

## MIDDLESBROUGH COUNCIL

### EXECUTIVE REPORT

#### Government spending cuts - impact and response

Executive Member for Regeneration and Economic Development:  
Charles Rooney

Director of Regeneration: Kevin Parkes

Date: 12 October 2010

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#### PURPOSE OF THE REPORT

1. This report considers the potential impact of the Coalition Government's spending plans on Middlesbrough and how the town can respond.

#### SUMMARY OF RECOMMENDATIONS

2. It is recommended that the Executive endorses the approach set out within the report which, in general terms, seeks to:
  - a) present a case to Government which demonstrates the need for continued support, in particular for the hardest hit people and communities of Middlesbrough; and,
  - b) develop a strategic response, which is aligned to the Government policy on re-balancing the economy, regional growth, localism and the Big Society.

#### IF THIS IS A KEY DECISION WHICH KEY DECISION TEST APPLIES?

3. It is over the financial threshold (£75,000)   
 It has a significant impact on 2 or more wards   
 Non Key

#### DECISION IMPLEMENTATION DEADLINE

4. For the purposes of the scrutiny call in procedure this report is
 

Non-urgent	<input checked="" type="checkbox"/>
Urgent report	<input type="checkbox"/>

## **BACKGROUND AND EXTERNAL CONSULTATION**

### **NATIONAL POLICY**

#### **Budget Deficit Reduction and Re-balancing the economy**

5. Last year, Britain had the largest budget deficit in peacetime history, amounting to £156 billion. The Government sees reducing the deficit as the most urgent issue facing Britain today and a prerequisite for sustained economic growth. It has, therefore, committed to eliminating the bulk of the structural deficit by 2014-15.<sup>1</sup> Furthermore, the Government's view is that sustained economic growth can only be achieved by an expansion in the private sector.
6. Shortly after its formation the Government announced £6.2 billion of savings this year to start to tackle the budget deficit. Local government's contribution to these in-year cuts is expected to be £1.165 billion. This was followed by an Emergency Budget, described by the Government as a five-year plan to rebalance the economy and provide the conditions for sustainable growth. In addition to the £73 billion cuts proposed by Labour, the Budget set out £32 billion in spending cuts and £8 billion in net tax increases, by 2014-15.<sup>2</sup>
7. How these cuts will impact across Government departments will not be known until after the publication of the Spending Review (20<sup>th</sup> October 2010). However, once the Government's commitments on protecting health and overseas aid are taken into account, other departments could see average real terms cuts of around 25 per cent over the four years to 2015-16.<sup>3</sup>
8. The Government will also set out plans for savings and reform in areas such as welfare, tax credits and public service pensions. This may benefit Government departments, but it will come at a price. By way of illustration, it is suggested that to reduce the average budget cuts facing unprotected departments from 25% to 20% would require £13 billion worth of cuts in other spending areas, such as welfare.<sup>4</sup>

### **LOCAL IMPACT AND RESPONSE**

#### **In-year cuts (2010-2011)**

9. The impact of in-year spending cuts on Middlesbrough is estimated at around £4.4 million. The cuts cover areas ranging from the Working Neighbourhoods Fund, to schemes to improve playgrounds and the provision of free swimming to children and older people. In applying them the Council has sought to minimise the impact on jobs and services, particularly in deprived neighbourhoods. The Executive Member for Resources on the 17<sup>th</sup> August agreed the reductions in detail along with mitigating actions.<sup>5</sup>

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<sup>1</sup> HM Treasury website

<sup>2</sup> Institute for Public Policy Research

<sup>3</sup> Budget 2010

<sup>4</sup> Institute for Fiscal Studies

<sup>5</sup> Area Based Grant Reductions 2010/11 – Report of the Director of Strategic Resources to the Executive Member for Resources, 17<sup>th</sup> August 2010

