Children's)	388	291
Sure Start Buddying Pilot(Children's)	29	22
Free Swimming – Revenue	244	160
Play Pathfinder Revenue	146	73
<b>Total Revenue Reductions</b>	<b>41,207</b>	<b>5,091</b>
<b>Capital</b>		
Integrated Transport (LTP)	3,544	886
PRN Bridges (LTP)	304	61
Wheatsheaf and Stadium Way Junction Improvements Project	3,283	3,283
<b>Total Capital Reductions</b>	<b>7,131</b>	<b>4,230</b>
<b>Total Confirmed Reductions</b>	<b>48,338</b>	<b>9,321</b>

### **3.3 Main Service Implications of the Government Grant Reductions on Sunderland**

3.3.1 From the above table it can be seen that grant reductions of £9.321m have been confirmed. The total includes revenue grant reductions of £5.091m and capital grant reductions of £4.230m.

3.3.2 The revenue grant reductions are principally reductions to Area Based Grants (£4.054m). From 2008 onwards Area Based Grants (ABG) became non ringfenced replacing previous arrangements under which separate funding streams were paid to local authorities. Local authorities are free to use ABGs as they see fit to support the delivery of local, national and regional priorities, including Local Area Agreement (LAA) targets.

#### **Revenue Grant Funding Reductions**

3.3.3 The reductions to ABGs include:

##### **3.3.3.1 Connexions Service (£800,000)**

The grant reductions are anticipated to have a significant impact of the Connexions Service. The service has suffered a double blow as in addition to a grant reduction of £800,000 included in the ABGs grant cut, notification has also been received that the Activity Agreement pilot, managed by the Connexions Hub, is being terminated earlier than planned. A total of 41fte jobs have been identified in the Connexions Hub as being at risk. In addition, a detailed review is being undertaken on the impact of the 24% reduction to the grant to the Connexions Delivery Team, which will consequently require a fundamental restructure. Through redeployment within Children's Services, use of the internal jobs market and other measures, it is anticipated that the impact on jobs may be mitigated.

##### **3.3.3.2 Working Neighbourhoods Fund (£1,084,000)**

As a consequence of the grant reduction a number of measures have been taken, which will all have a negative impact on future employment prospects in the city. The grant cut will result in the deletion of 5 projects from the Visible Workspaces capital programme, which is designed to develop highly accessible workspaces in deprived neighbourhoods. In addition, the Boosting Enterprise work stream has been reduced, which is intended to identify potential entrepreneurs to enter the programme, who would set up businesses in 2011/2012. Two projects designed to identify new business opportunities have also been deleted. A project to support lone parents into employment has also been removed from the programme.

##### **3.3.3.3 School Development and Other Education Grants (£1,505,000)**

Although schools' main funding through Dedicated Schools Grant is unaffected by the notified grant reductions, there are a number of ABG allocations that have been reduced, which impact on the Education Service. A large part of this funding was to end in March 2011. Teachers due to leave in August will not be replaced and programmes have been scaled back to reflect resource availability. The Schools Forum are aware of the reductions and support the work of the local authority.

3.3.3.4 Prevention Grants (£440,000)  
ABG grant reductions also relate to a number of prevention measures including bullying, first time offending, positive activities for young people, teenage pregnancy, better parenting, and health and mental health measures. An update will be provided to the July meeting of the Children's Trust.

3.3.4 Other revenue grant reductions include:

3.3.4.1 Free Swimming (£161,025) – the anticipated grant of £244,270 has been reduced to £83,245. As a consequence, it is proposed to re-introduce charging from 1<sup>st</sup> August 2010.

3.3.4.2 Sure Start (£313,000) – this reduction relates to the 0-7 partnership pilot where funding ended at the end of June 2010 and reductions to the Buddying pilot. Planned activities have been scaled back to reflect the funding now available.

### **Capital Grant Funding Reductions**

3.3.5 In addition to the £4.230m of capital grant reductions notified in respect of the highways projects shown in the table above, clarification is still awaited on the **SSTC Phase 2 (New Wear Bridge)** project. The Council is in the final stages of highway and bridge design, and is completing the conditional approval business case. Expenditure has been incurred in good faith, on the basis that following conditional approval by the Department of Transport, the Council's costs would be re-imbursed. This is now at risk and sums of between £2.379m and £3.644m of anticipated funding from DfT may need to be found from the Council's own resources. The cost to the Council could increase further if anticipated contributions from One North East are withdrawn and there are also potential costs arising from property blight. The future of this planned £133m landmark regeneration project is now a major doubt.

