

**2018/19 – 2022/23**

# Medium Term Financial Strategy

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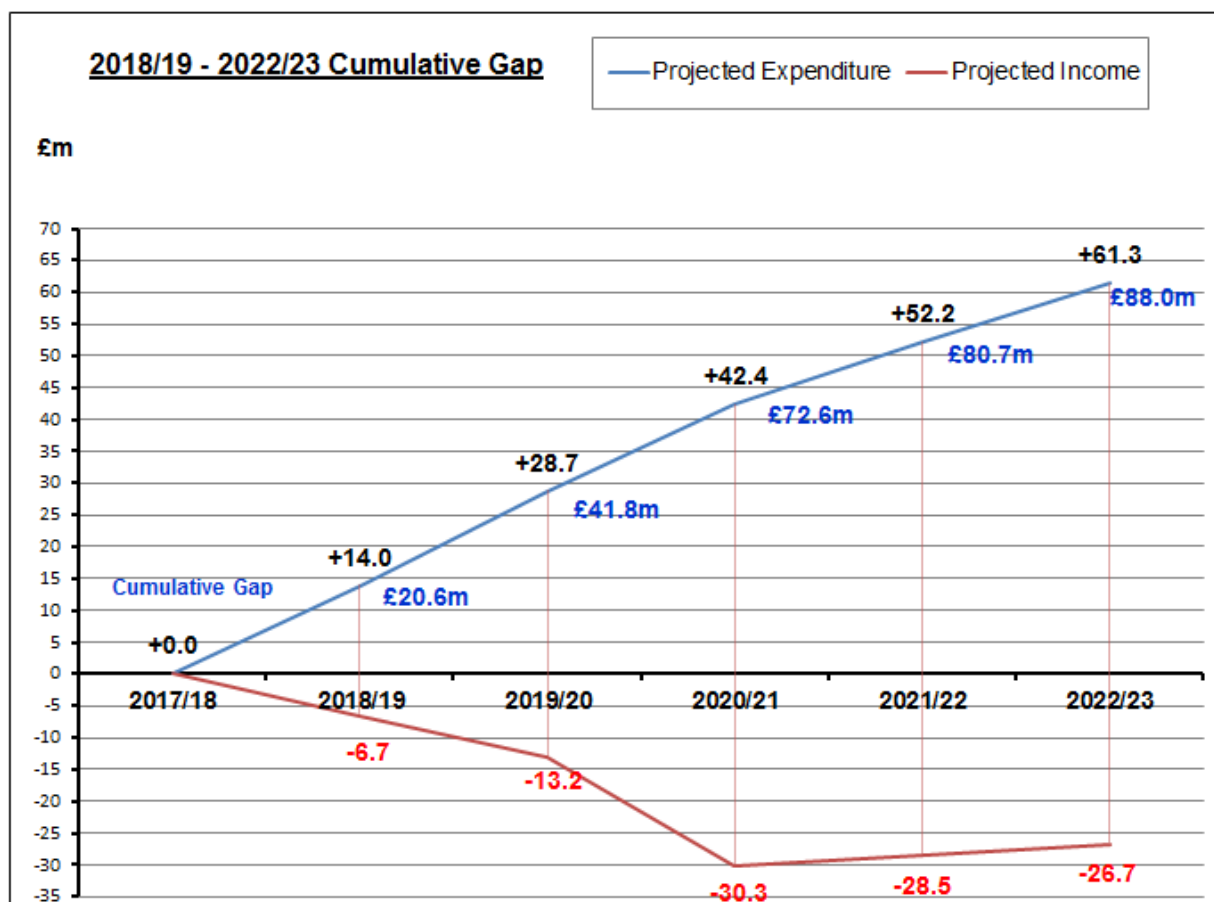
## 1. Executive Summary

- 1.1 This is the annual review of the Council's Medium Term Financial Strategy (MTFS). It is based on a financial forecast over a rolling five-year timeframe from 2018/19 to 2022/23 which will help ensure resources are aligned to the outcomes in the Council Plan 2015 to 2020. The MTFS sets the financial context for the Council's resource allocation process and budget setting.
- 1.2 The Council is operating within a context of unprecedented pressure on local authority budgets. Medium term financial planning is taking place against the background of significant funding cuts for Local Government alongside Government plans for major Local Government finance reforms. In addition, the Council, in common with most local authorities, continues to be at risk from unfunded financial pressures, including workforce management, waste management, and demand for social care and welfare reform as well as implementation of the national living wage. This environment will challenge the ability of the Council to respond to the needs of Gateshead residents and the wider community.
- 1.3 The UK's recent vote to leave the European Union (EU) is likely to herald more instability in the short to medium term and the consequences are still to be understood over the MTFS period.
- 1.4 At a local level, there are changes in Gateshead's demography with an increasing population and a growing number of our most vulnerable residents requiring complex health and social care support. Although the Council's ranking in the Index of Multiple Deprivation 2015 was an improvement, there are still areas of high deprivation with issues of health inequalities and child poverty. The Council recognises the importance of increasing Gateshead's prosperity; encouraging housing and business growth, as well as revitalising our economy and job opportunities, so that ultimately people's standards of living will improve.
- 1.5 The likely continuing requirement and scale of budget savings, over and above the £143m already taken from budgets since 2010, represents an increasing challenge for the Council.
- 1.6 By 2018/19 the Council's core grant funding will have reduced by approximately 52% from 2010. This equates to over a £400 per head reduction and over a £900 per dwelling reduction in Government funding over the period. Central Government's continued commitment to reduce the overall levels of public debt would indicate significant reductions in grant funding are likely to continue over the medium term. In order to strengthen our financial position the Council will have to consider other ways to generate income and be self-sufficient including changes in local taxation, fees and charges and trading activities as well as prioritising and supporting economic growth within the borough.
- 1.7 Central Government have stated that they remain committed to long term reforms in the way Councils are financed. Their aim is to significantly reduce reliance on central grants and move local authorities to be self-financing. The timeline for this was originally by 2020 however as a result of the election this timetable may well be compromised. If the main Local Government grant is to be phased out then Councils will rely more on income from council tax, local business rates, fees and charges, trading income as well as contributions towards service costs from third parties.

- 1.8 This will be particularly challenging for Council's like Gateshead who have been heavily reliant on central grants to meet local demands and needs for Services. There will be more pressure on the income the Council gets from council tax and business rates to fund vital services. Alternately, the Council will need to find new ways to deliver with partners, communities and residents or possibly stop services altogether.
- 1.9 Reviewing the MTFs remains essential to ensuring the Council's medium term financial sustainability. The Council has responded to the financial challenges in a planned way through an approach based around four inter-related areas: economic growth, managing demand, collective responsibility and efficiencies and has a strong track record of identifying and delivering savings and efficiencies whilst protecting priority services as much as possible. The Council will have to make very difficult choices in the years ahead about which services to prioritise. In order to avoid cuts to services, the Council continues to explore alternative options of service delivery to ensure that services remain fit for purpose in the context of smaller budgets. This may mean revisiting the expectations of residents in order to protect services for the most vulnerable. It is also an opportunity to work with partners and neighbouring authorities to maintain and improve outcomes against a back drop of reducing public spending.
- 1.10 Within the 2017/18 settlement the Government provided some details of indicative funding up to 2019/20 which gives a high level indication of revenue support grant funding. However significant uncertainty still exists in respect of likely funding levels in relation to other grants over the period as well as instability that arises from the volatility of business rates funding and the implications of the potential move towards a new funding regime of 100% rate retention. Further implications arising from the UK's decision to leave the EU are yet to be seen over the next few years.
- 1.11 The funding estimated to be received from Government and from council tax and business rate payers over the next five years is not sufficient to cover current level of spend plus new budget pressures. Local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Therefore, to legally balance the budget the Council must make spending plans affordable by matching it to the estimated funding available over that time. The gap between the two amounts is referred to as the "financial gap". Thus the financial gap is a combination of the Council's best estimate of the future budget needed to cover rising cost pressures and demands for services alongside a reduced amount of income. Action is required now to enable the Council to satisfy the legal requirement to balance the budget both next year and in future years.
- 1.12 Although there exists a great deal of uncertainty, overall it is now estimated that the Council will need to close a funding gap of £88.0m over the five financial years 2018/19 to 2022/23. This funding gap can be summarised as follows:


2017/18 £m	Indicative Budget Forecasts	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
215.839	Estimated Base Budget	216.604	231.330	245.004	254.848	263.984
(202.649)	Estimated Funding Resources	(195.995)	(189.454)	(172.381)	(174.143)	(175.940)
13.190	Cumulative Funding Gap	20.609	41.876	72.623	80.705	88.044
13.190	Annual Funding Gap	20.609	21.267	30.747	8.082	7.339

1.13 The funding gap over the medium term can be further analysed to identify separately increasing cost pressures on expenditure (+£61m) at the same time as the impact of reductions in funding on income (-£27m) This can be presented graphically as follows:



1.14 Government legislation has and will continue to directly impact Local Government. The welfare reform agenda is likely to continue to place additional demands on local authority services as well as significantly impacting on local authority finances. The Social Care Act will also put additional strain on local authority services and while provision has been made to further improve the integration of social care and health services through the Better Care Fund it is unclear whether resources allocated to Local Government will be sufficient to cover additional cost burdens. Government policy in respect of schools and housing will also impact significantly on Council service provision and financial planning.

1.15 The Council will ensure that it maintains support to priority services, and it will seek to prioritise those services that are most needed. It will continue to review the services it delivers, and the way that it delivers them. This will ensure that reducing resources are used to maximum effect, and allow the Council to continue to deliver new and better ways of working and invest to improve the efficiency of services provided. It is evident however the continuing reductions in funding and increases in demand will have an inevitable impact on both the nature and scope of services that the Council is able to deliver. The Council will aim to manage the process of change to its services effectively.



1.16 The Council will continue to have significant revenue and capital budgets to deliver services consistent with the delivery of priority outcomes. The approach to financial planning over the medium term will include a focus on investment in growth and income generation. The Council recognises that economic growth benefits the residents of Gateshead and the businesses within Gateshead. It also strengthens the position of the Council by developing financial resilience through less exposure to reductions in government funding. The Council will retain its vision for the future of the Borough through promoting development and economic growth and this will assist in maintaining the medium term financial sustainability of the Council.

