

ELECTED MAYOR
STATEMENT
COUNCIL MEETING
5TH SEPTEMBER 2012

1. INTRODUCTION

The following statement provides a personal overview of the key challenges facing Middlesbrough, the Tees Valley and the North East.

Whilst it looks at what has been achieved so far, it also examines where we are now and what lies ahead. The statement contains information covering a wide range of issues but I acknowledge there may be other areas that also need including. With this in mind, my main aim in producing the statement is threefold:

- to start a debate about the challenges we face;
- to provide an opportunity to establish whether other issues need to be covered; and
- to set the scene for the budget setting process for this Council for 2013/14 and beyond.

2. THE EUROPEAN ECONOMIC PICTURE

The crisis in the Eurozone seems to be unrelenting. The Euro area is our biggest trade partner, so any downturn there has a serious knock-on effect for UK exports, jobs and prosperity. Failure to resolve the problems in Europe could also trigger another major global financial crisis like the one we saw in 2008 and from which we are still recovering.

UK banks could face major losses. Moody's (one of the leading credit rating agencies) has already downgraded some big name UK banks because of their exposure to volatility in the world's financial markets.

There is also the negative impact on government tax receipts, for example, the financial services industry makes a major contribution to tax revenues. Also, problems in the European financial system could have a very damaging impact on lending to UK consumers and businesses.

"Grim. Serious. Terrifying. Nerve-rattling" – according to a recent article this is how some American investors and strategists have described the worsening debt crisis in the Eurozone and its impact on the global economy. Most economists still believe Europe will be able to muddle through its problems. But most economic pundits were

wrong in 2008 when they didn't foresee the financial crisis (To paraphrase George Bernard Shaw....."If all economists were laid end to end, they still wouldn't reach a conclusion!!"). However, even where you find an optimistic assessment, those who look on the bright side have begun to limit their global growth expectations in recent months.

3. THE NATIONAL ECONOMIC PICTURE

The UK economy is still in recession after shrinking by 0.5% in the three months from April to June. This revised figure is not as bad as the 0.7% decline originally reported, but it is still worse than the 0.3% drop in the first three months of the year. The sharp slowdown in construction continued, with output in the building sector falling by 3.9% in the second quarter of the year.

A number of analysts believe Gross Domestic Product will rebound in the current quarter, partly due to the impact of the Olympic games. A rise in consumer and government spending, as well as the boost from ticket sales that will be recorded in the July to September quarter should lift growth, they say. However a key question here has to be how sustainable any such growth might be.

Production output, which includes manufacturing, was also down by 1.3%, while there was a 0.1% fall in services. After 1992, the UK economy and average household incomes enjoyed a period of unbroken growth. However in 2008, the global financial crisis plunged the UK into its longest and deepest recession since comparable records began in the 1950s. More than a million people lost their jobs as businesses - from shops to manufacturers and banks - either closed or laid off staff.

Consumer spending had been rising in the years leading up to the crisis thanks to the buoyant housing market and cheap and easy credit. However, the credit crunch and job fears meant consumers cut spending, deciding to pay off debt and save instead. A fall in demand at home and from abroad, hit businesses. They also found that borrowing from banks - which most rely on - was harder to get and more expensive.

The recession ended in the middle of 2009, as the economy began to grow, but economists say the UK has not experienced a bounce-back as big as the ones seen after the recessions in the 1980s and 1990s.

Over the past year sluggish growth has been interspersed with mild contraction. This period of slow growth or small contractions is expected to continue into 2012, in what the Bank of England has described as a "zig-zag" path to recovery. It has been estimated that the output of the economy is now 10% smaller as a result of the recession and its aftermath.

Some observers have blamed the government's severe spending cuts for undermining growth. A Treasury spokesman said: "Britain is dealing with some very deep-rooted problems at home and a very serious debt crisis abroad, and that is why the healing of the economy is proving to be a slow and difficult process. Compared to two years ago the deficit is down, inflation is down, and there are more private sector jobs".

Some have questioned why the economy is shrinking when unemployment is falling. One reason for this anomaly could be the move to part-time work, which had also affected the productive capacity of the economy. According to Mervyn King; "The economy faces headwinds and black clouds as uncertainty hangs over investment".