3.3.6 On 5th July 2010, Education Secretary Michael Gove set out the Coalition Government's intention to bring to an end the **Building Schools for the Future** programme. In 58 authorities, including Sunderland, the programme is to be stopped with immediate effect. For Sunderland, this impacts upon 9 secondary schools, 4 secondary special schools and the Pupil Referral Unit, which are part of Sunderland's Wave 2 programme. It is estimated that the Council has incurred costs of around £476,000 to date on developing the proposals for Wave 2. The planned investment of £137m to complete the modernisation of the Council's secondary school estate will not now happen.

## **3.4 Proposals to Address Government Grant Reductions**

### **Revenue Grant Reductions**

3.4.1 Total revenue grant reductions amount to £5.091million of which £4.054m relates to Area Based Grants. Directors, in consultation with their Cabinet Portfolio Holders, have been considering actions to meet the total in-year grant reductions. The following principles have been followed when considering actions to meet the in year grant reductions:

- for each grant funding stream previously passported to services, the relevant Directors, in consultation with their Cabinet Portfolio Holders, will propose actions to meet the in year reductions within their relevant service areas. This includes ceasing activities on projects early, which would have been coming to an end; reviewing plans to reduce activity to reflect the reduced resources available; targeting of resources to highest priority areas; and redesigning services in the light of reduced, ongoing resources and changing priorities;
- consideration of how uncommitted resources from grants, which have been de-ringfenced, can be freed up and redirected to support the overall grant reduction position;
- consideration of all other budgets to seek to meet any shortfall in the delivery of the in year reductions and ongoing consequences into 2011/2012, including the extent to which savings can be achieved through the Council's Improvement Programme, which is looking at every aspect of the way that we work to maximise efficiencies and productivity of services;
- reviewing commitments against delegated budget surpluses to identify resources that can be freed up to support the overall in year grant reduction.

3.4.2 The following actions are proposed in respect of the revenue grant reductions specific to service areas:

#### **Children and Learning City Portfolio**

Children's Grants are summarised below:

	£000
Area Based Grant - DFE	2,714
Home Office – Young Persons Substance Misuse	31
Surestart Pilot – Buddying and 0-7 Partnership	313
<b>Total Reduction</b>	<b>3,058</b>

Following the review of grants that the Acting Executive Director of Children's Services has undertaken with the Cabinet Portfolio Holder, it is proposed that the grant funded projects be revised to reflect the reduced funding, using the principles set out in paragraph 3.4.1 above. Two particular areas are drawn to Members attention:

- **Connexions Service Review**
- Since April 2008, the Connexions Service has been delivered by local authorities under Children's Trust arrangements. Sunderland has its own local delivery service and manages shared services through the Connexions Hub for the Tyne and Wear area. Included in the Area Based Grant reductions of £2.714m for the Department for Education, shown in the table above, is a sum of £800,000 in respect of the Connexions Service. In addition, it has been announced that the Activity Agreement pilot, which is managed by the Connexions Hub, will come to an end on 31st December 2010, three months earlier than planned.

The Connexions Hub is provided through a three year shared services agreement (2008 to 2011) and is part funded by the five Tyne and Wear authorities to deliver agreed core functions, including curriculum support, training, e-access, vacancies and opportunities management, management information and marketing. In addition, the Hub also undertakes contractual work for Work Experience, the Activity Agreement, the Careers Advice Service for Adults and the NVQ Centre.

Following the transfer of services to the local authority in 2008, a review has been conducted to establish how current service provision can be delivered effectively and efficiently in all of the settings working with young people. The announcement of a 24% reduction to the Area Based Grant from which Connexions is funded, clearly focuses the need to realign the service in line with key priorities. It is proposed that the restructured service will focus on universal Information, Advice and Guidance (IAG) services to young people and on continuing to prioritise the support of young people not in employment, education or training (NEET). This will include the provision of support to prevent young people becoming NEET and re-engaging with those who fall into this category. Efficiencies will also be identified through the release of accommodation through the Locality Based Working project and implementing options for alternative delivery in conjunction with the 14 - 19 Team, Sunderland Futures and schools.