## 2. Introduction

### The Purpose of the Medium Term Financial Strategy (MTFS)

- 2.1 The MTFS is a key part of the Council's Budget and Policy Framework which aims to ensure that all financial resources are directed towards delivery of the Council Plan and Vision 2030. The Strategy describes the financial direction of the Council for planning purposes and outlines the financial pressures over a five-year period but is reviewed annually to reflect the dynamic nature of Local Government funding.
- 2.2 The review of the MTFS builds on the existing strategy and updates assumptions to reflect known funding announced as part of the Local Government financial settlement for 2017/18 and estimated multi-year settlement figures beyond this. Financial planning assumptions will need to be kept under constant review given the increased level of uncertainty which will continue until more detail is released on funding later in the year and as implications and timing of the move to the new 100% rates retention system are clarified.
- 2.3 The MTFS establishes the likely level of resources available to the Council over the medium term and also estimates the financial consequences of the demand for Council services. It provides the financial context within which the Council budget will be set.

### The Benefits of the MTFS

- 2.4 The MTFS assists in:
  - Delivering the priorities of the Council Plan and delivering Vision 2030;
  - Improving financial planning and the strategic financial management of the Council's revenue and capital resources;
  - Maximising the use of resources available to the Council, both internal and external;
  - Ensuring that the Council provides value for money and delivers budget savings;
  - Aligning financial resources to the Council's spending priorities and priority outcomes;
  - Reviewing the Council's reserves policy to ensure there is protection against unforeseen events;
  - Responding to external pressures;
  - Developing a sustainable budget over the medium term;
  - Highlighting financial risks and mitigating controls.

## The Principles of the MTFS

2.5 The principles underlying the MTFS 2018/19 to 2022/23 are as follows:

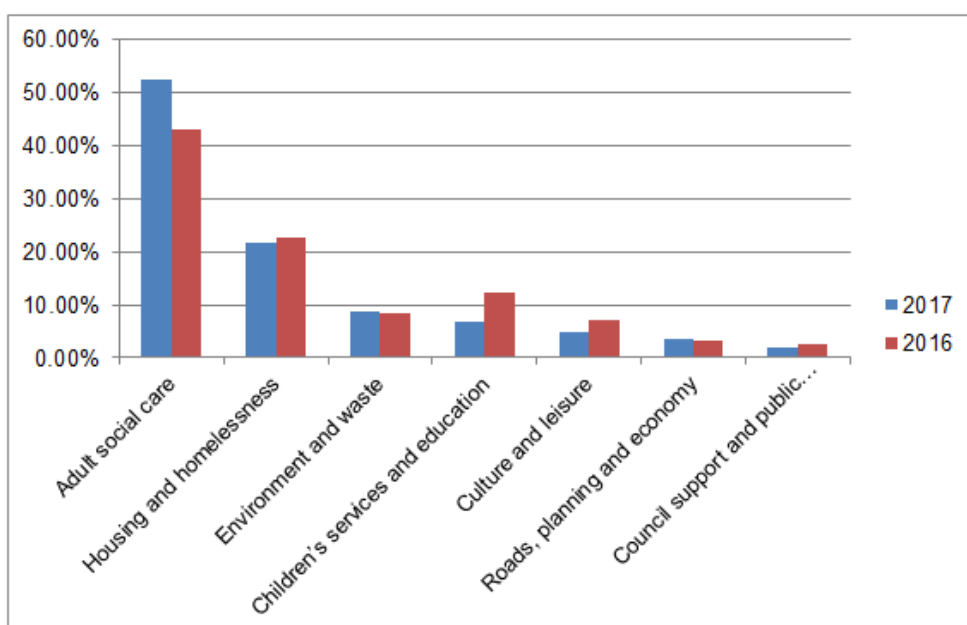
- 1) The overall financial strategy will be to ensure that the Council's resources are directed to achieving Vision 2030 and the outcomes set out in the Council Plan. The Council's MTFS will be reviewed on at least an annual basis.
- 2) Overall Council spending should be contained within original estimates. If, following monthly revenue monitoring, service budgets are projected to exceed original estimates, plans should be prepared setting out the actions required to ensure spending at the end of the year does not exceed original estimates.
- 3) The Council will maintain its general reserve at a minimum of 3% of the net revenue budget to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.
- 4) The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed at least annually.
- 5) The Council will continue to improve its approach to efficiency, commissioning and procurement to ensure value for money and minimise the impact of budget savings on priority services as well as effectively managing the programme of change.
- 6) Opportunities for working in collaboration and partnership and different ways of working will be identified and developed where this will support the delivery of the Council's outcomes and improve service efficiency and delivery. This will include the use of well-being powers, development of trading opportunities and different business models and the sourcing and securing of external funding.
- 7) The Council will consider a range of delivery mechanisms and funding sources to support capital investment to deliver Vision 2030, including the use of prudential borrowing, and will ensure that the full costs associated with financing the investment are taken into account when investment decisions are taken.
- 8) The Council will aim to promote and stimulate strong and sustainable economic growth leading to wellbeing and prosperity for residents and communities and this will be supported by a planned approach to strategic investment managed through the Council's capital programme.
- 9) The Council recognises the impact of increases in Council tax levels and fees and charges in an area of relatively low income and low wealth and will therefore balance the need for increases against the delivery of Vision 2030 and demand for services.



### 3. National Financial Context

- 3.1 The financial outlook for Local Government and public services as a whole remains challenging. Local Government have faced significant funding reductions and these are highly likely to continue into the future. The Autumn statement published in November 2016 outlined a deterioration in public finances compared to March 2016 forecasts in part due to the impacts of Brexit but also wider economic performance. The government confirmed that the aim of achieving an overall budget surplus by the end of Parliament in 2019/20 was no longer feasible and that national budgets would in fact still be running at a deficit in 2020. The scale and duration of public austerity means that some very difficult choices have to be made to ensure that vital services can be delivered within the resources available.
- 3.2 In a recent survey of councils in England and Wales by the Local Government Information Unit (LGIU) thinktank <sup>1</sup> nearly 80% of councils have little or no confidence in the sustainability of Local Government finances. To cope with immediate and long term pressures around social care, housing and homelessness, 65% said they would be forced to use reserves to balance their budgets while nearly nine in ten councils said it was a high priority or essential to explore other sources of income including commercialising council services. The table below shows opinions as to the greatest pressures to council finances nationally.

**Greatest immediate budget pressures**



- 3.3 Adult social care remains the greatest pressure on council finances and over half said it was their greatest immediate priority with 40% saying it was their greatest long term priority. Housing and homelessness was the second greatest pressure with 22% of respondents putting it as their greatest immediate pressure and 15% saying it was the greatest long term pressure.

<sup>1</sup> The LGiU and MJ jointly conducted the 2017 *State of Local Government Finance* survey from 5 January-based on 163 responses

- 3.4 There are acute problems nationally in demands for adults and children's social care. The Local Government Association (LGA) have modelled that Local Government face an overall funding gap of £5.8 billion by 2020 and thus all councils will potentially be required to make continued cutbacks to local services, including social care, over the next few years. Adult social care is a vital public service that promotes wellbeing and independence and helps support some of our most vulnerable people. Nationally the care and support system is under enormous pressure, and is one of the biggest challenges facing councils.
- 3.5 The LGA also acknowledge the growing strain on children's social care budgets estimating that the shortfall in children's services budgets will reach £2 billion by 2020 together with population changes meaning extra services that are likely to cost an extra £1.1 billion each year by 2019/20. Tough decisions on how to allocate reducing resources mean early intervention services have been cut. Early intervention can help limit the need for children to enter the social care system, lay the groundwork for improved performance at school and even help to ease future pressure on adult social care by reducing the pressure on services for vulnerable adults. Councils are struggling to invest in this vital early help and support, as a result of the severe funding reductions.
- 3.6 On 13 January 2017 the Government introduced into Parliament the Local Government Finance Bill which made proposals for the legislative framework to deliver the Government's commitment to allow Local Government to retain 100% rates tax retention and move towards greater self-sufficiency by 2020. This would see a shift of reliance from central Government funding to a reliance on locally raised income through business rates and council tax. As part of future reforms Government have said that the main Local Government grant will be phased out and additional responsibilities devolved to local authorities.
- 3.7 Following the general election the Queen's speech on 21 June did not re-introduce the Local Government Finance Bill which would have allowed for the progression towards a new system. At the time of this report correspondence from DCLG indicate that Ministers remain committed to Local Government taking greater control of their income and that they will consider options for future finance reforms without an immediate Bill. Given this announcement the timing and outcome any future reforms is highly uncertain. The refreshed MTFS is based on assumptions around 100% rates retention in 2020/21. In the absence of any clarification around any other funding system being available the assumptions will remain until such time as these can be refreshed. The Government's methodology for funding local authorities is increasingly linked to the performance of the local economy in the local authority area via new homes bonus funding arrangements, business rate retention, council tax revenue and local council tax reduction schemes. This requires a strong local economy able to raise the necessary level of locally raised income to finance all expected services.
- 3.8 In addition due to the UK's intention to leave the EU, all assumptions will be revisited regularly and the financial impacts to the Council's MTFS will be reconsidered in light of changes to the general economy.

## 4. Local Financial Context

- 4.1 The Council is operating within a context of unprecedented pressure on local authority budgets. Medium term financial planning is taking place against a background of significant funding cuts for Local Government alongside Government plans for major Local Government finance reforms. In addition, the Council, in common with most local authorities, continues to be at risk from unfunded financial pressures, including workforce management, waste management, and demand for social care and welfare reform as well as implementation of the national living wage. This environment will continue to challenge the ability of the Council to respond to the needs of Gateshead residents and the wider community.
- 4.2 As Adults and Children's services now account for over half of Councils' revenue budgets, they are expected to make significant contributions to local authority savings targets. This coincides with a rise in demand for these targeted services which are not used by all residents. Whilst this provides us with a unique challenge, particularly around capacity, it also provides a unique opportunity to revise service provision. That said, there is a particular context in which this Council is operating, as North East Councils have been hit the hardest by the cuts over the last 5 years, and some of the pressures add a particular urgency to ensuring that there is sufficient resource in the system to continue to deliver statutory services and discretionary preventative measures which can help reduce cost pressures across the public sector.
- 4.3 The Government have recognised the need to try and help councils tackle some of the immediate social care pressures they face by allowing England's social care authorities to increase council tax with income from an additional council tax precept to be spent on adult social care as well as making additional funding available through the improved Better Care Fund. This raises some much needed funding in the short term but it does not provide a sustainable funding solution. The transformation of Adult Social Care Services in Gateshead will focus upon managing demand in a different way through better utilisation of universal services and community resources and enabling people to live at home with or without support for longer. The Council will also work with health partners to develop an integrated approach to care services to ensure the effective and efficient use of existing health and social care resources and transform the way services are delivered across the Borough.
- 4.4 Council tax does not cover all the costs of running council services and in fact is only about 19% of Gateshead Council's financing income whereas in other Councils in the south of England this can be as high as 70% of funding. This provides a demonstration of how reliant Gateshead is on grant funding. In addition to the demands of adult social care there are increasing costs of looking after vulnerable children, waste management, costs arising from welfare reform, contractual inflationary increases as well implementation of the national living wage. This Council has historically been reliant on funding from Government grant. Large grant cuts have resulted in the Council having to reluctantly make significant reductions to the local services communities rely on, including filling potholes, collecting waste, maintaining our parks and green spaces, and the consideration of alternative ways of running children's centres, leisure centres and libraries, to plug growing funding gaps.