4. POSSIBLE GOVERNMENT RESPONSE

The coalition government is expected to unveil a series of measures to promote jobs and growth as ministers move to show they have a credible economic strategy after a slump in corporate tax receipts led to higher than expected borrowing last month.

As fears grow among senior figures in both coalition parties that George Osborne is running out of time to meet his pledge to stabilise public finances, Whitehall sources have spoken of a co-ordinated growth push in September. There will be a particular focus on liberalising planning laws, guaranteeing more house building and boosting infrastructure projects as he prepares to deliver a crucial autumn statement in November that could envisage even deeper spending cuts.

The government has shown a reluctance to understand the links between the public and private sectors. One such area would include, for example, the shrinking revenue spend on supplies and services by councils which has had a consequential impact on local private sector suppliers.

It is also clear that lack of public investment in roads, housing and schools badly damages the construction sector.

5. PUBLIC SECTOR BORROWING

Potential government moves come as the Institute of Directors warn that the government is "doing too little, too slowly" to promote growth. Graham Leach chief economist at the Institute of Directors, called on the government to do more to cut red tape and simplify employment law as a survey found that business leaders were "battening down the hatches" amid fears of a prolonged recession.

In a sign of the government's more radical thinking, ministers are drawing up plans to reform the Highways Agency so it can borrow money to pay for a "horizon shift" in spending on roads to boost the economy and reduce congestion and delays.

The Agency, which runs the network of motorways and A-roads, could be made more independent, most probably as a government-owned company or public trust, so it can borrow without increasing the public deficit.

The moves to smooth the government's pro-growth approach came as a sharp fall in tax receipts last month, which led to a £557m deficit in public sector net borrowing. This compared with a £2.8bn surplus in the same month last year and was way below the £2.5bn surplus expected by analysts.

The Treasury blamed a cut in North Sea oil and gas production after a fire at the Elgin platform deprived the Exchequer of around £1bn in tax receipts. But the Institute of Fiscal Studies warned that Osborne may fail to meet the forecast by the Office for Budget Responsibility (OBR) that borrowing will fall from £125bn last year to £122bn this year.

Osborne will be waiting to hear whether the OBR decides the fall in tax receipts is temporary, cyclical or structural.

6. LONGER-TERM CUTS?

The Chancellor may have to extend the planned spending cuts beyond the extra two years announced last year. He may also embrace deeper cuts, including an extra £10bn in welfare spending reductions. This will not amount to a rewriting of the Chancellor's "fiscal mandate" on the deficit because this is assessed on a rolling five-year basis, which means that no definitive judgement ever needs to be made.

If the OBR decides that the fall in tax receipts is permanent, the Chancellor could run into trouble on the second part of his mandate – ensuring that debt as a share of GDP is falling by 2015-16.

7. LOCAL GOVERNMENT FUNDING

Unless reform is introduced immediately the money available by 2020 to fund council services like road maintenance, libraries and leisure centres will have shrunk by 90 per cent in cash terms, a detailed financial projection by the Local Government Association (LGA) reveals.

This is because the rapidly rising cost of providing adult social care, combined with the growing cost of delivering councils' other explicit statutory responsibilities like social services, waste collection and concessionary travel, will soak up almost all of council spending.

The report, based on conservative estimates, shows that unless urgent reform is introduced, a £16.5 billion funding shortfall will exist between the amount of money available to councils to provide services and the predicted cost of maintaining them at current levels. The 28% cut in the amount of money councils receive from central government between 2010/11 and 2014/15 has contributed considerably to this situation.

The LGA warns that in order to manage a £16.5 billion shortfall councils may have to significantly reduce, and possibly cut, entire service areas. It is calling on the Government to ensure local authorities are not placed in that position by introducing long-overdue reform of how adult social care is paid for and giving councils access to the resources needed to deliver the services demanded of them by local residents.