- Substance Misuse £31,000 Grant Reduction  
As this is a high priority area, other alternative budget reductions have been made to offset the in year reduction and on an ongoing basis at this stage.

Should the review of the Connexions Service lead to a shortfall in the achievement of the grant reduction in 2010/2011, the shortfall will be addressed through proposals as set out in 3.4.1.

### **Prosperous City Portfolio**

Working Neighbourhoods Fund - £1,084,000 Grant Reduction

Following the review of the Working Neighbourhood's Fund Activity Programme undertaken by the Deputy Chief Executive and Cabinet Portfolio Holder, it is proposed that the required £1,084,000 reduction is achieved by reducing the uncommitted programme revenue spending to a minimum. The programme level targets of 2,150 people into jobs and 350 people into business will not be affected. However, the ability of the programme to maintain momentum into 2011/2012 will be impaired by the reduction.

As a consequence of the grant reduction a number of measures have been taken, which will all have a negative impact on future employment prospects in the city. The grant cut will result in the deletion of 5 projects from the Visible Workspaces capital programme, which is designed to develop highly accessible workspaces in deprived neighbourhoods. In addition, the Boosting Enterprise work stream has been reduced, which is intended to identify potential entrepreneurs to enter the programme, who would set up businesses in 2011/2012. Two projects designed to identify new business opportunities have also been deleted. A project to support lone parents into employment has also been removed from the programme.

### Local Authority Business Growth - £261,000 Grant Reduction

The original allocation of Local Authority Business Growth Grant of £261,000 was unconfirmed at the time the 2010/2011 budget was finalised and was therefore not taken into account within the current year's capital spending plans. The withdrawal of government funding therefore reduces available resources for future capital projects.

### Housing Planning Delivery Grant - £230,000 Grant Reduction

The receipt of Housing Planning Delivery Grant has been the subject of reduction by government in recent years, with any shortfall in grant income being met from general contingency provisions. The 2010/2011 reduction in grant income of £230,000 will therefore be accommodated from the existing contingency provision.

### **Sustainable Communities Portfolio**

Prevent (£48,000) and Cohesion (£33,000) - Grant Reduction

The Diversity and Inclusion Team had originally intended to spread over three years some of the one-off grant received this year in order to ensure that all actions and projects were sustainable. In order to do this the team had a planned underspend, which covers the combined amount of the government cuts of £81,000. This means that plans for this year can go ahead, with some revision and re-working, but will result in the loss of anticipated grant funding over the coming two years.

### Community Call for Action - £2,000 Grant Reduction

The Community Call for Action Grant funding of £2,000 has yet to be allocated and therefore the reduction can be accommodated.

### **Healthy City Portfolio**

Supporting People Administration - £142,486 Grant Reduction

The Supporting People Administration grant has been reduced by £142,486. The Executive Director of Health Housing and Adult Services has indicated that in the interim, resources will be drawn from the Supporting People delegated budget surplus balance. In the longer term, it is planned to integrate 5 permanent staff into other areas of the Performance Commissioning and Change service area and deliver the Supporting People administration support through a combination of other existing resources.

### **Attractive and Inclusive City Portfolio**

Free Swimming - £161,025 Grant Reduction

The DCMS announced the withdrawal of funding for the Free Swimming Scheme from 31st July 2010. The Council was anticipating a grant for 2010/2011 of £244,270, this has been reduced to £83,245. It is proposed that charging is reintroduced from 1<sup>st</sup> August 2010. However, those charges will be in accordance with the current policies on charging, which enable different levels of payment

depending on circumstances and reflect the importance placed on providing swimming facilities within the city. The retained grant funding, together with other earmarked sums, should accommodate the reduction in 2010/2011.

Play Pathfinder - £73,000 Grant Reduction.

The Council was anticipating a grant of £146,000. The scheme has £128,000 commitments against the reduced grant funding of £73,000. The balance of funding was intended to support commissioning activity, via the Voluntary Community Sector for the delivery of play programmes at the play pathfinder sites – this work will not now proceed. The scheme will not continue in 2011/2012, the remaining commitments of £55,000 in 2010/2011 will be met from other one off funding savings.