## **Sustainable growth and local vulnerability**

10. The Government's view is that sustainable growth must to be based on an expansion in the private sector. However, the very real challenge for Government is to strengthen the labour market at the same time as Government departments are forced to make budget cuts of around 25 per cent. Middlesbrough's reliance on jobs in the public sector (43% of jobs) compounds this problem.
11. Furthermore, reduced public sector activity will also feed through to the very private sector firms, which are supposed to be expanding to help re-balance the local economy. The Organisation for Economic Co-operation and Development (OECD) estimates that 25% of public spending in the UK is on procurement from the private sector.<sup>6</sup> Public expenditure in the North East as a percentage of the region's GDP is 64% compared to 48% of National GDP. The Council spends £104 million on procurement from the private and other sectors.
12. The problems for Middlesbrough are further compounded by the extent of social deprivation, with 16 of the town's 23 wards within the 25% most deprived in England. Across a number of wards vulnerable communities have for some time, and continue to be, reliant on public sector funded programmes to provide focused services to improve opportunity and support residents. The Council spends around £150million per year on measures to tackle social deprivation and exclusion, including a substantial amount from the Working Neighbourhoods Fund which has been cut this year and will be withdrawn completely next year. This issue is considered in detail from paragraph 19.
13. Research carried out for the BBC by Experian looked at the ability of the 324 local authority areas in England to withstand sudden changes in the economy, such as public sector cuts. The resulting index, which looked at resilience across four key themes of business, community, people and place ranked Middlesbrough the least resilient local authority area in England.<sup>7</sup>
14. Against this backdrop a number of key questions arise. How can the private sector expand to absorb those displaced as a result of public sector cuts, how can Middlesbrough continue to address major problems associated with social deprivation, and what assistance is required from Government to help make the staged transition to a re-balanced economy, and a fairer society? The Experian findings will help Middlesbrough make the case to Government for ongoing support to ensure the Council and its partners can build on successes and respond to new challenges and opportunities. The remainder of the report, therefore, considers the issues of sustainable growth and social deprivation in more detail.

## **Sustainable growth through local enterprise**

15. The Budget recognises that regions characterised by reliance on the public sector and low levels of private sector growth will be more vulnerable to the impacts of public spending cuts. However, the proposed Regional Growth Fund (RGF), offers only £2 billion funding over two years for the entire country. Compared to almost £340 million per annum that the soon to be abolished Regional Development

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<sup>6</sup> The Budget: An assessment from The Work Foundation

<sup>7</sup> Understanding Resilience - Background information – North East and Cumbria September 2010, Experian

Agency (RDA), One North East has invested in the Region alone, it seems unlikely the RGF will adequately address the long-term structural economic weaknesses in the region.

16. However, in scrapping the RDAs the Government has presented an opportunity in the shape of Local Enterprise Partnerships (LEP). It has invited interested parties to apply for LEP status to cover functioning economic areas, clearly defined by where the people of those areas work, study and spend their leisure time. The successful applicants will gain access to substantial funding to drive forward their economic future.
17. Middlesbrough has, therefore, been working with its partners in Tees Valley Unlimited (TVU) to develop a LEP (as reported to Executive 17<sup>th</sup> August 2010).<sup>8</sup> Considerable emphasis has been placed on developing a business plan to support industrial sectors in which the Tees Valley is currently strong or could grow, such as petrochemicals, new forms of power generation, Teesport, bio-technology, engineering, steel, knowledge transfer from universities and digital innovation. The LEP will also seek to create a more diverse economy by developing industries such as the service, health and financial sectors to provide more career and job opportunities for local people. In all of this it will be important to offer incentives for business to locate to the town, for example through designating Enterprise Zone status to key business areas.
18. If LEP status were granted it would be a major show of support for the people and economic vision of the area, which would in turn increase private sector confidence. TVU estimates that up to £8billion of potential commercial investment over the medium term could be attracted to the Tees Valley in areas such as oil refinery, ports development and offshore wind construction. The LEP, therefore, offers Middlesbrough its best chance of driving the economy of the area forward. However, to truly regenerate an area, as well as focussing on the economy, it is imperative that Middlesbrough continues to focus on the welfare of its people. This critical issue is considered in the following paragraphs