The key findings of the report reveal:

- The rising cost of providing social care and waste services means that the money available to deliver all other services falls from £24.5 billion in 2010/11 to £8.4 billion in 2019/20.
- The gap between the money available for providing services and the predicted cost of maintaining them at current levels starts at £1.4 billion in 2012/13 and widens every year to reach £16.5 billion in 2019/20.
- Spending on social care will pass 45% of council budgets by 2019/20.
- Improved efficiency will not be enough to cover the huge funding gap. In 2010/11 the cost of providing central services, which includes building costs, administration and IT, was around £3 billion. The cuts required to council services excluding care and waste management are more than five times that figure.

8. REGIONAL ECONOMIC ISSUES

One North East had an annual budget of £300m, which was spent directly in the region and helped promote such activities as attracting inward investment and physical regeneration initiatives.

Following its closure, a large proportion of its responsibilities transferred across to Tees Valley Unlimited (TVU) and the Homes and Communities Agency. Whilst there is an obvious local focus and influence through TVU, there is less so with the Government department.

There is also a fear that the NE will lose out to the devolved regions of Scotland, Wales and N Ireland. The reason for this is that they have a greater regional financial resource, but also the flexibility via their assemblies to apply this as they see fit, whereas the NE is probably now more dependent upon Whitehall instruction.

Some would suggest that the failure to embrace the opportunity of a North East Regional Assembly in 2004, that would have given the region devolved powers from Whitehall, was a lost opportunity. Such powers would have been similar to those enjoyed by Scotland, Wales and Northern Ireland. It is therefore vital that a city deal is advanced by the Tees area to secure as much devolved power as possible, so that we can shape to some extent our own destiny.

9. MIDDLESBROUGH AND THE TEES VALLEY

I understand that the Government has to, through austerity measures cut the level of public expenditure. The number of changes to funding, their extent and the pace at which they are being introduced is unprecedented. The various changes include significant reductions in :-

- Central Government support to local authorities;
- Support to Police and Fire Authorities
- Welfare Benefit payments
- Funding to support Housing Development; and
- Public Health Funding

There are of course other reductions in addition to those mentioned. The changes appear to be driven by an automated process of delivering individual targets rather than looking at the overall impact on areas of the country.

I have undertaken an analysis of the extent to which funding has been or is proposed to be removed from Middlesbrough and the Tees Valley region over a six year period, following on from the speech made by George Osborne the Chancellor of the Exchequer on 20th October 2010, in relation to his Comprehensive Spending Review speech.

I estimate that had the level of financial government support in existence at October 2010, continued to the present and for the next three years, Middlesbrough Council would have received a total of £229 million more resources to support the people of Middlesbrough. In so far as the Tees Valley area is concerned, I estimate that we will lose over £900 million over the same period.

In other words as it stands, from the beginning of the process in October 2010 through to 2015, Middlesbrough Council and the Tees Valley area will lose £229 million and over £900 million respectively.

It is time that the Government, look up and take notice as to the overall impact of their proposals within regions and areas across the country. Fairness and equality combined with reality should be the foundations upon which any Government seeks to govern the country.

10. MIDDLESBROUGH'S ECONOMY

There is a lot of uncertainty and some nervousness amongst businesses. Whilst generally order books are reasonable, the question is being asked how long this will remain so if the economy as a whole continues to decline and the problems with the Eurozone deepen. One consequence of this is that businesses will be unlikely to rush out and take on new employees or spend cash as they once did.

Having said that there are some positive emerging signs with, for example, manufacturing and engineering performing well. New sectors are also emerging such as in the energy (nuclear, offshore wind, oil and gas etc) and digital sectors, which will hopefully provide opportunities both in Middlesbrough and the Tees Valley.

However, other areas such as retail have suffered. Town centre footfall has, for example, declined by 10.9% between May 2008 and May 2012. Vacant floor space has also increased by 10.7% between 2009 and 2012.

Occupancy rate figures for the Council's commercial property portfolio stands at 21 vacant (with 219 let this means a 91% occupancy level). This is a reduction from 26 vacant properties for the same time last year.

Occupancy rate figures for the business enterprise units currently stands at 84.5%. For the same time last year this figure stood at 88%.