### **Resources Freed up from De-Ringfencing of Grants**

- 3.5 Directors in conjunction with Portfolio Holders have reviewed de-ringfenced grant allocations to consider how they can assist with meeting the grant reductions.

#### **Children and Learning City Portfolio**

In identifying proposals to meet their grant reductions, Children's Services have sought to maximise flexibility by utilising the Government de-ringfencing of the Think Family grant and the Youth Opportunity Fund grant.

#### **Healthy City Portfolio**

The Executive Director of Health Housing and Adults has identified £245,496 grant funding that can be freed up from de-ringfenced grants, as outcomes can be delivered in another way.

#### **Sustainable Communities Portfolio**

It is proposed that the remaining de-ringfenced grant amounting to £80,000 in respect of City Services Flood and Coastal Erosion should be redirected to support reductions in other government grants. Proposed works will need to be deferred.

#### **Other Proposals**

- 3.6 Directors and Cabinet Portfolio Holders have identified a number of other proposals to date, which will enable the freeing up of £185,000 resources in 2010/2011, with an ongoing estimated saving of £479,000 into 2011/2012 over and above actions identified in paragraph 3.4.2 above. Work is ongoing in a variety of areas to continue to seek additional ongoing savings, which will support the position in this financial year and future years.



- Review of Delegated Budget Surpluses and Specific Reserves**
- 3.7 As reported to Cabinet on 24<sup>th</sup> June 2010, a review of commitments against delegated budget surpluses is being undertaken to assist with both the in year position and ongoing position. The following are proposed and will be used both to support the in year position and ongoing budget position for 2011/2012:

	<b>Health Housing and Adult Services</b>	<b>City Services</b>	<b>Central</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Delegated Surpluses	513	472		985
Earmarked Reserves	109	156		265
Contingencies			329	329
<b>Total</b>	<b>622</b>	<b>628</b>	<b>329</b>	<b>1,579</b>

### **Capital Grant Reductions**

- Confirmed Reductions to Grants**
- 3.8 As referred to in the report to Cabinet on 24<sup>th</sup> June a reduction was notified to Department for Transport (DfT) funding for Sunderland in 2010/2011 from £3.848 million to £2.901million, a reduction of £0.947million.

Cabinet will also recall that DfT has also confirmed for small schemes of £5m or less, which were previously identified as priorities for funding, that only upon completion of the spending review in the autumn, will it be in a position to identify those schemes that can be supported. For Sunderland, this includes the Wheatsheaf and Stadium Way Junction improvements project, which was scheduled to receive £3.283m grant in 2010/2011.

In addition, DfT has also confirmed it will only be in a position to identify those major schemes that can be supported, upon completion of the spending review in the autumn. For Sunderland this includes the SSTC Phase 2 (New Wear Bridge) and Central Route projects.

- Actions to Address Capital Grant Reductions**
- 3.9 Directors in consultation with Cabinet Portfolio Holders are currently considering the impact of the funding reductions and actions necessary, including:
- in the first instance reviewing the level of commitments and ensuring that no further unnecessary commitments are entered into in relation to the affected schemes;
  - reviewing projects within the overall programme and reconsider priorities in light of reduced available funding.

It is important to note that the Council is still awaiting details of grant reductions relating to the Regional Development Agency, ONE North East, for which a number of key capital projects are dependant for sources of funding, including Single Programme.

