
ISSUES ARISING FROM THE COALITION AGREEMENT AND PROPOSED RESPONSE

To: **Council – 15 July 2010**

Main Portfolio Area: **Leader**

By: **Chief Executive**

Classification: **Unrestricted**

Ward: **All**

Summary: To set out for members a range of issues that have arisen from the setting up of the coalition Government and update members on a number of changes that have been made, or are proposed to the senior management structure.

For Decision

1.0 Introduction

- 1.1 A range of matters have arisen since the establishment of the Coalition Government, many of which will have an impact, direct or indirect, on the Council. This report provides a summary of these issues and updates Members on the actions arising, which officers have been tasked with progressing.
- 1.2 One of the first actions to have been taken by the Coalition Government was to make cuts totalling an initial £6.2bn, which included a review of grants awarded to local authorities and other government agencies. This has resulted in the withdrawal of a number of grants for 2010/11 and 2011/12, the total of which for Thanet is in excess of £500k. This report highlights the impact of these on the Council and the necessary actions required as a result.
- 1.3 The early announcement of the £6.2bn in-year funding reductions was swiftly followed by the Emergency Budget, which on 22 June 2010 set out the Government's plans for dealing with the national debt and public sector funding deficit, many aspects of which will have a significant impact on the Council and its financial standing. This report will present for Members' information the key aspects of the Emergency Budget and explain what measures are being planned for in response.
- 1.4 Finally, as part of planning for the future of this Council, and its ability to continue to be able to deliver its priority and core services in the longer term, work is ongoing to progress shared services with other East Kent authorities. The impact of this work on the senior management structure is presented, with a request for approval to revise the duties of one of the Council's three statutory posts.

2.0 The Coalition Agreement

2.1 At the meeting on 17 June 2010 Cabinet considered a report which summarised the details of the Coalition Agreement, and provided Members with an insight as to what these meant for the Council. In line with Cabinet's wishes, attached at **Annex 1**, is an updated version of the Coalition Table for Members' information.

3.0 Special Grant Funding Cuts

3.1 Also considered at the Cabinet meeting of 17 June 2010 was the impact on the Council's finances of the first funding decisions to be announced by the new Government. The £6.2m of grant cuts resulted in losses to this Council in excess of £500k over this year and the next. The detail of these are documented below, and are based on the latest information, although as some of the Council's grants are provided through third parties, such as SEEDA and the County Council it may be that there are further reductions yet to come to light.

Grant	Grant funder	Reduction 2010/11	Reduction 2011/12	Impact
Migration Impact Fund	GOSE	45,000		Low
Working Neighbourhood Fund	DCLG through Area Based Grant	159,000		Low -Medium
Community Cohesion	DCLG through Area Based Grant	48,000		Low -Medium
Housing & Planning Delivery Grant	DCLG	110,800		High
LABGI	DCLG	47,011		Low - Medium
Free Swimming Initiative	DCMS	126,754		Medium
Neighbourhood Crime & Justice	Home Office		50,000	High
Margate Renewal Partnership	SEEDA	50,000		High
Total Cuts		459,811	50,000	

3.2 GOSE - Migration Impact Fund - £45,000 reduction 2010/11

3.2.1 The council was awarded a £90,000 grant, however this initiative has been shelved by the new government. GOSE did manage to receive a six monthly payment in relation to the scheme, which they have now said will be paid to the authority.

3.2.2 As no expenditure has yet been committed to the cut proportion of this grant there is no impact on the bottom line budget of this authority.

Action – None required

3.3 **DCLG – Working Neighbourhood Fund - £159,000 reduction 2010/11**

3.3.1 This grant received through Area Based Grant grant, has been cut by £159,000, however the total allocation in relation to Working Neighbourhoods Fund was fully allocated by the Thanet Works Board on 23rd April 2010.

3.3.2 One of the phase 3 grants offered totalling £197,191k has been turned down by the grant recipient and the funding returned to the programme, therefore fully funding the government cut.

3.3.3 The Thanet Works Board will be reconvened shortly to deal with the remainder of the £197,191 grant and any under spends identified within the programme.

3.3.4 No actual repayment is necessary as the remaining monthly payments will be reduced to allow for the cut imposed.

Action – The Thanet Works Board will be prioritising remaining projects to contain spend within the reduced grant. .

3.4 **DCLG - Community Cohesion - £48,000 reduction in 2010/11**

3.4.1 This Area Based grant was cut by £48,000 in 2010/11, however the full allocation was included in the budget for Sustainable Neighbourhoods.