In terms of the general economic picture in the town, examples of growth would include:

- Leading merchandising and marketing company Amplience has set up offices at Boho One creating eight new jobs with plans for more rapid growth. The specialist company has clients which include Waitrose, Marks and Spencer, Superdry and TK Maxx.
- Jo Hand Recruitment has announced an increase of turnover to £12m and 5 new staff.
- American company Global Marine Energy opened new offices at Middlehaven creating 50 new jobs with further growth planned.
- A new £5m care home is planned for Hemlington, potentially creating 100 new jobs.
- Dundas Arcade has seen several changes recently, including the recent addition of well-known local frozen food chain Fultons Foods.
- The Cleveland Centre is currently refurbishing its frontages along Linthorpe Road in anticipation of a major new retailer moving in.
- A V Dawson secured a Regional Growth Fund grant which has lead to a multi million pound investment in the development of a multi modal

logistics facility, generating a rail freight cargo terminal and extended wharfage. Equally there are a number of smaller companies that have good order books and overall levels of work ongoing. However, all feel that profitability is much more difficult than 4/5 years ago.

- Teesside University's digital start up assistance project has recently won £1.9m through the European Regional Development Fund. The innovation programme supports companies coming out of the University to grow.

11. UNEMPLOYMENT

UK unemployment fell by 46,000 to 2.56 million in the three months up to June compared with the previous quarter.

The claimant count, the number of people claiming Jobseeker's Allowance (JSA), fell by 5,900 to 1.59 million in July.

In July for Middlesbrough, the JSA claimant count stood at 7,348, which equates to an unemployment rate of 7.9% compared to 5.4% in the NE and 3.8% in the UK.

This to a degree reflects the North East's above-average dependency both on direct public sector employment – accounting for one quarter of its jobs, according to official data and also on public spending which supports voluntary, creative and private sector employment.

12. YOUTH UNEMPLOYMENT

Youth unemployment is now one of the greatest challenges facing the country. Nearly 1½ million young people are currently not in education, employment or training – over 1 in 5 of all young people.

At its current rate, in 2012 youth unemployment will cost the Exchequer £4.8 billion (more than the budget for further education for 16-19 year-olds in England) and cost the economy £10.7 billion in lost output.

For July in Middlesbrough, the unemployment rate was 12.1% for 18-24 year olds compared with 13.2% in the Tees Valley and 7.5% in the UK.

13. THE COUNCIL'S BUDGET POSITION

The Council is being forced to make unprecedented budget cuts – amounting to approximately £58m over a five-year period 2010/11 to 2015/16. This year the Council has cut almost £14m, but still needs to find a further £32m over the next three financial years.

The enormity of these unparalleled cuts has made it more important than ever to engage with the people of the town, Council staff and

other stakeholders to give everyone a chance to fully consider the implications and put forward their views.

For the current year's budget this meant a consultation exercise lasting more than 4 months, which generated almost 1,000 queries and comments, and 32 petitions, signed by more than 20,000 people.

Clearly a lot of people took the time to get involved and have made an extremely important contribution to the process. This was a meaningful and genuine exercise – the feedback received was very carefully considered and resulted in a number of proposals being dropped and others amended.

However, setting the current year's budget is only part of what is a very long and difficult journey for Middlesbrough. As I have already indicated, our economy is in recession. This is a major concern for a whole host of reasons; not least the prosperity of our town and its residents.

We should also not forget that a weaker than expected economic growth over the next five years will make a big hole in the Chancellor's projected tax receipts and push up spending on unemployment and other benefits. This could force the Government to borrow far more than planned.

One of the more likely alternatives to increased borrowing, or taxes, in such circumstances could well be more austerity over a longer period. There was no surprise therefore, on hearing a top civil servant talking about being only 25 per cent through the "fiscal adjustment" and that spending cuts could last up to 10 years. The government has already announced the austerity programme would continue beyond the next election.

14. BUDGET PROCESS FOR 2013/14

All of this is confirmation, if it were needed, that the world in which the Council operates has changed fundamentally and is unlikely ever to be the same again. We do not live and work in a vacuum – these fundamental changes will continue to have a massive impact on Middlesbrough for years to come and require an urgent and radical shift in our approach.