#### 4.5 Some specific facts to demonstrate the context in Gateshead are highlighted below;

- Gateshead has a population of around 201,000<sup>2</sup> living in 90,600 households<sup>3</sup>. The population has reduced by around 13,000 since the 1980s but has grown over the last decade by around 8,000. This growth has been most significant for older age groups with an 11% increase in 45-64 year olds and an 11% increase in those aged 65 and over. In contrast, the number of 0-24 year olds fell slightly by 0.7% over the decade.
- Population projections from the Office for National Statistics (ONS) predict that this ageing population trend will continue into the future, becoming more pronounced as life expectancy continues to increase. Population in Gateshead is projected to increase overall to around 211,500 in 2039 and by this time an increase of 38% in people aged 65 or older. There will also be a slight decrease in the number of children and young people aged 0-15 of around 500 or 1.5%.
- Although the working age population is set to grow by 3.7% by 2039, this is due to the increase in retirement age. Without this, the working age population would be projected to decline by 2.2%.
- Gateshead is ranked 73rd most deprived out of 326 local authorities in England. Within Gateshead there are 15 areas which fall within the 10% most deprived areas in England, equating to almost 23,600 people or 12% of the population of Gateshead. Much of this deprivation is based within the central and eastern urban areas of the borough.
- It is worth noting that when taking into account health and disability, information from the index of multiple deprivation 2015 health and disability domain, shows that Gateshead was ranked 23rd most deprived out of 326 authorities with the metropolitan council's generally being much more deprived.
- Around 73.2% of working age (16-64) Gateshead residents are in employment which compares with an average of 73.9% for England as a whole<sup>4</sup> and around 2.7% are unemployed claiming jobseekers allowance (DWP Aug 2016).
- The average income in Gateshead is just under £31,000 per year, compared with a national figure of just under £40,000 (Acxiom, 2012). A recent survey of residents indicates that whilst half of residents believe their personal financial circumstances will stay the same over the next year, 34% believe they will get worse and just 9% feel they will improve (Gateshead Residents Survey 2012, Ipsos MORI).
- At 77.8 for males, and 81.2 for females, life expectancy is lower than the England averages of 79.5 and 83.2 respectively. However, life expectancy is improving and has increased by around 2 years for women and more than 3 years for men in the last decade (ONS 2012-14). Around 22% of people in Gateshead reported that their health limits day to day activities compared to around 18% nationally, but only 8% are in bad health (Census 2011).

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2 Office for National Statistics (ONS) Mid-Year Estimate 2015

3 DCLG 2012 Based Projections for 2015

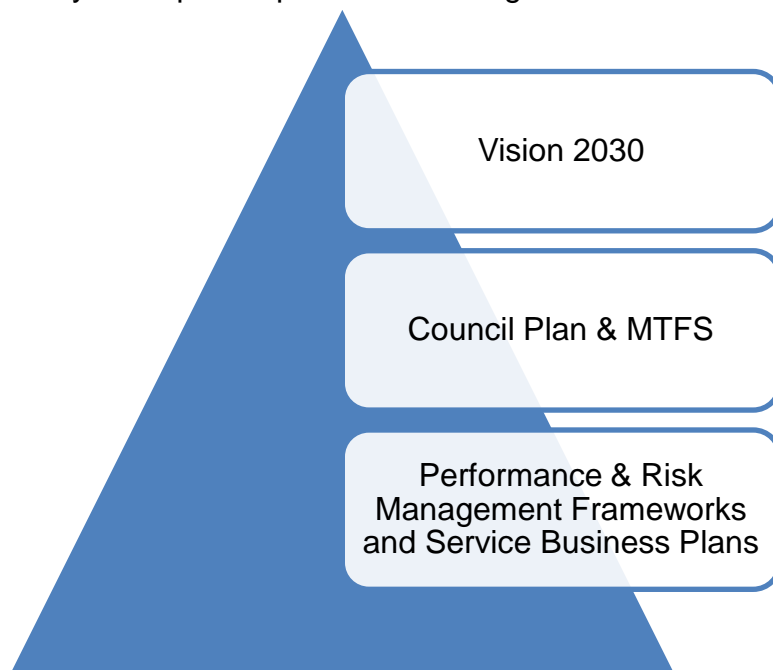
4 Office for National Statistics (ONS) Annual Population Survey Y/E Mar 2016

- 59% of housing is owner occupied, and 22% is managed on behalf of the Council by the Gateshead Housing Company. 13% of housing is rented from a private landlord or letting agency and 6% from a registered social landlord (Census 2011).
- The trajectory of population changes will impact on the cost of social care services in Gateshead. The effect of the changes in all groups except older people is likely to be relatively small, but the scale of the increase in the numbers of older people means the cost of social care is likely to rise substantially, unless there are changes to service models. There are also likely to be some small changes in the numbers of adults with learning disabilities, physical disabilities, mental ill health and substance misuse problems.

4.6 In summary the latest projections suggesting that working age people will likely represent a smaller proportion of the total population in future which could present a challenge to the future economic sustainability of Gateshead. However, it is important to note that ONS' projections are based on the continuation of past trends and do not take account of the impact on population of policy changes, planned large-scale housing developments, external events (such as flu outbreaks etc), or the impact of austerity on mental wellbeing. Through Council intervention the implementation of various initiatives aimed at attracting jobs and encouraging economic growth, it is possible that population growth, particularly among working age residents, can be higher than indicated by these latest projections - to a level that is more capable of delivering a sustainable future for Gateshead.

## 5. Local Policy Context

5.1 The hierarchy of corporate plans and strategies is shown below:



### Plans

- 5.2 Vision 2030 was developed and agreed by the Gateshead Strategic Partnership (GSP) and is the overarching strategy setting out the long term vision and priorities for the future of Gateshead. Vision 2030 aims to improve the wellbeing and equality of opportunity for Gateshead residents so that all residents and businesses in Gateshead can fulfil their potential.
- 5.3 The Council Plan has been refreshed to cover the period 2015 to 2020 and sets the focus for the development of individual business plans for each of the council's services over the next five years as;
- **Maximising Growth** - Doing all we can to support economic growth and revenue generation – given reductions in central Government funding, success in this area will enable the Council to redirect resource to activities which protect the most vulnerable.
  - Focusing on **managing demand** (particularly in social care) with a targeted approach, emphasising early intervention and prevention.
  - **Increasing collective responsibility** – encouraging and supporting local people, partner organisations, businesses and local communities to play a more active role in achieving the outcomes for Gateshead.
  - Continuing to **drive efficiencies** through changes to the way the Council works, for example, through exploiting new technology, consolidation of buildings and services, reducing complex processes and increased trading.

5.4 The MTFS is central to identifying the Council's capacity to deliver its outcomes and across the same time horizon as the Council Plan it reflects:

- The delivery of Vision 2030.
- The Council's current financial position and outlook.
- The Council's overall financial strategy, including use of reserves.
- Internal and external pressures which may influence the Council's financial position.

5.5 A number of key corporate strategies also feed into the MTFS, including the Workforce Strategy, Digital Strategy, Corporate Asset Strategy and Management Plan. All of these strategies are linked to the MTFS through the performance management framework and Business Plans.

5.6 As well as setting out the Council's role, the corporate strategies described above emphasise the work with partners, including the voluntary sector, in the delivery of Vision 2030. In some cases this is achieved through pooling or aligning resources where this can be demonstrated to add value.



## 6. The Council's Current Financial Position and Outlook

### 2016/17 Revenue Outturn Position

- 6.1 The agreed net revenue budget for 2016/17 was £198.883m. The final revenue outturn, for 2016/17 was reported to Cabinet on 20 June 2017 stating an overall under spend of £1.305m after proposed movement of reserves. Whilst the outturn position is positive, it should be noted that a number of one off areas of under spend in capital financing costs and unrequired contingency as well as additional traded and investment income have contributed to this position.
- 6.2 The Council's current reserves, as a result of the 2016/17 outturn, are covered in Section 12, along with the outcome of a full reserves review and the Council's policy on the use of reserves.

### Budget 2017/18

- 6.3 Council agreed the revenue budget for 2017/18 at its meeting in February 2017. This was set at £197.486m (excluding schools) and included £13.190m savings. In March 2017 the government announced additional funding to be made available for adult social care this was after the budget was set and therefore an adjustment to the 2017/18 budget was approved by Cabinet and Council in June 2017 taking net revenue budget to £202.649m.
- 6.4 The budget includes a number of risk areas which, if not closely monitored and controlled throughout the year, could add further pressure to the funding gap in future years. These include the delivery of agreed savings and achievement of income targets. It is assumed within future sections that all 2017/18 savings are fully achieved before entering 2018/19 otherwise the financial gap would increase. These will be closely monitored throughout the year.


### Future Outlook

- 6.5 Medium term financial planning remains extremely difficult due to external economic factors such as the UK's general election and plans to leave the European Union, the financial impacts of which are impossible to predict accurately, coupled with the timing of a new finance system that is still in the design process and without a Parliamentary route. There is great uncertainty in relation to the level of funding beyond 2020 due to the changes in the Local Government finance system resulting in greater risks in relation to the localisation of business rates and the local council tax scheme. This plan has been prepared against the continuing funding cuts for Local Government coupled with increased demand for targeted services such as social care. The unknown impacts alongside the level of risk to finances mean that these forecasts will need to be closely monitored and potentially refreshed more frequently than usual as consequences become clear.
- 6.6 The provisional Local Government finance settlement for 2017/18 was reported to Cabinet on 24 January 2017. The Government's forecast reduction in core spending power over the next four years for Gateshead was quoted as -0.5% compared to an England average of +0.4%. This position is not considered a true reflection of the actual position due to the levels of growth factored into the council tax and rates funding and that the analysis shows only funding and does not include growing cost pressures.