3.4.2 The £48,000 impact was reduced by £12,000 due to an underspend in 2009/10 and by working closely with the Sustainable Neighbourhoods Manager, savings totalling £36,000 were identified in 2010/11 and 2011/12.

3.4.3 It should be noted that due to the cut, this may lead to budget pressure in 2011/12, although it is unlikely that there will be any need to require TDC base budget and this will be monitored through budget monitoring as the year progresses.

3.4.4 No actual repayment is necessary as the remaining monthly payments will be reduced to allow for the cut imposed.

Action – That future funding needs are reviewed against the funding sources available.

3.5 **Housing Planning Delivery Grant - £110,800 cut 2010/11 - £74,800 Revenue £36,000 Capital**

3.5.1 This grant has been cut by £110,800 in 2010/11, consisting of £74,800 revenue and £36,000 capital. In addition to which £181,931.53 of revenue grant was carried forward from 2009/10 to 2010/11.

3.5.2 In relation to the revenue element of the grant £134,260 has already been committed against the grant in 2010/11 and a projected spend of £122,470 was forecast for 2011/12.

3.5.3 The 2010/11 commitments are fully funded by the grant carry forward,

however the cutting of the grant would lead to a funding shortfall of £74,798.47 in 2011/12, should no corresponding change be made to the planned expenditure levels.

3.5.4 In relation to the capital grant element, £40,858.75 was carried forward into 2010/11, £18,350 is currently committed leaving £22,508.75 surplus and so there is no need for action in relation to the capital grant.

Action - Action should be taken now to remove the costs the Council is not committed to, however in the main this grant has been used to fund salary costs, and therefore it is anticipated that this could lead to redundancies.

3.6 Local Authority Business Growth Incentive Scheme (LABGI) - £47,011 reduction 2010/11

3.6.1 The government have announced a £50m cut to the LABGI programme, this equates to the whole programme for 2010/11. Therefore the full amount of £47,011 allocated to TDC has been cut.

3.6.2 No expenditure has yet been committed to this yet, although it does mean that a number of one off projects will not now happen.

Action – The implications regarding one off projects should be considered.

3.7 Neighbourhood Crime and Justice - £50,000 reduction in 2011/12

3.7.1 This grant has been cut by £50,000, which was needed to fund contributions to two posts within Community Safety.

3.7.2 This will clearly present a £50,000 growth to TDC budgets in 2011/12 unless action is taken to identify alternative funding sources or look at possible redundancies if appropriate.

3.7.3 The section may also have budgetary issues if the CDRP grant provided by KCC is cut following reductions to KCCs grants, although this is currently unknown.

Action – That alternative funding sources are explored and options for making service cuts or staffing reductions are considered.

3.8 LAA Reward - £125m. The proposed cut will be applied to KCC, but which will impact on any Performance Reward Grant handed down to the local authorities. The impact on this cut is as yet unknown.

3.9 Area Based Grant Cuts – Kent County Council - £8.79m. The cut of KCC's Area Based Grant (along with others) is likely to impact on the Council where grants are passported. This applies to the Council's CDRP allocation, which for 2009/10 was £117,080 which was used to fund salaries, the estimated impact of this cut is £12k and spend will need to be scaled back accordingly.

- 3.10 **Dreamland – Sea Change – CABE/DCMS.** DCMS has announced a 3% reduction in the programme (£460,000) and this may impact on the grant provided to the Council. CABE the accountable body for Sea Change seem confident at this stage that the reduction will not impact on the Council's £3.8m grant, although this maybe subject to change. A decision is expected at the end of June or early July.
- 3.11 **Free Swimming Initiative – DCMS.** DCMS has cut the programme and associated grant, which results in a loss of £126,754 in 2010/11. Options for providing some subsidised assistance are being explored, although this would need to be contained within base budgets.
- 3.12 **Arts Council England.** DCMS have imposed a £19m cut in grant to the Arts Council, this has no immediate impact but could have a future impact on the Council's MACH programme, although this is not expected at this time.
- 3.13 **Margate Renewal Partnership (MRP) – SEEDA** announced the removal of £50k grant to the partnership, which almost halves its total grant stream of £90k. As these grants are used to fund the salaries of the MRP team, for which TDC is the employer, this will impact on the Council's revenue budget, and action will need to be identified to enable it to be contained within the Council's overarching budget envelope.