## **Major Projects Announcements**

### **3.10 Building Schools For the Future**

- Sunderland's Wave 1 Building Schools for the Future programme generated in excess of £120million capital investment in eight secondary schools and 'Sunderland Model' Academies. The Council's investment from its own resources for the Wave 1 programme exceeds £12 million. New and remodelled state of the art facilities, including ICT, are currently transforming the learning experience of half of the city's young people. The programme will complete in September 2010 with the opening of St Robert of Newminster RC Secondary School. The programme has been delivered successfully and efficiently, on time and to budget, procured through national framework arrangements.
- On 5th July 2010, Education Secretary Michael Gove set out the Coalition Government's intention to bring to an end the Building Schools for the Future programme. In 58 authorities, including Sunderland, the programme is to be stopped with immediate effect, affecting over 700 schools. In 44 authorities, where schemes have reached financial close, these will go ahead, with a further 14 close to financial close going ahead, subject to individual review. All current academy projects in development, which have not reached financial close, will also be reviewed.
- For Sunderland, this impacts upon 9 secondary schools, 4 secondary special schools and the Pupil Referral Unit, which are part of Sunderland's Wave 2 programme. At the current time this programme is some 12 months away from financial close. Having submitted the Strategy for Change Business Case in February 2010, development of the Outline Business Case was underway, but has now been stopped. It is estimated that the Council has incurred costs of around £476,000 to date on developing the proposals for Wave 2.
- Given the current economic position, the disappointing news on the demise of BSF was not unexpected and in recent months a cautious and prudent approach has been adopted in progressing the programme. Plans to undertake site investigations during the summer term for example, reported to Cabinet on 24th June, will no longer go ahead. All work in relation to Wave 2 design and transformational issues have also been stopped.
- A comprehensive review of all capital investment in schools, early years settings, colleges and sixth form will now be conducted over the summer, reporting in late September in order to inform the Coalition Government's October Spending Review. A forward plan of investment will be produced by the end of December 2010. The review will be led by Sebastian James, Group Operations Director of DSG International PLC and will focus on how best to meet parental demand, achieve value for money in terms of design and procurement, and allocate capital funding to schools and other settings.

- It is proposed to play as full a part as possible in the review and to ensure that the Council's highly successful, cost effective procurement and delivery approach taken in Wave 1 of the programme, is shared through this process, as appropriate. The careful scrutiny that will now take place in relation to internal project management resources established for BSF will take account of the need to respond, if and when capital investment becomes available, towards the end of the year.

### **Other Major Capital Schemes**

- 3.11 In addition to the above, the Department for Transport (DfT) has confirmed that only upon completion of the autumn spending review will it be in a position to identify those major schemes that can be supported. This will include schemes that were previously granted conditional approval or programme entry. For Sunderland, this will include both the SSTC Phase 2 (New Wear Bridge) and Central Route projects. The guidance advised that all spend by local authorities that have not yet reached full approval is at local authorities' own risk.

### **SSTC Phase 2 – New Wear Bridge**

In June 2010, DfT suspended the local authority Major Scheme Business Case (MSBC) process, whilst the Coalition Government's Comprehensive Spending Review (CSR) is underway. Over 60 projects nationwide are affected by the suspension of the MSBC process, of which 39 projects are at a similar stage to the SSTC Phase 2 project.

The Council was in the final stages of design and completion of the conditional approval business case, which was due to be submitted to DfT in October 2010. A Public Inquiry had also been scheduled for September 2010, into plans to acquire the land necessary for construction.

The immediate impact of the suspension of the Major Scheme Business Case is that a planned £3.644m contribution by DfT to the development costs of the project is now uncertain, and is subject to the outcome of the spending review. If the Council chooses to progress the Project, expenditure of £2.8m will be incurred that was to be funded by DfT, which may need to be funded from the Council's own resources.

Alternatively, expenditure of approximately £0.75m will be required to terminate the Project, which will result in intellectual property rights (IPR) to the landmark design not being transferred to the Council.

In addition, by terminating the project, this would impact on the overall timetable, in the event that the Project retains DfT's support, adding additional further cost, for example, inflation indexation, that would be applied to expenditure delayed to future years beyond the current timetable.

It is recommended, therefore, that Cabinet agrees to continue to finalise core elements of the Project, which would take the project to an appropriate and defensible stage of development. This work is scheduled to complete in the autumn of 2010, and coincide with the outcome of the Coalition Government's spending review.

This approach, which requires further expenditure of £1.8m i.e. approximately £1m more than that to terminate the project, would finalise the already extensively completed design. This would provide the Council with the IPR to the landmark bridge design, whilst maintaining sufficient progress against the existing timetable to minimise future cost increases to the project. This work could be funded from Council resources earmarked to support the project.

### **Central Route**

Design is complete and the next steps include submission of the conditional approval business case. As a result of DfT's suspension of the MSBC process, the Project has been suspended until the outcome of the spending review is known.