- 6.7 Even projected Government figures highlight significant challenges ahead for Councils who will have to make savings, despite receiving a proposed flat-cash settlement over the next four years. Additional cost pressures include those arising from general inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, pressure on homelessness budgets and increases in core costs such as national insurance, the National Living Wage and pension contributions.
- 6.8 The 2017 spring budget was delivered on 8 March 2017 by Chancellor Philip Hammond. Future budgets will be delivered in autumn. The key headlines of this budget were;
- £2 billion of additional funds for health / social care over three years
  - Unchanged overall local authority funding 17/18 to 19/20 although the £3.5 billion unallocated efficiency savings remain in departmental budgets
  - £300 million+ of reliefs for business affected by the 2017 business rate revaluation
  - Announcements on schools
- 6.9 The Council is operating in a challenging national policy context which has been compounded by many years of Government funding reductions and unfunded cost pressures. The Government's methodology for funding local authorities is inextricably linked to the performance of the local economy in the local authority areas via New Homes Bonus Funding arrangements, Business Rate Retention and Local Council Tax Reduction Schemes.
- 6.10 The scale of reductions in central funding has required local authorities to focus more on local self-sufficiency through other forms of income generation such as:
- Council tax rate increases, subject to referendum limits;
  - Increases in the rates of fees and charges;
  - Increases in the scope of fees and charges (i.e. charging for services not previously charged for);
  - Economic development measures to increase the funding through tax collected (council tax and business rates);
  - Increasing trading activities to generate surplus for reinvestment in other vital services.
- 6.11 Vision 2030 sets out the following goals under the Prosperous Gateshead theme which aims to support a thriving economy for all over the next five years;
- More and better paid jobs and more people in work
  - Fewer people with low level skills and more with higher level skills
  - More private, public and social investment
  - An increase in the working age population
- 6.12 A significant amount of activity is already being delivered by the Council and its partners, to promote sustainability and growth across the borough and evidence of this is readily visible through the regeneration of the town centres. The Gateshead Economic Growth Acceleration Plan 2013 to 2018 provides a broad framework to direct the investment of the Council's resources, including the Capital Programme and an Economic Growth Reserve, to ensure economic growth and job creation opportunities are maximised.

- 6.13 In the future the urban core will be the focal point for economic growth and transformation, becoming the main contributor to Gateshead's economic prosperity. As well as being the cultural, retail, tourism and leisure hub, it will be a regionally significant office location for professional, financial and business services; particularly within the Accelerated Development Zone. The growing creative and ICT/media industries are already well represented and demonstrate strong growth potential. Investment will also be encouraged within the key employment areas of Team Valley and Follingsby Enterprise Zone, the primary centres for manufacturing industries and distribution services.
- 6.14 In addition the Council's Rural Economic Strategy (2015-2020) supports economic growth in the borough's rural communities, whilst contributing to growth across Gateshead and the region. Working with a range of public, private and voluntary sector partners it supports business development in sectors such as tourism and food and drink, whilst seeking to maximise the use of land and property assets for business purposes, thereby increasing business rates income to the Council. Helping residents develop the skills to access these jobs is a key aspect of the work as is helping to co-ordinate the economic objectives arising from for example the development of new housing, the growth in rural services and improvements to the natural environment.
- 6.15 The reduction in public funding for infrastructure has required consideration of new approaches to regeneration. As part of the Newcastle City Deal in July 2012, an Accelerated Development Zone (ADZ), within Gateshead was agreed. The deal allows for 100% of the business rate income at Gateshead Quays and Baltic Business Quarter to be retained locally, rather than held by the Treasury, to support the delivery of vital economic infrastructure that will boost economic growth in the area. Enterprise Zone status at Follingsby has been secured and came in to effect on 1 April 2017 allowing business rate retention to support infrastructure investment to enable development
- 6.16 The 2014 to 2020 European Structural and Investment Fund (ESIF) programme continues to provide an opportunity to lever funds in to the borough to deliver our ambitions for smart, sustainable and inclusive growth. Almost £9m ERDF funding was secured in 2016/17 to support Council priorities.
- 6.17 The Council's strategic ambitions for economic growth will be supported by the Local Plan for Gateshead which includes the Planning for the Future Core Strategy and Urban Core Plan for Gateshead and Newcastle upon Tyne. This framework will help to create and sustain thriving communities and a more prosperous economy through developments, including the provision of new homes, jobs growth and a portfolio of employment land.
- 6.18 The Council's approach to change is aligned with the Council Plan and is thus focused on four inter-related areas: economic growth, managing demand, collective responsibility and efficiency by:
- Doing all we can to support economic growth and revenue generation – given reductions in Central Government funding, success in this area will enable the Council to redirect resource to activities which protect the most vulnerable.
  - Focusing on managing demand (particularly in social care) with a targeted approach, emphasising early intervention and prevention.

- 
- Increasing collective responsibility – encouraging and supporting local people, partner organisations, businesses and local communities to play a more active role in achieving the outcomes for Gateshead.
  - Continuing to drive efficiencies through changes to the way the Council works, for example, through exploiting new technology, consolidation of buildings and services, reducing complex processes and increased trading.

## 7. Looking Ahead: Review of Cost Pressures

### 7.1 Future budget forecasts include the following cost pressures:

#### Base Adjustments

- There are no anticipated base adjustments required over the period. These are used at base budget setting where there are transfers of responsibilities.

#### Inflation

- General inflation pressures for items such as utilities, rates, fuel, insurance etc. are based on 1% average CPI projections up to 7% for utilities budgets have been included per annum over the period. This will be updated to reflect the prevailing rate of inflation during the budget process but will be kept to a minimum. Contractual inflation for care related costs are based on known planning assumptions in each specific area. There is the risk over the period that future price and pay inflation is beyond forecasts. These pressures are not currently recognised in government funding allocations, increasing the real terms cuts required to set a balanced budget.

#### Council Wide Cost Pressures

- *Pensions* -The Local Government Pension Scheme (LGPS) was last subject to its triennial review in 2017/18 the next revaluation will be in 2020/21 and given performance on the fund in recent years is likely to add an additional cost pressure assuming the fund deficit increases as fewer employees are contributing. Stepped deficiency payments have been included in the 2017/18 budget and estimated funding gap for the MTFS period. The next review will be within the MTFS period and will be subject to performance of the fund at that time.
- *Pay* (including implementation of National Living Wage) – The current LGS pay award of 1% will run through to 31 March 2018. Beyond that assumptions are based on awards being limited to 1% for the remaining period of the MTFS. It is important to note that the MTFS is not an expression of Council Policy on pay awards, but a means of ensuring an appropriate provision is made as part of the overall financial planning of the Council. The new mandatory National Living Wage (NLW) came into effect from April 2016. Based on the OBR's March 2016 earnings forecasts, a NLW target of 60% of median earnings would be £9 in 2020. The cost of implementing the National Living wage becomes more significant where greater stepped changes are required to meet the Governments prescribed wage per hour. The MTFS cost pressure is based on indicative modelling as to how the Council could achieve this target by 2020. This is subject to change to reflect Cabinet agreement of actual implementation.
- *Policy changes* –increased cost pressure to Council budgets arising from unfunded changes in Government policy carry increased financial risk to the Council in areas such as housing and school funding.

*Significant loss of Government grant* - within service budgets as Government departments cut grant funding levels in year or after the financial settlement date having significant impacts on service budgets such as Housing Benefit & Council Tax Admin Subsidy, Youth Justice Grant and reductions in Independent Living Fund.

- *Workforce Management* - Given the level of savings required to close the funding gap additional resources will be required to be identified to fund potential further workforce management costs. The 2017/18 base budget has funding earmarked within contingency as well as set aside by way of a provision but additional resources may be needed from earmarked reserves. The Council has policies, procedures and guidance in place to manage changes in the workforce whether they come from budgetary pressures or other operational or organisational changes. These have been successfully applied in the past but the extent of the savings required to balance the budget will put pressure on all budgets, including staffing.

The total cost of redundancy to the Council in 2016/17 (excluding schools) was £5.330m, of which £4.778m was funded from provisions. As part of the 2016/17 revenue outturn, a provision of £2.605m was created for redundancies in 2017/18 and 2018/19. The 2017/18 base budget includes a contingency of £1.000m for workforce management costs. There is also earmarked funding available in reserves should costs exceed the provision and contingency.

## Service Demand Pressures

***Welfare Reform /Housing Demands*** -The Government's changes to welfare reform including Universal Credit (UC) are likely to have an impact in relation to potential bad debt of council tax income and housing rents. Universal Credit will be fully introduced in Gateshead from October 2017 onwards, which applies to any working-age claimant making a new claim to what would have been any of the six benefits rolled into UC. This means someone moving from one state benefit to another but already on housing benefit could become a UC claimant. In addition the impact of welfare reforms on residents' ability to pay may result in increased demand for services in respect of benefits advice and local welfare assistance. Additional council support will be required for claimants moving to UC from benefits such as Personal Independence Payments (PIPS), Employment Support Allowance (ESA) and Disabled Living Allowance (DLA). This cohort is to be one of the hardest hit by welfare reforms, may already be receiving council support from Adult Social Care and will need increased help to migrate to UC. A shortage of suitably-adapted accommodation may limit the options available to this group and potentially increase pressure on council & NHS services due to a rise in drug & alcohol problems. The administration subsidy received to process HB & UC claims has reduced at a more rapid rate than caseload. In addition, the Benefit Section also administer the Council Tax Support scheme and have found UC cases involve additional work, resulting in a greater strain on available budgets.

**Children's Social Care Demand Pressures** - The number of Looked after Children (LAC) across England has increased steadily over the past seven years and it is now higher than at any point since 1985. Statistics taken from the 2016 Department for Education (DfE) Statistical First Release on children looked after in England (including adoption and care leavers) show a 2.4% increase of looked after children in England from March 2014 to March 2016 and an overall 7.5% increase when compared to March 2011.