4.0 The Emergency Budget 2010

- 4.1 The Conservative and Liberal Democrat Coalition Government's Emergency Budget was published on 22 June 2010. The Emergency Budget has been prepared in the context of the Government's latest economic projections, some of which had changed considerably from the previous Budget 2010.
- 4.2 The Government states that it will achieve this role by implementing an accelerated plan to reduce the current deficit; and by taking action to prevent the build-up of systemic macroeconomic and financial risks. Between the Emergency Budget 2010 (June) and the previous 2010 Budget (March) the Chancellor of the Exchequer stated that the Government had an 80:20 rule concerning delivery of the deficit reduction (80% was to be found by reducing expenditure and 20% from raising taxes). The Emergency Budget that was presented shows the deficit reduction being tackled on the basis of 77% in spending reductions and 23% from tax increases by 2015/16.
- 4.3 **Spending Measures** - The following is an overview of the Chancellor of the Exchequer's Budget announcement, with particular emphasis on areas relevant to the public sector and more specifically local government. The Budget Report 2010 announced:
- The next Spending Review (covering 2011/12 to 2014/15) will be published on 20 October 2010, and will be preceded by an 'engagement programme' that was launched on 24 June 2010 to allow public sector workers and members of the public an opportunity to feed their ideas into the Review;
 - Government Departmental Expenditure Limits (DEL) will be reduced by approximately 25% over the next four years. The NHS and International

Aid Budgets will be excluded from these reductions and the impact on Education and Defence cushioned. Further detail will be announced at the Spending Review;

- A two-year pay freeze has been announced for public sector workforces, except for public sector workers earning under £21,000 in each year, to whom a flat rate pay increase of £250 per annum will be provided to;
- In his speech, the Chancellor stated that “we have asked Will Hutton to draw up plans for fairer pay across the public sector, without increasing the overall pay bill, so that those at the top of organisations are paid no more than 20 times the salaries of those at the bottom”;
- John Hutton (the previous Minister for Work and Pensions) will undertake a ‘fundamental, structural review’ of public service pension provision. An interim report will be produced in September 2010, with the final report due by Budget 2011;
- Public sector pensions, tax credits and benefits will be indexed to the Consumer Prices Index (CPI), from April 2011. Currently, the Retail Price Index (RPI) – usually a higher rate – is used;
- No further cuts in capital spending totals will be made beyond those announced as part of the £6.2bn in-year cuts package for 2010/11;
- VAT will increase from 17.5% to 20.0% from 4 January 2011;
- The higher rate of Insurance Premium Tax (IPT) will increase from 17.5% to 20.0% on 4 January 2011; the standard rate will increase from 5% to 6%.
- Employers’ National Insurance Contribution (NIC) rates will still increase by 1% from April 2011, however to ‘largely reverse’ the impact of this increase on employers the Government will increase the threshold for Employer NIC’s by £21 above indexation;
- The Government will bring forward legislation to cancel NNDR bills for newly assessed properties that were split from a larger rateable property;
- The Government will publish proposals to reform the climate change levy;
- Infrastructure UK (IUK) will be established to lead work within HM Treasury to enable greater private sector investment in infrastructure, The Government will publish a national infrastructure plan in the Autumn;
- Regional Development Agencies will be abolished as part of the Public Bodies Bill;
- A White Paper will be published in the summer setting out the Government’s proposals for Local Enterprise Partnerships;
- The Government will work in partnership with local authorities in England to implement a council tax freeze in 2011/12. It has also been assumed that the council tax-base will increase by 0.8% between 2010/11 and 2011/12 and in future years. The loss in council tax receipts is assumed to be a permanent income in future years although the associated reduced council tax benefit payments are also taken into account.
- The Government have stated that they are committed to ‘protect key-benefits for older people’ including free off-peak local bus travel, winter fuel payments, free eye tests and prescriptions and free TV licences for the over 75’s.