We need to look very closely at the Council's core objectives and priorities, and how we deliver services. As part of this, you will already be aware that I intend to present a 'Strategic Priorities and Vision' document for the Council's perusal.

We will have to make some very difficult choices – we can no longer operate on the basis that everything is a priority. Neither can we

presume that just because we have worked in a certain way for years that this can continue to be the case – the world has changed.

To this end a process involving individual and collective meetings between myself, the Executive, the Chief Executive and the Corporate Management Team is already well underway. On the back of this work, I will be presenting my budget reduction proposals for 2013/14 to a special meeting of Council in October. This will mark the start of a consultation exercise with the public on my proposals.

In December after considering the responses to that exercise, I will present a firm set of budget recommendations to Council. The process will conclude in March 2013 with the submission of my recommended budget to Council for approval.

15. SPECIFIC CHALLENGES

In providing a general overview, I also feel it important to highlight some specific issues, which I feel illustrate the significance of the challenges we face.

A) Welfare Reform- Despite the fact that some of the government's reasoning behind its welfare reforms might seem laudable, such as creating incentives to get people off benefits and into work whilst at the same time protecting the most vulnerable, their impact in Middlesbrough will be far reaching.

Initial work has indicated that approximately 14,000 people across the town could be affected by one or more of the changes, with early estimates indicating that approximately £8.0m could well be taken out of Middlesbrough's economy.

By way of illustrating the potential impact, changes to the Council Tax benefit system will result in a 10% cut in government grant. In Middlesbrough this represents a reduction of £1.9m in funding. Across the region it could amount to £27m.

Although some of the reforms have already been introduced, the bulk of the changes do not come into effect until April 2013 and beyond.

Some of the potential consequences of these changes include: increased homelessness; the threat of more families falling into debt/poverty; greater pressures on the town's financial and advisory services; impacts on health and crime; and greater Council debt.

Furthermore, all but a very small proportion of income received by our poorest families is spent locally. Accordingly cuts in welfare will impact directly on the private sector, particularly retailers.

Whilst the Council together with its partners have already begun the process to identify and implement the actions that can be taken, these are, in the main, mitigating actions to ensure, for example, that those affected will be able access advice and information.

It is clear that where benefits are to be cut, that cut will have to be borne by the claimant.

B) Health Services - Funding - As part of the austerity measures, £20b needs to be saved from a national health budget of around £102b. Independent financial observers of the NHS are on public record as saying that no healthcare system in an advanced industrial economy has ever made such a saving before.

In terms of the NHS Tees funding allocation (which excludes Darlington), over a four-year period (2011/12 – 2014/15), from an initial annual budget of £1b, a total of £200m efficiency savings must be found.

C) Impact on Fire Services - Last year huge cuts were made on the fire-service funding, which caused 1,500 people to lose their jobs. Many of those who lost the jobs were fire-fighters. Fire stations were also forced to close throughout England due to severe losses.

Cleveland Fire Authority will suffer a budget shortfall of £8.8 million, almost one quarter from its £33 million budget.

This is in an area that has the 7th most densely populated Fire Authority area in England (only the metropolitan brigades have more densely populated areas), which also has a high incidence of fire and antisocial behaviour. One consequence of this is that the area suffers from one of the highest arson rates in the country.

Furthermore, centered on the mouth of the River Tees, Cleveland is still a major production centre for the chemical industry with 34 'top tier' and 6 'lower tier' Control of Major Hazard sites (COMAH). Approximately 12% of all national COMAH sites are in Cleveland. In addition Hartlepool has a nuclear power station, with two nuclear reactors and a gas power station at Wilton.

D) Impact on the Police - The Police budget has been cut by 20% and some senior officers fear this will result in a poorer service for communities. The government is insisting that savings need to be made for the greater good of the economy.

However, police forces have already made a significant contribution to tackle the national debt. According to HMIC the police service will lose over 13,400 warranted officers over the next four years, £163 million is being taken from police pay this year alone, pension contributions have

been increased and a two-year public sector pay freeze has been imposed on police officers.