Number of children looked after at 31 March 2010 to 2016	Number of looked after children (England)	Number of looked after children (Gateshead)
2011	65,510	349
2012	67,070	385
2013	68,060	391
2014	68,800	360
2015	69,540	344
2016	70,440	343

Gateshead Council has circa 375 Looked after Children (March 2017) costing on average £35,000 per child annually. Through implementation of the planned Early Help and Demand Management strategy, the hope is to safely reduce these numbers down to around 320, which would place Gateshead below the regional average (336 based on 2016 data). However, the national and local increase in safeguarding pressures are the result of a complex myriad of factors, and these pressures will likely work against the Council's efforts to reduce demand. These include:

- *Population Increases* -projections suggest that the 0-17year old population in North East England will increase by 2% up until 2020, which will undoubtedly have consequences for numbers of children requiring support from children's services. By 2020, the impact for Gateshead of this alone would mean 10 more LAC, 6 more young people subject to Child Protection Plans and 5 more young people living under special guardianship and residence order arrangements. This would cost the authority at least an extra £0.500m per year by 2020 in placement and case management costs.
- *Increases in reported sexual abuse* (online and physical) of young people, linked to high profile national cases in the media, has increased awareness and the importance of reporting potential concerns. This has had the impact of increasing initial contacts and referrals from all sources into local authorities by 35% since 2008/09. Schools and Police remain the main sources of referrals, with over 43% of referrals from them combined nationally. In Gateshead there has been an increase of 13% in the number of referrals received in the last two years, requiring an additional 232 assessments to be undertaken per annum, costing the authority up to £70,000 per annum in Social Worker time.
- *Increases in the level of Child Protection (CP) referrals*, with an average increase of 6.3% in the past year nationally, and an increase of 87% since 2008/09. For Gateshead, there has been an increase of 15% in the past year in the number of young people subject to CPP's, with an associated additional cost to the authority of £0.200m per annum.



- *“Staying Put” policy* - whereby foster children can stay with foster parents up to the age of 21 instead of age 18. National indications are that up to 50% of young people are now choosing to remain with their former foster carers post 18. This results in increased costs for Local Authorities to pay the carers of those young people for longer. It also places a strain on the foster carer capacity, as it reduces the availability of foster carers for new children starting to be looked after. This in turn increases the reliance on independent fostering agency placements, at a significantly higher cost. The Government have also indicated this could also be expanded to those young people in residential provision up to age 25, which based on current projections for Gateshead, could cost the Council an additional of £2.0m per year by 2020, with potentially an additional 96 young people aged between 18 and 25 remaining with their foster carer.
- *Increasing demand for supported accommodation* for those leaving care with additional complex needs.
- *Welfare reform impacts on families* - mainly in terms of the increase in poverty and associated factors. In 2014/15, there were 3.9 million children living in relatively low income, 200,000 (+5%) more than the previous year. There is a projected increase in the proportion of children living in relative low income from 17% in 2013/14 to 26% in 2020/21 (HM Government, 2016). Welfare Reform has increased the prevalence of families with no recourse to public funds (NRPF), where they have no legal entitlement to financial support or assistance from the state. These are increasingly presenting to children’s social care services for support (under section 17) by families with children, or by children or young people themselves who are unaccompanied or separated from their parent or legal or customary caregiver.
- *Increase in prevalence of the “toxic trio”* of domestic abuse, parental mental health and parental substance misuse within families. Research conducted by the ADCS has concluded the toxic trio was present in 65% to 80% of cases. This increases the complexity and intensity of interventions required to manage demand and keep families together.
- *Changes in LAC Age Profiles* - Although LAC nationally is on the increase, there are material differences in the age profile of LAC coming into the system. 62% of children looked after were aged 10 years and over in 2016 compared to 56% in 2012. There has been a reduction in the number and proportion of children aged 0-4 years, from 24% in 2012 to 18% in 2016. There is a higher average cost of looking after an older child compared to a younger child. To maintain and reduce the levels of older young people and adolescents becoming looked after, the new Rapid Response service to commence in September 2017 intends to work with those young people and their families in need or on the edge of care, using evidence based interventions to reduce the number of family breakdowns which then require an episode of care proceedings.

**Adult's Social Care Demand Pressures** - Gateshead currently has an estimated population of approximately 38,600 people aged 65 and over. This number is predicted to increase by 4.1% by 2020 rising by 23.9% by 2030. Some of the cost pressures arising from this increased demographic are outlined below. Not all have been fully reflected in MTFs figures as to meet this challenge the Council aims to control new demand and reshape the supply base with a strategic shift in resources and culture from intervention at the point of crisis towards prevention and early intervention and targeted support for people with more complex needs. The way services are provided has to be redesigned to make available new, more creative ways of working giving people greater choice and control. This will require a change of mind-set from one that fosters dependency to one founded on enablement. To achieve this requires the development of a market that offers a broad range of care and support options.

- *Transforming Care Plans* - The Government and leading organisations across the health and care system are committed to transforming care for people with learning disabilities and/or autism who have a mental illness or whose behaviour challenges services. Too many people with learning disabilities are admitted to hospital when admission could have been avoided, remaining in hospital too long with instances of poor care remaining too common. Transforming care plans look to ensure that anyone with a learning disability and/or autism in hospital who could be supported in the community is discharged into a community setting and in addition take immediate steps to support discharges and prevent inappropriate admissions, look to see a more fundamental and long-term reshaping of services.

Given the reduction in the numbers of inpatient settings and the need for greater support in the community there are likely to be significant financial burdens for local authorities. The extent of this additional burden will be dependent upon the local population and will require additional work and analysis and as such has not been reflected as yet in the MTFs demand analysis. However based on average package costs and an estimate of the numbers of clients currently in inpatient settings and due to be discharged the additional cost is estimated to be approximately £0.6m by 2019/20.

- *Increasing Older People* - Falls account for 50% of injury related hospitalisations among people over 65 years and older. Gateshead residents over 65 years of age are 26.7% more likely to be admitted to hospital or suffer injury because of a fall and 24.2% more likely to suffer a hip fracture when compared to the national average for England. More than 2,500 people over the age of 65 are estimated to have dementia in Gateshead and this is expected to increase in the future as the population ages. By 2030 this is projected to rise to 3,735. Prevalence of diagnosed dementia is gradually increasing both nationally and locally. In Gateshead the prevalence has increased from 0.60% in 2010/11 to 0.91% in 2015/16. Providing care for people aged over 65 accounts for approximately 46% of the total spend on Adult Social Care. Approximately 6% of people in this age group are currently receiving services. If we assume this correlation will continue then we could see an increase in cost of £2.4m over the MTFs period and £6.1m by 2030. However, clearly the level of dementia prevalence is set to rise exponentially together with the prevalence of autism thereby increasing the cost further and demand for services.



- *Young Adults with Disabilities* - Providing care and support for people under 65 with disabilities accounts for 41% of the budget and a 2% increase in demand would cost approximately £0.5m. There were 525 adults with learning disabilities in receipt of social care services at the end of March 2015. It is predicted that by 2030 there will be 2% more people aged 18+ with learning disabilities with a level of need requiring statutory social care intervention. There are approximately 3,800 adults with a learning disability in Gateshead; approximately 800 are 65 or older. In Gateshead, an estimated 1,226 adults aged between 18 and 64 are believed to have an autistic spectrum disorder, as well as a further 348 aged 65 and over. Whilst the number aged between age 18 and 64 with autism is expected to remain stable in future years, the number aged over 65 is expected to increase by over 31% by 2030. There is a small reduction expected in the numbers in need of support aged 18-64 who have diagnosed mental health conditions.
- *Carers* - Census 2011 tells us that out of the population of Gateshead, 22,220 people recorded themselves to be providing unpaid care, an increase by almost 1,000 carers since Census 2001. Of these, about 1,670 are Young Carers (aged under 25). The number of people aged 65 or over, living in Gateshead, will be increasing in future. The majority of Carers who live in Gateshead are between the age groups of 25-64 years. More carers are female (58%) than male (42%). In Gateshead a high percentage of Carers live in the most deprived areas of Gateshead. In order to ensure carers services in Gateshead meet their needs a joint review with the Clinical Commissioning Group (CCG) is currently being undertaken. Both organisations commission services for carers and it is essential that the services provide the best outcomes for the carers in Gateshead.
- *Market Stability* - The introduction of the National Living Wage has placed additional financial pressure on the Council especially in the care sector where a significant proportion of the workforce is paid at or near to the minimum wage. The Council is committed to ensuring it commissions quality services with an outcome focus and in doing so it must ensure services are cost effective. The stability of the provider market is essential to ensure services are responsive to the needs of Gateshead residents. The cost of maintaining the planned increase in the NLW is estimated to be £1.5m per annum.

### **Strategic Investment (Revenue Cost of Capital)**

- The revenue cost implications of the Council's strategic investment programme is outlined in a future section of this report. The primary impact on the revenue budget of supporting capital investment is through the Minimum Revenue Provision (MRP) and external interest charges. Supporting the level of capital investment contained within the Council's capital programme is expected to require £29m of revenue resources in 2017/18 to meet the borrowing costs. Based on current spending plans it is estimated that the annual revenue cost of capital will reach a total of £36.9m by 2022/23.

## 8. Looking Ahead: Review of Funding and Income

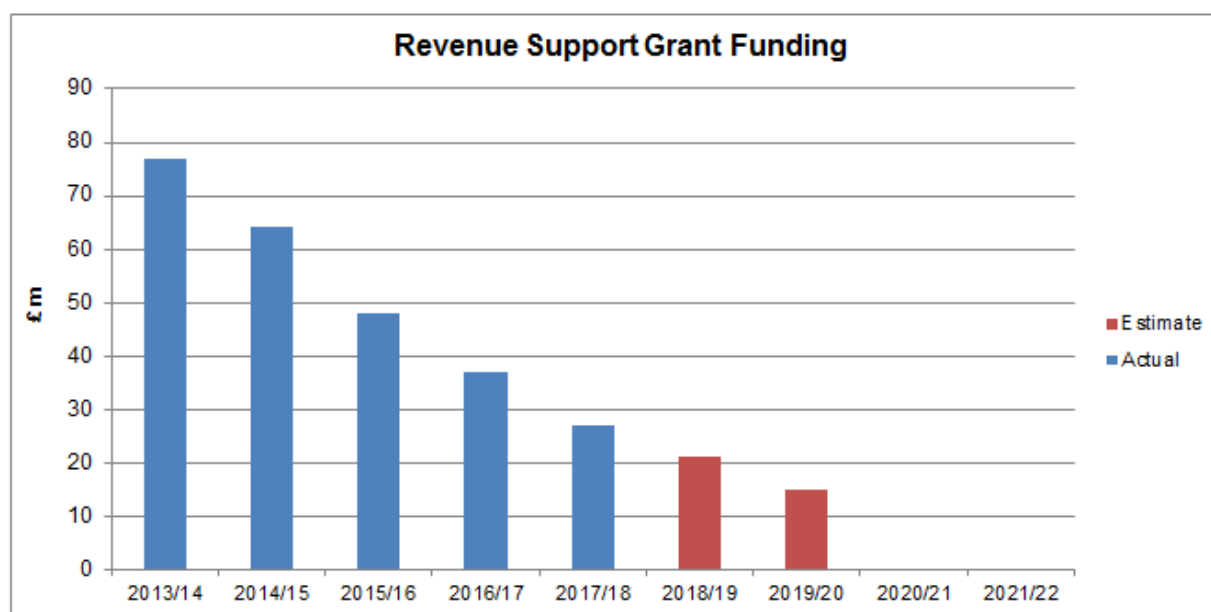
8.1 At the time of the December settlement the Government forecast spending power for Gateshead up to 2019/20. Their forecasted position is not considered a true reflection of the actual position and it is important to note the following points:

- The Government's future council tax figures assume average growth in base for each authority as well as uplifts for council and social care charge each year. Thus a total 6.7% increase in council tax funding each year over the period up to 2019/20 is assumed. The Government figures require that a local area can not only grow its base substantially year on year but that its residents will be willing and able to pay uplifts year on year. This moves the funding for essential council services from Central Government to local residents. This does not take into account the mix of a Council's tax base and residents ability to pay.
- Business rates also include notional projections of growth per year. The retained rates that Gateshead Council will have available for funding will depend on the extent to which business growth can be supported in the area as well being influenced by loss of income through the cost of appeals, refunds, changes in collection rates and the impact of rate avoidance.
- New homes bonus allocations are notional future estimates and cannot be taken with any certainty following reforms to the way the bonus is awarded.
- Figures include the Improved Better Care Fund (IBCF) which aims to redress some balance of need and unlike other BCF monies will be paid directly to local authorities. Including IBCF as additional funding is misleading as this does not identify that spending may also need to increase to meet additional burdens associated with the funding.
- Only potential funding has been considered in the Government projection with no consideration given of the impact of increasing costs in social care from increased demand, contractual inflationary increases and the costs of implementing the national living wage. Similar cost pressures are also seen in children's social care and other council services arising from inflation, pay increases, changes in national insurance contributions and additional transfers of responsibilities.
- Furthermore this type of analysis does not take account of the levels of deprivation or needs of an area resulting in more demand for services such as children's social care, homelessness and welfare support. More affluent areas benefit more from increases in their council tax bases and residents are more able to contribute to the cost of their service provision.

8.2 The funding projections in this strategy are considered more applicable to local assumptions and these are set out below for information.

## Revenue Support Grant (RSG)

- 8.3 The 2017/18 settlement figures from the Government include indicative projections of core funding to 2019/20. The funding gap is based on the RSG figures given up to 2019/20 and shows a reduction in RSG over the period of £21.4m (from £21.4m in 2018 to £0m in 2020). The equivalent actual reduction in RSG from 2016/17 to 2017/18 for comparative purposes was £9.4m. This is illustrated in the table below;



- 8.4 The MTFS assumes zero RSG from the year 2020 in line with government announcements of the intention to remove all core grant by the end of parliament. For the purpose of this MTFS it is assumed that the RSG received will be in line with the multi-year settlement figures.

## Retained Business Rates

- 8.5 The 2013/14 finance settlement provided each local authority with its starting position under the business rates retention scheme. These baseline calculations were fixed until the first intended reset in 2020. This means that Gateshead Council now retains 49% of any growth in business rates income above the prescribed baseline to reinvest in Services. The Government retains 50% with the remaining 1% being retained by the Tyne and Wear Fire and Rescue Service.
- 8.6 A system of business rate retention would provide opportunities for local authorities to benefit from increased revenue funding raised from growth in local business rates but it would also transfer significant risks from central government to local councils, and in particular the requirement to meet half the cost of backdated appeals which was previously met in full by central government. A further specific risk of the retention system exists in respect of national companies appealing to have one centrally assessed liability which, if successful, can result in 100% of business rates income being retained by central government.

- 8.7 Retained business rates reflect the baseline outlined in the 2017/18 indicative funding. At this stage no further retained business rates from economic growth are included except for a 2% uplift linked to the inflationary multiplier, for the period of the MTFS but this will be one of the key options to close the funding gap and projections have been modelled for internal budget planning.
- 8.8 On 13 January 2017 the Government introduced into Parliament the Local Government Finance Bill which makes proposals for the legislative framework to deliver the Government's commitment to allow Local Government to retain 100% rates tax retention and move towards greater self-sufficiency by 2020. The original timeframe outlined indicated that the intention was for this to happen on 1 April 2019 however, following the general election there will be a delay in this timeframe or a different proposed system. It is important that in any system redesign existing responsibilities are correctly assessed and funded and any new responsibilities transferred under the new system closely align and support the drive for economic growth. The council will play an active role in pressing the Government to ensure the needs assessment is as fair as it can be through any consultations on a new system.

### **Council Tax**

- 8.9 Gateshead Council froze Council Tax for four years from 2011/12 to 2014/15. In 2015/16 the Council took the decision to increase council tax by 1.95% to raise £1.4m to protect the delivery of essential Council services to the residents of Gateshead. Against the backdrop of continued government funding reductions, new burdens and spending pressures which cumulatively are having a significant impact on the Council's ability to deliver its priorities during 2017/18, the Council agreed a council tax increase of 4.99% (including a 3% adult social care charge) resulting in funding towards essential services.
- 8.10 Any increase in tax would need to take into consideration the Government's referendum principles which are set out every year. A 1% increase in Council Tax yields approximately £0.81m. In the 2016 settlement the Government increased the referendum threshold to allow for authorities to charge a 2% adult social care precept. This 2% was included in government funding projections of each local authority up to 2019/20. Subsequently the Government allowed Council's to accelerate this phasing to 3% a year to a maximum of 6% up to 2019/20.
- 8.11 For planning purposes only the MTFS has included a 3% charge for adult social care in 2018/19. Actual council tax increases will be decided on an annual basis taking into account financial circumstances of the Council at the time and the level of resources available. Annual increases remain subject to the decision of both Cabinet and Council.
- 8.12 The Council will continue to seek ways to raise new funding by promoting a growing local economy through new businesses and new housing as well as to increase traded and investment income to help contribute to closing the financial gap alongside the consideration of possible future council tax increases.

### **Collection Fund**

- 8.13 The 2017/18 base budget includes a £2.6m contribution from the Collection Fund arising from previous year's performance. The current gap assumes no further contributions as the position on the Collection Fund will be directly affected by the level of collection rates of both council tax and business rates which could be adversely affected by any economic downturn and changes to welfare reform. The final position on the Collection Fund for 2016/17 will be reflected in the 2016/17 final audited Statement of Accounts.

## Other Grants

- 8.14 Other grants include government grants that are used to finance general Council budgets. These include New Homes Bonus, Better Care Fund and Section 31 grant related to refunded costs by government for the business rate system. Given the announcement of reductions on a national basis in non-schools education grant funding assumptions for reductions each year for Education Services Grant have been included in the estimated budget gap. Following Government reforms to New Homes Bonus the original MTFS assumptions have had to be significantly reduced to reflect the anticipated drop in receipt of this grant. A reduction in the number of years for legacy payments will be made from six years to five years in 2017/18 and then four years from 2018/19. A baseline for housing growth was also introduced to be set at an initial baseline of 0.4% of the 2017/18 council tax base rather than the 0.25% illustrated in the original consultation. The Government have also stated that they will retain the option of making adjustments to the baseline in future years in the event of significant housing growth.
- 8.15 The MTFS assumes that by the end of parliament all core grants will taper off to nil to be replaced by the potential new funding regime.
- 8.16 Better Care Funding (BCF) allocations via Health for 2018/19 onwards were unconfirmed at the time of the previous MTFS and have now been reflected in future planning. The BCF planning framework only goes to 2018/19 so no mention of future years funding making it difficult to plan ahead. For planning purposes the MTFS assumes that funding will continue at similar levels into 2019/20.
- 8.17 Improved Better Care Funding (IBCF) is paid directly to the Council and was included in the finance settlement in December 2016. Additional IBCF allocations announced in March 2017, after the finance settlement, relating to adult social care and health pressures have also now been built into the MTFS up to 2019/20. Funding figures from Government are only up to 2019/20 so it is unknown if this funding will continue. This will likely depend on the outcome of future policy direction. Without any published guidance it has been assumed in the MTFS that this grant ceases in 2020. This will need to be kept under annual review.
- 8.18 Whilst there is some certainty over the IBCF allocations to 2019/20 the funding must be pooled as part of the wider BCF and spending plans agreed with the Gateshead Clinical Commissioning Group (CCG). The funding is intended to be used for meeting adult social care needs, reducing pressures on the NHS, including supporting more people to be discharged from hospital and ensuring that the local social care provider market is supported.
- 8.19 Under the BCF Planning requirements 2017-19 national condition 4 requires health and social care partners to work together to implement the High Impact Change Model for managing transfers of care. It is expected that the IBCF will contribute to meeting the NHS ambition to reduce delayed transfers of care (DToC) to no more than 3.5% of hospital bed days. Whilst the DToC rate in Gateshead is already below the government ambition this level has to be maintained against a backdrop of an aging population and higher prevalence of multiple and complex health conditions.

## **Public Health**

- 8.20 Originally the Chancellor announced a reduction in cash terms to the ring-fenced public health grant of 9.6% by 2020. A 2.2% reduction was applied in 2016/17 and a further reduction of 2.5% in 2017/18 taking grant down to £16.9m. In March the public health minister reiterated the Government's commitment to the move of the ring-fenced public health grant to 100% business rate retention stating that this would come into effect from April 2019 with the ring-fence grant continued until then. This was prior to the general election announcements which will impact on this accelerated timeframe and proposal. The MTFS assumes this grant reduces in 2018/19 and continues into 2019/20, ceasing in 2020/21 under the potential new finance system although there remains the possibility of some transitional grant in 2020/21.

## **Treasury Management**

- 8.21 The Council invests money in a wide range of financial institutions and the investment interest earned is used to support the delivery of Vision 2030. The major issue for treasury management continues to be the significant difference between investment rates and borrowing rates.
- 8.22 Emphasis continues to be placed, in line with the Treasury Management Strategy, on mitigating counterparty risk by giving preference to security and liquidity. This has resulted in greater use of investments with higher security and increased liquidity. The Strategy continues to support a policy of limiting the need for external borrowing by the utilisation of internal funds.