- The Government will introduce a package of reforms to the Housing Benefit system from April 2011, including changing the percentile of market rents used to calculate Local Housing Allowance rates, capping the maximum Local Housing Allowance paid for each property size and time limiting the receipt of full Housing Benefit;
 - The Government intends to quickly raise the State Pension Age to 66; and will quickly phase out the Default Retirement Age from April 2011;
 - The personal income tax allowance for under 65's will be increased by £1,000 to £7,475 in 2011/12. There will be a corresponding decrease in the levels at which the 40% higher rate of tax and 2% National Insurance Contributions are paid;
 - From 2013/14 Local Housing Allowance Rates will be up-rated in line with CPI;
 - From April 2011, Local Housing Allowance Rates will be capped at £250 per week for a one bedroom property, £290 per week for a two bedroom property, £340 per week for a three bedroom property and £400 per week for four bedrooms or more;
 - Legislation will be introduced to cancel backdated business rates bills eligible for the 8-year schedule of payments scheme;
- 4.4 The key features that will have the greatest impact on the operation of Council services, through the impact on its revenue and capital budgets are discussed below.
- 4.5 **Reduction in Department Expenditure Limits by an average 25% over the spending review period to 2014/15** - this would mean a loss in Formula grant of £3.03m over the 4 years. This would need the saving target projected in the 2010 MTFP to increase by £1.5m (from £7.59m to £9.09m) by 2014/15 against a current net revenue budget of £23.7m (£135.265m expenditure and £111.56m income). However, the stated intention to protect Health, Overseas Aid, Education and Defence means that Local Government is likely to have to take a greater share of the cuts. If the reduction of 25% were to be increased to 30% this would increase the savings target needed by an additional £530k.
- 4.6 **Change to employers' NI liabilities** – these are expected to broadly reverse the growth that was added in during the 2010/11 budget build of £81k arising from the increase in NI of 1%.
- 4.7 **Commitment to assist with freezing of Council Tax increases** – In a statement released in September 2008 the then Shadow Chancellor of the Exchequer, George Osborne announced the intention to assist Councils to freeze Council Tax levels by providing 'match funding' to Councils who set their increases at 2.5% or lower. If this is still the planned means of delivering a Council Tax freeze this would have no impact on the MTFP of this Council, which was based on future increases of 2.5%.
- 4.8 **The increase in VAT and insurance premium taxes** - these are expected to have a net benefit on the Council of around £300k based on previous years' tax returns. This is because the council is ordinarily a net receiver of tax due to its spending profile.

5.0 Next Steps

5.1 It is clear therefore that the Council faces an unprecedented challenge in the years ahead if it is to continue to deliver services to the public and remain within the severely reduced funding envelope. Although the actual allocations for the Council will not be known until the announcement of the settlement in December 2010, the publication of the Spending Review outcomes in October is expected to set a clear direction for each of the Government's departments, including local government. However, it would be foolhardy to wait until the actual impact is known, and therefore the Leader has instructed that officers begin work on developing options that will deliver the savings levels needed to deal with formula grant cuts of 30% to be delivered, whilst still enabling core services to be delivered. Aside from the usual review of service priorities, the following reviews have been specifically commissioned, which will be fed back on as part of the annual budget strategy which is reported to Cabinet in November of each year.

- The Port operations;
- Waste and Recycling;
- Leisure activities, and Thanet Leisure Force;
- Options for efficiency improvements around changes to senior management structures; the mechanisms for staff salary progression; the grouping of services; and alternative service delivery means, to include the use of technology and mechanisation.

5.2 The major financial pressures expected from 2011/12 onwards and the migration of substantial numbers of staff into shared services means that a new management structure for the Council will be required. The Leader has instructed that this be prepared alongside the 2011/12 budget setting papers. A full report setting out proposals will therefore be presented to the Cabinet and General Purposes Committee in the Autumn. In the interim a number of changes are required to enable this work to be progressed, the detail of which is discussed below.

6.0 Changes to Senior Management Structure and Interim Arrangements

6.1 Following the successful appointments of both Donna Reed and Brendan Ryan to the posts of Shared Services Director and Interim Housing Managing Director, it has been necessary to review the Senior Structure to ensure the delivery of the Council's agreed corporate priorities and future vision.

7.0 The Current Structure

7.1 The current senior structure was established in November 2008 and provided for a Chief Executive, Deputy Chief Executive, 5 Directors and one Head of Service. This structure was regarded as interim until 2010 pending the outcome of major work streams in relation to waste management, housing landlord services, and revenues and benefits where consideration was given to new shared service arrangements with other East Kent district and KCC. Following robust and challenging recruitment processes both the Director of Customer Services and Business Transformation and Director of Community Services have been successfully appointed to these new Director roles.