### **3.12 Homes and Communities Agency Funded Projects**

There have been grant reductions to the HCA's budget, which will have implications for both existing programmes and potential house building schemes in the City. These are summarised as follows;

- **Kickstart Round 2**  
Funding will be provided for those schemes approved before 6 April 2010. This means that Castletown Phase 2 is not secured at this stage, although discussions are being held with the HCA at a local level on the details. Castletown Phase 1 has secured Kickstart Round 1 funding and the development is well underway. The Council has a Joint Venture Agreement with the HCA and Gentoo for Castletown and it is felt that not securing Round 2 funding will jeopardise the regeneration aspirations for the area.

The proposed scheme for Pennywell submitted under Round 2 has not been approved.

- **National Affordable Housing Programme (NAHP)**  
Over the past 2 years there has been a system of Continuous Market Engagement (CME) with the HCA, whereby Registered Social Landlords (RSL's), with the support of the Council, could bid to the HCA on an ongoing basis. This will not now be the case and access to NAHP funding will be limited. Discussions with the HCA are being held on the availability of funding and the process to be employed. The city has benefited greatly from NAHP funding in recent years and reductions in funding will mean less affordable housing being built in the city.

### **3.13 Other Department for Education Announcements**

Confirmation of announcements previously reported has been received, reiterating that reductions could be expected in respect of Extended Services capital grants. However, the Council has still to receive notification of any reduction to funding. If the 2010/2011 grant was to be reduced proportionately it would reduce by £139,000 to £116,758. Children's Services are considering the potential impact and would propose use of Modernisation funding to support any reduction in Extended Services grant.

In addition to the above notification, Officers have become informally aware of potential reduction in the Harnessing Technology Grant of £1,042,000 in 2010/2011, which supports broadband access in schools and Building Schools for

Future ICT investment. Officers are currently investigating the potential implications of reductions in this grant.

#### **4. Emergency Budget Announcement of 22<sup>nd</sup> June 2010**

##### **Spending Review**

- 4.1 The outcome of the Coalition Government's Spending Review is to be announced on 20<sup>th</sup> October 2010 and will set out in detail Departmental Spending plans and the extent of cuts in grants to local government and other agencies.

The timing of the announcement is not helpful. The detailed information in the Spending Review is required to inform the Council's financial planning processes. It may be necessary therefore, to reconsider the Council's budget setting timetable so that the late announcement can be fed into the Council's Budget Planning Framework for 2011/2012 and the Medium Term Financial Strategy.

##### **Level of Reductions**

- 4.2 In total £61 billion of Departmental budget reductions over the next 4 years (2011/012 to 2014/2015) have been announced. This is an extra £30billion of budget reductions compared to previous government announcements as part of the March 2010 Budget. Health and Overseas Aid budgets are to be ring fenced and schools partly protected. This means that other Departmental Expenditure Limit figures will be cut by at least 25%, in real terms, over the next 4 years, with potential for 33% reductions because of the impact of protection.

Initial broad assessments based on a 25% - 33% cut in grants would mean a reduction of £54m to £71m over the next four years (£13m to £18m per annum) for Sunderland. However, there is significant uncertainty with these initial assessments and the true position will not be known until the Spending Review is announced in the autumn.

##### **Sunderland Way of Working and Business Transformation Programme**

- 4.3 The Council has been preparing for the significant cuts in public spending that the Emergency Budget announcement has now heralded. Plans have been under development through the Sunderland Way of Working project for over 12 months, in anticipation of what are forecast to be the most stringent public spending cuts faced by local government for generations.

The Business Transformation Programme is examining every aspect of the way we work. Coupled with actions being developed through the Community Leadership Programme, Economic Regeneration Programme and Directorate based Service Improvement and Modernisation Programmes, the Council is transforming the way we work to become both more efficient and more effective in how we deliver front line services.

The Council's main priorities are safeguarding public services and jobs, continuing to support the most vulnerable residents in the city and continuing to attract new businesses to invest in the city.