## **Fees and Charges**

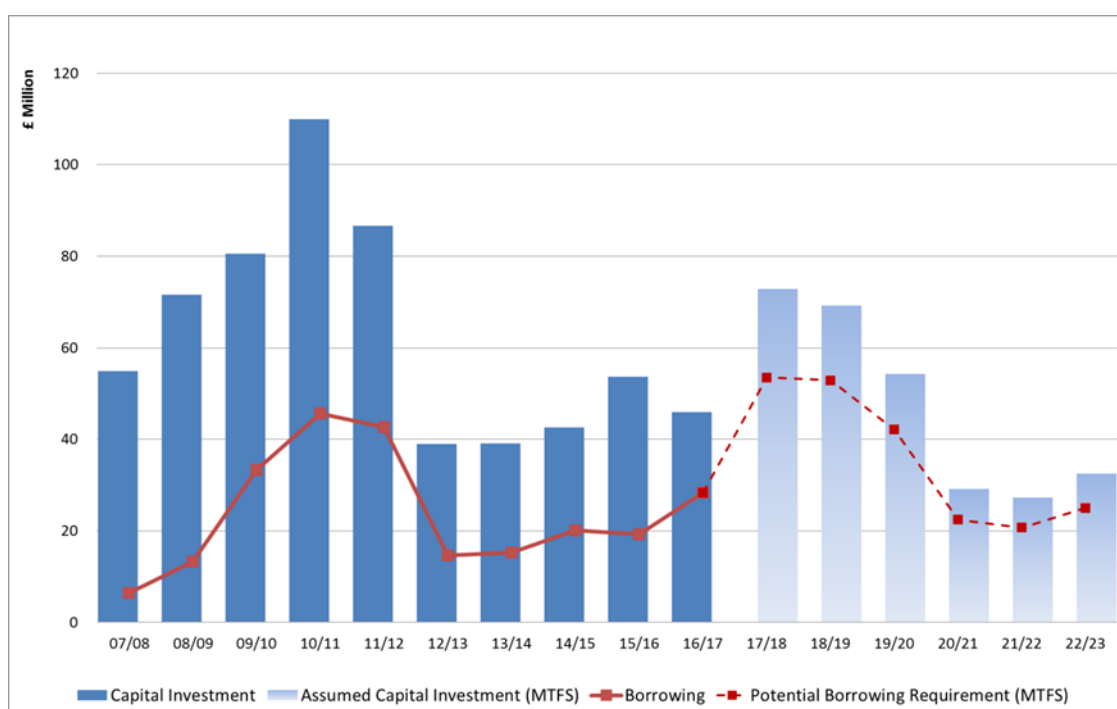
- 8.23 The Council currently raises in the region of £18.4m from fees and charges, of which around £3.3m relate to statutory charges and £15.1m relate to non-statutory charges.
- 8.24 It is normal practice for the Council to review fees and charges annually and propose revised and new charges from 1 April each year. This will include the development of any policies in respect of discounts and concessions. As part of the annual review, all fees and charges are considered. Where inflationary increases have been proposed, these have been uplifted with the September 2016 Consumer Price Index (CPI) rate of 1%. Any impact on income budgets arising from these areas are either adjusted at the annual budget setting stage or will be consulted on as part of the budget proposal process.



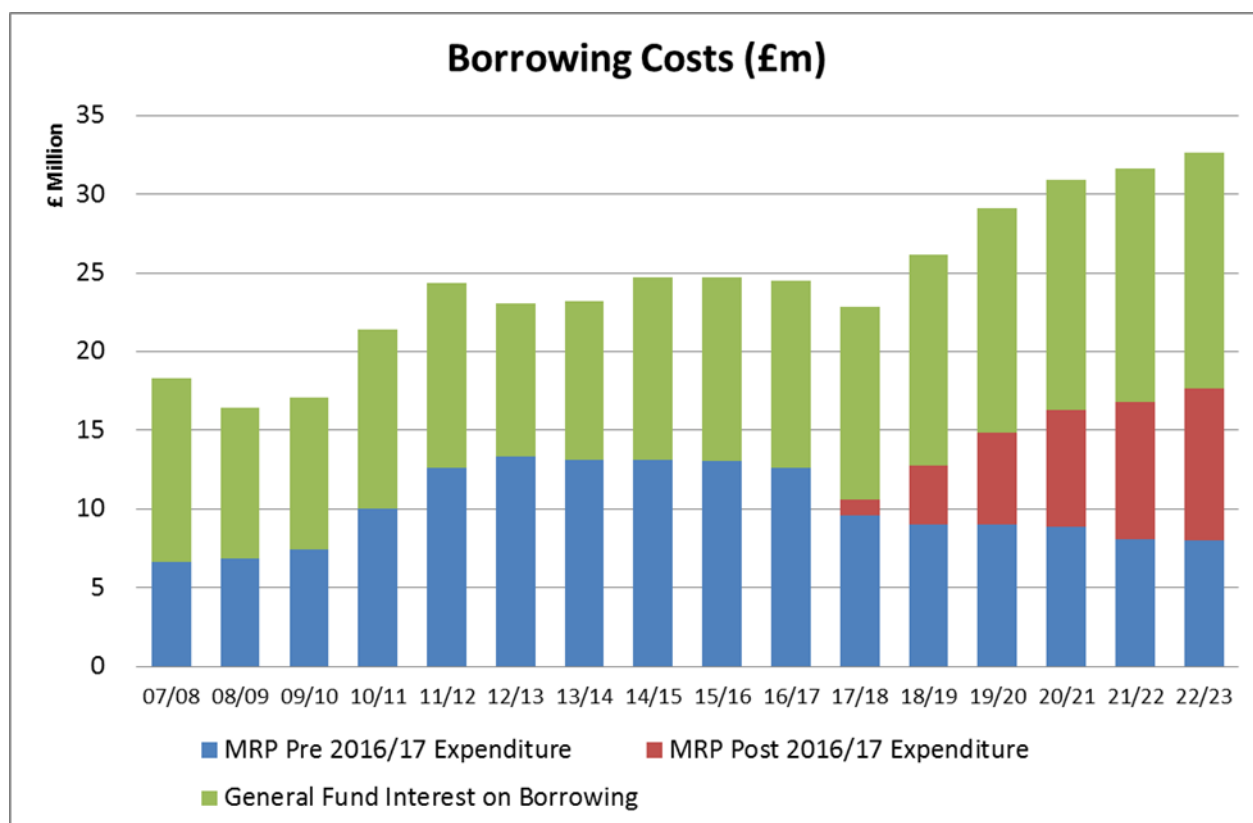
## 9. Capital and Prudential Borrowing

### Capital Investment in Gateshead

- 9.1 The Council's capital investment plans are set out in the capital programme, with the latest approved programme covering the period between the 2017/18 and 2021/22 financial years. The effective use of capital resources, including asset management, is fundamental to the Council achieving its medium and long term strategic objectives. Capital investment has a significant impact upon the local economy and helps to ensure that the Council can continue to provide the best possible services and outcomes within Gateshead.
- 9.2 Any capital investment decision will have implications for the revenue budget. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within the Council's financial plans and to demonstrate that the capital investment is affordable. Revenue implications may include the costs associated with supporting additional borrowing as well as any changes to the running costs associated with the asset or wider benefits to the Council such as the delivery of ongoing revenue budget savings or additional income through the generation of Business Rates, Council Tax or energy revenues.
- 9.3 Over the the last 10 years the Council has invested almost £1billion in funding capital projects within Gateshead including investment within the HRA, with average annual capital investment amounting to £96m during this period with a maximum programme of £153m in 2009/10.
- 9.4 The availability of resources to support capital investment has had a significant impact upon the level of capital programme that the Council can continue to support and in recent years the General Fund capital programme has fallen dramatically as shown in the following graph:



- 9.5 In 2016/17, the Council spent £65m on capital projects, of which £46m related to the General Fund and the remaining £19m was spent on improving the Council's housing stock. Capital investment in 2016/17 included projects aimed at encouraging economic growth and housing growth within Gateshead in addition to the continued investment in low carbon energy infrastructure such as the District Energy Network, which became operational during the year, and investment in the Council's schools, technology and highway network.
- 9.6 The approved five year Capital Programme for the period 2017/18 to 2021/22 includes a number of ambitious projects and estimates £205m of planned capital investment (excluding Housing). It is envisaged that additional projects and investment opportunities and pressures will emerge over the period as major projects, such as investment in Gateshead Quays, continue to progress towards the delivery phase. Indicative allowances have been included within the MTFS projections to support an additional £65m of borrowing in excess of the allocations within the existing approved programme over the period and this position will be reviewed as the Capital Programme is developed.
- 9.7 At this stage, capital receipts have not been included within the MTFS projections, given concerns around ongoing volatility within the market. The generation of capital receipts can help to provide resources to support additional capital investment or can help to reduce the borrowing requirement and therefore the cost to the revenue budget or to support transformational change.
- 9.8 Supporting capital investment resulted in revenue costs for the Council of almost £24m in 2016/17 excluding PFI projects (£29m including PFI). The graph below highlights the revenue cost to the Council of supporting both historic and planned capital expenditure:





## Funding Capital Investment

- 9.9 The Council's capital finance plans must operate in accordance with CIPFA's Prudential Framework. This framework has operated since April 2004 and allows the Council the freedom and flexibility to determine its own plans for capital investment as long as assurance can be provided that investment plans are prudent, affordable and sustainable.
- 9.10 The Council cannot use any capital resources to fund revenue expenditure (apart from some flexibility over using receipts to fund transformational change), but revenue resources can be used to fund capital costs. If expenditure meets the definition of capital then there are opportunities to finance the investment immediately when it is incurred using:
- Capital receipts generated by disposing of existing assets;
  - External funding, grants or contributions from other parties; and
  - Direct contributions from available revenue balances.

If these resources are not available to support capital investment, then the Prudential Framework allows the Council to borrow to fund capital expenditure. The Council's underlying need to borrow is measured by the Capital Financing Requirement (CFR) and the Council must set aside resources to repay the borrowing over future financial years, known as the Minimum Revenue Provision (MRP).

- 9.11 The Council aligns the repayment of debt to the useful life of the asset to which it relates and the Strategic Director, Corporate Resources will provide a statement to confirm the Council's MRP policy as part of the budget setting process.
- 9.12 The creation of an Accelerated Development Zone enables the Council to undertake prudential borrowing to fund capital investment in designated areas on Gateshead Quays and Baltic Business Quarter which can be supported by the retention of 100% of future business rate growth generated as a result of the initial investment. The Council is currently working with our development partner, ASK and Patrizia UK, to progress a major development at Gateshead Quays.
- 9.13 Since the introduction of the Prudential Framework, the Council has been required to borrow to fund an increasing proportion of the capital programme over the last 10 years. This is primarily as a result of the significant reductions in the availability of both external funding and capital receipts to support capital investment and means that there is an increasing impact on the Council's revenue resources associated with supporting both historic and planned capital investment.
- 9.14 The Council continues to explore external funding possibilities when developing capital projects to minimise the borrowing requirement as far as possible. Within the MTFS, assumptions have been made around the level of external funding in the future but detailed work programmes will not be committed to until the allocations have been confirmed. Projects and investment plans may therefore be re-prioritised depending on the availability of external funding.