7.2 The senior management structure prior to the appointment to the shared services posts is attached at **Annex 2**.

8.0 Proposed Interim Changes

8.1 A review of the senior structure has been undertaken by the Chief Executive, which has applied the following principles:

- Provide capacity and authority for officers to act to take forward the review work needed to ensure that the council is fit for the future and able to deliver the stringent budget cuts required.
- Absorb the workload currently undertaken by the Director of Customer Services and Business Transformation and Director of Community Services and ensure appropriate remuneration.
- Be flexible to allow effective responses to the continually changing local government environment and final shared service arrangements.
- Ensure the council retains its top talent and provides for succession planning.

8.2 The new interim structure is appended at **Annex 3** and is expected to generate net saving in year of £75k.

8.3 The key changes will be as follows:-

- Increase the portfolio of the Director of Finance and Corporate Services/Chief Financial Officer to include Legal & Democratic Services, the East Kent Local Strategic Partnership and Thanet Works (with transfer of line management of staff from the Chief Executive as appropriate). Deputising for the Chief Executive, this role will be pivotal in developing the organisation to ensure it is best placed and can retain the right talent to meet the challenges ahead. This post will lead on the implementation of an organizational development programme to achieve the level of savings required to meet the Government funding cuts. At the request of the Leader, the organisational development review will also include the reviews set out earlier within this report. In order to provide capacity to undertake this work it will be necessary to deferring the applications for various charter marks and standards, including Investors in People, Customer Excellence and applying for the next level or the Equality Standard. Accordingly the post will be re-titled to Deputy Chief Executive and remunerated accordingly. This post will retain responsibility as the council's Chief Financial Officer.
- Whilst the business case is progressed to transfer Revenues and Benefits, Building Control, Customers Services and ICT into the new Shared Services Organisation, Corporate Business Systems will remain on the Council's establishment. It is proposed that this will transfer into Finance and Corporate Services under the direction of the Deputy Chief Executive.
- To ensure adequate capacity and continuity of service within the Community Services Directorate it has been agreed that the current Landlord Services Manager will be appointed as Interim Director of Community Services. This will provide a developmental opportunity for

the current Housing Manager, who will act up into the role of Landlord Services Manager.

- Appoint, on a part-time basis, an Interim Director of Customer Services to oversee Revenues and Benefits, Customer Services and ICT. This interim arrangement has already been progressed, and it has been agreed that the Council will share with Dover District Council, on a 50:50 basis, the post-holder who holds equivalent responsibilities at Dover currently.

9.0 The Approval Process

9.1 The Council already provides delegated authority to the Chief Executive and Corporate Management Team to progress all staffing matters, with the exception of Heads of Service and above, including interim appointments, which the Chief Executive has full delegation for, however, given the particular circumstances it was felt to be appropriate that the changes should be notified to Council, to provide assurance that the Council's services will not be detrimentally affected as a result of the recent appointments.

9.2 In respect of the proposal to expand the duties of the current Director of Finance and Corporate Services/Chief Financial Officer and associated designation as Deputy Chief Executive/Chief Financial Officer – as the responsibility for confirmation of the three statutory posts (Head of Paid Service, Monitoring Officer, and Chief Financial Officer) lies with the full council these proposals are brought forward for decision, and therefore members are requested to agree to the changes as outlined in the paragraphs above.

10.0 Corporate Implications

10.1 Financial

The financial consequences are outline in the above report.

10.2 Legal

The Council is required by the Local Government Act to employ suitably qualified individuals as Head of Paid Services, Chief Financial Officer, and Monitoring Officer. The structure set out above complies with those requirements.

10.3 Corporate

The proposal complies with corporate governance requirements and ensures appropriate decision making authorities and is flexible to take account for the outcomes of the Shared Service work streams.

10.4 Equity and Equalities

There are no equality implications.

11.0 Recommendation(s)

Council are recommended to:-

Note the contents of this report, including the interim arrangements around the Senior Management Structure.

Agree to the expansion of duties for the current Director of Finance and Corporate Services and agree that this post to be re-titled Deputy Chief Executive and be remunerated accordingly.

6. Decision Making Process

Decisions on all human resource matters are delegated to the Chief Executive and are not key decisions and are not included in the forward plan.

However, Council are asked to agree the expansion of duties the Director of Finance and Corporate Services as this is a senior appointment.

Contact Officer:	Richard Samuel, Chief Executive
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Annex List

Annex 1	Coalition Table
Annex 2	Senior Management Structure prior to appointment to the Shared Services posts
Annex 3	New interim Senior Management Structure

Corporate Consultation Undertaken

Finance	
Legal	