## **Capital Spending**

- 4.4 No further cuts in capital spending totals were indicated in the Emergency Budget beyond those announced at the end of May 2010 as part of the £6.2 billion in year reductions for 2010/2011. However, major projects such as SSTC Phase 2 are still under consideration and the outcome of the James Review of capital expenditure for schools will be reported in late September.
- 4.5 The Coalition Government has indicated that it will monitor lending from the Public Works Loans Board more closely and will consider the approach taken in Scotland to increase transparency around borrowing undertaken more than two years in advance of expenditure.

It is hoped that the Coalition Government does not seek to limit any of the current freedoms for the Council to make its own borrowing decisions.

## **Pay Freeze**

- 4.6 A two year pay freeze for public sector workers (2011/2012 and 2012/2013) was announced, except for those workers earning less than £21,000 a year, who will receive an increase of £250 per year. Local government pay remains a matter for free collective bargaining between the national employers and trade unions through the National Joint Council. The Coalition Government has confirmed that its assumptions about pay awards in local government for the next two years will be fed into the forthcoming spending review.

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

## **Pensions**

- 4.7 There will be an independent commission chaired by John Hutton to undertake a fundamental, structural review of public service pension provision in time for the Budget 2011. Consideration will be given to the case for short-term savings in the Spending Review period, by September 2010. Further details will be required to understand any budget implications to the Council.

## **Council Tax Freeze**

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

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

## **VAT Increase**

- 4.9 VAT at the standard rate is to increase from 17.5% to 20% from 4<sup>th</sup> January 2011.

Although the Council can recover its VAT inputs, suppliers of some services to the Council, such as the care sector, will have increased costs of their own supplies. This in turn may result in them increasing their charges to the Council.

Consideration will need to be given to the Council's fees and charges policies to reflect the new VAT rate.

## **Regional Development Agencies Abolished and Budgets Cut for 2010/2011 and 2011/2012**

- 4.10 All Regional Development Agencies (RDA) are to be abolished through the Public Bodies Bill. One North East is, therefore, to be wound up by the end of 2011/12. The Agency has had a budget cut of over £32m over the next two years. The Coalition Government has invited local authorities to come together with businesses to consider the replacement of RDAs by Local Economic Partnerships (LEP). It is envisaged that LEPs should reflect natural economic areas and have a role in tackling issues such as planning and housing, local transport and infrastructure priorities, employment and enterprise and the transition to the low carbon economy. Proposals are invited by 6<sup>th</sup> September 2010. A forthcoming White Paper on sub-national economic growth will set out the Coalition Government's approach in more detail.

## **Regional Growth Fund**

- 4.11 A Regional Growth Fund amounting to £1bn was launched by the Deputy Prime Minister. The fund, which will operate in 2011/2012 and 2012/2013, is aimed at areas most dependant on public sector employment. The Coalition Government will publish a White Paper later in the summer.

## **Housing Benefit**

- 4.12 A new maximum limit of £400 a week will be applied to Housing Benefit and there will be a range of Welfare Benefit and tax credit changes. This will impact directly on Housing and Council Tax Benefit systems and administration. The impact will be evaluated when further details are known.

## **Business**

- 4.13 Changes to Business Rates – a temporary increase in the threshold for small business rate relief is to be honoured and legislation will be introduced to cancel backdated business rates bills that mainly affect ports.

- 4.14 To support private sector enterprise and investment in regions particularly reliant on the public sector, the Coalition Government will introduce a three year scheme to exempt new businesses from up to £5,000 of class 1 National Insurance Contributions for each of their first 10 employees, hired in their first year of business.

### **Landfill Tax**

- 4.15 The Coalition Government confirmed previous announcements that the standard rate of landfill tax will increase by £8 per tonne each year from 1 April 2011 until at least 2014.

## **5. Reasons for Decision**

- 5.1 Paragraph 4 of the Budget and Policy Framework Procedure Rules refers to the need to seek the approval of Council where the extent of virement or proposed in-year changes to the policy framework exceed the extent which may be undertaken by Cabinet. Approval of this report will enable the Council to take necessary actions to meet the impact of the government grant reductions in 2010/2011.

The Coalition Government's announcements have a direct impact on the Council's Strategic Priorities and Corporate Improvement Objectives and the Budget and Policy Framework

## **6. Alternative Options**

- 6.1 No alternative options are proposed.

### **Background Papers:**

Correspondence and website publications by the Treasury and various other Government Departments and agencies.