### **Social deprivation - disadvantaged neighbourhoods and vulnerable communities**

19. The Experian resilience index also highlights vulnerabilities, which make the potential impact of public sector cuts on Middlesbrough's disadvantaged neighbourhoods of grave concern. The Council and its partners must seek to ensure that residents who are most excluded can not only access opportunities, which reduce dependency on the welfare state, but can achieve their longer-term aspirations.
20. Whilst it is important to tackle welfare dependency, it is important to objectively reflect on its causes and the impact of the extensive package of welfare reforms set out in the Budget, amounting to a cut of £11billion, with a further £4billion announced more recently. In addition there are now vague proposals for a universal credit system for the low paid and unemployed, which the Government suggests will seek to ensure "work always pays" although it is not possible at this

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<sup>8</sup> Tees Valley Unlimited – The Tees Valley Local Enterprise Partnership – report to the Executive by the Director of Regeneration, 17<sup>th</sup> August 2010.

stage to offer a critique. All of this is, however, very significant for Middlesbrough given the relatively high levels of unemployment, disability, long-term illness, and deprivation in many neighbourhoods. The Council's Welfare Rights Service has estimated that the impact of the £11 billion alone could result in an approximate reduction in benefits of around £25 million for the people of Middlesbrough.<sup>9</sup> Taking this money out of the local economy will have a significant local impact in the town's most deprived wards, as people on low incomes tend to spend more of their money locally. The move to a universal credit system may also have significant job implications for public sector workers responsible for administering existing arrangements.

21. Although the NHS is to be more protected than other departments in the spending review, it could still be subject to the tightest four-year period for spending that it has ever experienced. Furthermore, whilst health spending may be relatively safe, the Department of Health's social care budget may be subject to major cuts. At a time of increasing pressures on health and social care, primarily from an ageing population, this is a particular concern for Middlesbrough given the projected demographic changes in the town over the next two decades. Whilst the NHS will enjoy a degree of protection, the Government has already announced a radical and potentially very disruptive overhaul of the NHS with the abolition of Primary Care Trusts (PCTs) and the transfer of commissioning responsibilities to GPs. From announcements made to date it is understood that around 200 local NHS managerial jobs are to be cut, with a further 850 jobs at risk in the area as the NHS is reorganised.
22. As already mentioned, the Council invests around £150 million per year to tackle social deprivation and exclusion. Middlesbrough residents receive £82 million worth of Housing and Council Tax Benefit support from Government; £17 million helps the Council look after vulnerable children; £38 million tackles underachievement in education; £3.3 million supports employment, homelessness services and housing regeneration; and, the Working Neighbourhoods Fund provides £9 million to address the impacts and implications of social deprivation in the town's most deprived neighbourhoods.
23. Clearly then, the Council invests significant amounts every year, and the Spending Review jeopardises the excellent progress made in so many areas. In acknowledging that it is difficult in this report to analyse in detail the potential impact of spending cuts across all fronts, it is important to stress that cuts are likely to have a disproportionate impact in already vulnerable communities, in a wide range of areas, from activity to tackle housing market failure and disrepair, reducing health inequalities, to bolstering young people's educational achievement. That said, the next section of this report will use the Working Neighbourhoods Fund (WNF) to illustrate the impact of budget cuts on the town's most deprived communities.
24. The WNF, which superseded the Neighbourhood Renewal Fund in 2008, represents a continuation of long term investment to tackle entrenched deprivation in Middlesbrough. In terms of WNF alone the Council has already invested £16 million since 2008 to address worklessness and the wider socio-economic issues which increase the propensity for worklessness in the town's most deprived wards.

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<sup>9</sup> Middlesbrough Partnership Financial Inclusion Group, 9 September 2010 - Impact of the Coalition Government on Welfare Benefits

However, WNF has already been subject to in-year cuts of around £900,000, and after this year's £9 million grant the WNF comes to an end altogether. The demise of targeted resources, such as WNF, will, if not replaced, result in the loss of critical services and a disproportionate impact on those who need support most. It will be imperative for the Council to make the case for an alternative fund to tackle social deprivation in Middlesbrough. This case can be built on the foundation of progress made in recent years in addressing some of the root causes of deprivation, including those enabled by WNF programmes in the following areas:

- a) **Unemployed and Unskilled** - reintegrating residents with the labour market, addressing barriers such as chaotic lifestyles, homelessness, mental health issues, physical wellbeing, specialist training and volunteering as a route to work. Over 6,500 residents have engaged with a programme and 1,500 residents have progressed into employment.
- b) **Business and Enterprise** – a business support package matched with European funding has levered over £1m of additional resources into the programme, the capacity of businesses is being built through procurement workshops, incubation centres and peer support programmes and 270 businesses showing growth potential have been supported with £750k of targeted growth grants.
- c) **Young People** - working with the hardest to reach young people aged 17-19 years old who have not been in Education, Employment or Training (NEET) for six months or more. With a caseload of 200 young people the project has helped reduce the number of young people who are NEET, from 17.2% in 2005 to 9.9% in 2009. The Mayor's Apprentice Scheme is supporting around 100 young people into employment and training opportunities.
- d) **Families** - Families Project is working with families who present anti-social behaviour, with particular emphasis on young people, to improve skills, change behaviour and integrate families within the community. Families First delivers a multi-disciplinary service offering assessment, treatment and support to parents with drug and alcohol misuse where children may be at risk of removal.
- e) **Communities** - Neighbourhood Management is empowering residents to become more involved in local decision making yielding massive benefits in terms of community cohesion and civic participation. Voluntary Sector Grants aim to empower the Voluntary and Community Sector to increase opportunities for volunteering; support the hard to reach and, supporting the development of community enterprise.

25. The end of projects which seek to tackle social deprivation, including those currently funded through the WNF, is likely to undo much of the progress made in Middlesbrough in recent years. A staged transition will allow the private and civil sectors time to grow sufficiently to help compensate for the loss of public funding and help Middlesbrough to continue narrowing the gap between its most deprived and affluent neighbourhoods. There is a need, therefore, to reconsider the existing programmes and ensure that the Government's objectives in respect of localism and the Big Society are better reflected. There is also a need to target the most deprived communities, through locally developed business plans setting out clear

and costed ambitions for these areas, focusing on developing skills, addressing worklessness and addressing issues associated with unemployment.

## **EQUALITY IMPACT ASSESSMENT**

26. Not applicable to this report, although an assessment has been undertaken in respect of reductions in Area Based Grants (see report to Executive 17<sup>th</sup> August 2010)

## **OPTION APPRAISAL/RISK ASSESSMENT**

27. Impacts (or risks) resulting from Government budget cuts are considered in the body of the report.

## **FINANCIAL, LEGAL AND WARD IMPLICATIONS**

### **Financial Implications**

28. The potential impact of the Budget and Spending Review is considered within the main body of the report. In terms of the Council's budget for 2011/12 the position will only be known after the October Spending Review.

### **Ward Implications**

29. Budget cuts will impact across all wards, and in particular those including the most deprived neighbourhoods.

### **Legal Implications**

30. Not applicable.

## **CONCLUSIONS**

31. The potential magnitude of cuts across a range of Government departments, which will only become clear after the Spending Review, will be felt most acutely in areas, like Middlesbrough, which are more public sector reliant. In turn the impact will be greatest in the town's most deprived neighbourhoods. The Government's growth strategy, in particular that relating to regions which are highly dependent on the public sector, is reliant on major expansion in the private sector. It will be critical, therefore, for Middlesbrough to work closely with the Government on its decentralisation agenda, working with partners within the new LEP framework. At the same time the Council and its partners must not lose sight of the fact that Middlesbrough's economy and the welfare of its people go hand in hand.

## **RECOMMENDATIONS**

32. It is recommended that the Executive endorses the approach set out within the report which in general terms seeks to:
- a) present a case to Government which demonstrates the need for continued support, in particular for the hardest hit people and communities of Middlesbrough; and,
  - b) develop a strategic response, which is aligned to the Government policy on re-balancing the economy, regional growth, localism and the Big Society.

## **REASON**

33. It is essential that Middlesbrough seeks to maximise opportunities to keep moving forward in the face of what might be unprecedented public spending cuts whilst continuing to support the town's most vulnerable people and communities.

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