Official figures show a reduction of 433 officers in the North East region over the past 12 months.

Cleveland Police recorded the biggest drop in percentage terms, 7.6% the fulltime equivalent of 126 officers.

The number of police officers in England and Wales, 134,101 at the end of September last year, was the lowest since 2003.

E) Public Health – Funding - Public health has made great strides in the NE within the last 10 years. The NE has greater need, has spent more and has reduced mortality rates more than the rest of the UK. Reduction successes relate to smoking cessation, coronary heart disease and there are now some signs in reductions in cancer.

This however could all be at risk in the light of recent announcements on possible future funding levels.

Applying a proposed funding distribution formula to the estimated total national public health budget, Middlesbrough's future public health allocation could be in the region of £8.36 million. This represents a reduction of £6.4 million from the estimated 2012/13 baseline spending estimates published on 7 February 2012.

As mentioned this reduction in funding will have a significant effect on health programmes and will reverse the progress made in improving health outcomes for Middlesbrough.

Some of the key issues include:

- **Life expectancy** - Life expectancy at birth continues to improve across the town but remains below the NE and national average.

Life expectancy in Middlesbrough was 73.2 years for men and 78.6 years for females, between 1999 and 2000. Latest figures (2008 – 2010) show that on average, Middlesbrough's male life expectancy is 76.1 years (England average 78.6 years) and female life expectancy is 80.2 years (England average 82.6 years).

- **Cardiovascular disease** - Deaths from cardiovascular disease and heart attacks have fallen significantly and faster than the national average. However, each year about 150 deaths from cardiovascular disease are preventable in Middlesbrough.
- **Cancers** - lung cancer being the most common cause and significant contributor to premature death especially for women. Each year about 200 people die prematurely from cancer in Middlesbrough.

- **Respiratory disease** - chronic obstructive pulmonary disease and lung cancer are the most common causes of premature death in Middlesbrough. Smoking remains the highest preventable cause of premature death. In Middlesbrough about 300 people die each year from smoking related illnesses.
- **Smoking** - Smoking remains the single preventable cause of premature death and accounts for almost half of the life expectancy gap within the town.

Smoking during pregnancy remains a significant challenge. About 30% of women in Middlesbrough smoke during pregnancy, a significant risk for both the woman and the unborn child.

- **Alcohol and substance misuse** - In Middlesbrough binge drinking is estimated to be 31% of the population and is higher than the regional and national averages. Binge drinking has significant impact on health, families, communities and wider society.

Middlesbrough continues to have a very high rate of alcohol admissions for both males and females, especially for under 18s and has the fourth highest rate of alcohol related hospital admissions in the country.

- **Obesity and overweight** - Obesity rates in Middlesbrough for adults are 27.9% compared to a national average of 24.2%. In children the prevalence of child obesity more than doubles between reception year (9.4%) and Year 6 (21.8%), highlighting the need for interventions at an early age and a life course approach to tackle obesity.
- **Mental Health** - One in four adults will experience mental health problems at some point in their lives and are often socially excluded groups in the community. Mental health and physical health are interlinked, people with mental health issues experience higher rates of morbidity and an estimated 13 year reduction in life expectancy compared to the general population.

About 3 000 young people in Middlesbrough have some form of mental health need requiring a service from a trained mental health professional. Between 2007 and 2010 there were over 200 self harm incidents in under 18 year olds.

- **Children and young people's health** - Only 48% of new mothers in Middlesbrough began to breastfeed their babies compared to 56% across the NE and 73% nationally.

Middlesbrough's teenage pregnancy rate is 28% higher than the England average and 6% above the northeast average.

16. CONCLUDING REMARKS

I have sought to highlight what I consider to be the key challenges we face and I acknowledge that I might not have covered all of the issues, which Members might feel are relevant. On this I would particularly welcome your comments.

Furthermore whilst I have made some broad assumptions in respect of the overall financial impact, those assumptions are based on a sound financial foundation and rationale.

Finally, I intend at the Council meeting to make further comment in support of this written statement and I look forward to hearing your opinions and views on the subject matter as a whole.