- 9.15 The availability of capital receipts has also reduced in recent years as a result of the property market. The Council has identified a programme of potential asset disposals and the progress is reviewed by the Council's Land Development Group throughout the year. The MTFS projections do not currently include the application of capital receipts, instead assuming that borrowing will be required. If additional capital receipts are generated during the year this provides the Council with the flexibility to consider the introduction of additional projects to the capital programme or the ability to reduce the borrowing requirement.
- 9.16 Following the adoption of the Council's Core Strategy and Urban Core Plan, the Council is likely to secure additional capital receipts for sites as developments come forward. The Council is also likely to secure contributions from developers (including the potential introduction of Community Infrastructure Levy) to help fund the provision of strategic infrastructure that is necessary to support future developments and growth which may be used to support future capital investment, either as an addition to the capital programme or to displace the use of planned borrowing helping to reduce the revenue cost of supporting the capital programme.

### **Capital Investment Pressures**

- 9.17 Significant challenges and priorities for the Council's capital investment over the medium term that are set out in the Council's key strategies include:
- Meeting essential health and safety and mandatory obligations, such as Equality Act improvements, to improve the fire safety, accessibility and sustainability of Council owned assets;
  - Continuing to regenerate the Gateshead Quays and Baltic Business Quarter area as part of the Council's Accelerated Development Zone, working with our Development Partner to build upon the successful delivery of iconic projects such as the Sage Gateshead and Baltic to create a significant new mixed-use development to help unlock economic growth and generate additional business rates and raise the profile of Gateshead;
  - Continuing to support the regeneration of Gateshead Centre to deliver a centre with the stature and vibrancy of a city and continuing to invest in improvements to local centres across Gateshead;
  - Improving the Council's Corporate ICT infrastructure, equipment and systems to improve connectivity, security and resilience and ensure that the Council remains fit for the future and can provide services as efficiently and effectively as possible;
  - Investing in strategic infrastructure to support growth within Gateshead. This includes investment in areas such as transport infrastructure to provide an integrated transport system which meets demand and improves connectivity and accessibility as well as investment in the Council's Schools to help increase capacity;
  - Investing in the provision of energy infrastructure to support the expansion of the Town Centre District Energy network to provide lower cost, lower carbon energy to support regeneration and economic development, generate income and provide long term resilience against rising energy prices;

- Working with our private sector partner, Evolution Gateshead, to provide good quality, energy efficient homes to ensure that our neighbourhoods are sustainable; and
- Rationalising the Council's property portfolio to ensure that the Council operates an efficient and sustainable estate which is aligned to service delivery models, disposing of surplus properties to generate additional capital receipts.

9.18 In addition, the Council is continuing to explore a number of potential capital investment opportunities within Gateshead in order to generate additional revenue income and diversify the future sources of income for the Council to become more resilient. This could include activities such as direct property investment, forward funding of proposed developments or forming joint ventures with partners who are seeking to invest in additional development activity within Gateshead.

9.19 The cost of supporting this additional investment is not currently included within the MTFS projections, however each opportunity will be considered on a commercial basis and would only be progressed if it could be demonstrated that there was sufficient confidence the investment would deliver a net revenue benefit for the Council that would help to close the funding gap and provide additional ongoing revenue resources to support the delivery of the Council's key services.

## 10. Housing Revenue Account (HRA)

- 10.1 In order to facilitate decision making and plan strategically for Housing in the future the Council continually updates its 30 year HRA Business plan. This plan considers the long term future of the housing stock alongside the short term plans. The plan contains information on estimates regarding the level of capital investment (including estate regeneration and maintaining decency), the anticipated levels of voids and right to buy sales and also the assumed level of income from rents and service charges. It also includes a provision for the Gateshead Housing Company's management fee and plans around borrowing and repaying debt in the future. The HRA has £84.601m worth of loans maturing in the next five years.
- 10.2 The Housing Revenue Account (HRA) end of year position for 2016/17 resulted in an increase to the reserve of £3.250m. The underspend achieved was mainly in relation to slippage in the Capital Programme and contingencies not being required. To protect the Council in a self-financing regime a minimum balance for the HRA of £3m was approved by Council in February 2012.
- 10.3 As at the end of March 2017 the HRA reserve will stand at £27.359m. It is expected that the impact of welfare reform, the required sale of high value properties and other pressures arising from Government guidance the Housing Capital Programme will deplete this reserve in coming years. The current HRA Business Plans estimates that the minimum reserve balance of £3m will be reached by 2023/24.
- 10.4 As a result of the Government policy to reduce rents the capital programme has been reduced in the coming years. The proposed allocation of resources from the HRA to support a Capital Programme for the next five years will be kept under regular review by Cabinet.

## 11. Schools Funding

- 11.1 Education spending is the second-largest area of public service spending in the UK, representing about 4.5% of national income in 2015/16. The Department for Education is accountable for securing value for money from spending on education services in England. Schools and Education funding has been “flat cash” per pupil since 2010/11, with the Institute of Fiscals Studies estimating a real terms cut of 14% between 2010/11 to 2015/16.
- 11.2 In the 2015 Spending Review, the Government increased the core schools budget by 7.7% in cash terms, from £39.6 billion in 2015/16 to £42.6 billion in 2019/20. However, pupil numbers are expected to increase over the same period by 6.3%. This means the amount that schools receive per pupil will, on average, rise only by 1.3%, resulting in a 6.5% real-terms reduction once inflation is taken into account. The Department estimates that mainstream schools face cost pressures rising from £1.1 billion (equivalent to 3.1% of the total budget) in 2016/17 to £3.0 billion (8.0%) in 2019/20. Schools are now entering a period of reduced spending power and will have to counteract these cost pressures by making economies or efficiency savings.
- 11.3 A report in March 2017 by the House of Commons Public Accounts Committee on the financial sustainability of schools highlights that this brings a number of risks as schools seek to reconcile financial, workforce and quality expectations. The committee concluded that the DfE had failed to assess the impact of cost pressures on schools and had no way of telling whether efficiency savings threaten the quality of education.
- 11.4 Schools are funded through ring-fenced resources (Dedicated Schools Grant and a number of other grants including the Pupil Premium) and children’s services funding is included within the core council funding known as the Settlement Funding Assessment. The impact of the provisional settlement on schools funding was reported to Cabinet on 24 January 2017.
- 11.5 The Government introduced the first national funding formula for the early years block of the Dedicated Schools Grant (DSG) in 2017/18, together with tighter parameters for the local funding formula for early years settings which was introduced from April 2017. Gateshead’s hourly rate for early years funding increased from £4.20 to £4.53, a 7.8% increase. This increase is to help facilitate and fund the increased entitlement for working families from September 2017 from 15 to 30 hour’s free entitlement for early education and childcare.
- 11.6 The Government intends to introduce a national funding formula for mainstream schools from 2018/19, with some local discretion available within formula. There will be some transitional arrangements put in place however the direction of travel is not entirely clear as there has been no response to date to both the Schools Block and the High Needs Block Stage 2 Consultations which closed in March 2017. Transitional arrangements proposed mean that no school will see a cash-terms fall in funding per pupil of more than 3% over the period 2017/18 to 2019/20, and no school can gain more than 5.6%. However, combined with real-terms cuts to school spending power, schools facing losses under the new formula will see an overall real-terms reduction in funding per pupil of close to 10% between 2015/16 and 2019/20. Even those schools seeing increases in funding under the formula will overall get only a real-terms freeze over the same period.

- 11.7 There will also be a new Central Schools Services block grant created from a combination of the retained element of the Education Services Grant (ESG), and the previously centrally held funding within the Schools Block of the DSG. This new block and the high needs block of the DSG will be formula based from 2018/19. The government have announced that no Council will see a cash reduction in high needs funding, and there will be allowable gains of up to 3%. The outcome and the Government's response to a number of consultations is expected later in the year with further detail on funding levels and implications for both schools and local authorities.
- 11.8 National education policy is subject to major change leading to a great deal of uncertainty about the future role of councils in education, and in future levels of funding for schools and councils. Further Government consultation and legislation is expected in the near future.
- 11.9 From 2013/14 funding paid to councils and academies for general education services changed with the introduction of the Education Service Grant (ESG) which replaced funding from the DCLG as part of councils general revenue funding and equivalent funding to academies from the DfE. ESG is not a ring-fenced grant but was for the provision of therapies and other health related services, central support services, education welfare services, school improvement, education asset management, statutory/regulatory duties, premature retirement costs/ redundancy costs and monitoring national curriculum assessment. In 2013/14 £1.04 billion was transferred from Local Government revenue funding into the ESG, and over the period to 2017/18, has been reduced to £252m
- 11.10 The financial year 2017/18 is a transition year with Gateshead seeing a reduction in ESG funding from £1.831m for 2016/17 to £0.511m for 2017/18. The grant will further reduce for 2018/19 to approximately £0.258m, and will be merged with the centrally held DSG to form the Central Schools Services Block.
- 11.11 The DSG is required to be spent directly on the education of children, with the vast majority of funding going into schools, based on an allocation mechanism agreed by Schools Forum, which has minority representation from the Council. Some schools funding is de-delegated from maintained schools and is centrally retained by the Local Authority with the approval of Schools Forum to fund services for schools, such as the Ethnic Minority and Traveller Achievement Service, and the Behaviour Support Service.
- 11.12 At 31 March 2017 the overall reserves balances for all maintained schools in Gateshead totalled £5.473m, a decrease of £1.573m from March 2016. Due to the financial pressures facing schools over the coming years it is expected that school reserves will fall further.
- 11.13 At 31 March 2017 the DSG reserves in Gateshead totalled £3.167m, a decrease of £0.190m from March 2016. Schools Forum must approve any use of DSG reserves, and are currently used to provide contingency funding to schools that are subject to circumstances beyond their control, and are in financial difficulty (which is expected to increase related to the circumstances set out above). It is also anticipated that the pressure on the high needs block will continue due to the increase in special school places, children with special educational needs (SEN) and permanently excluded pupils. DSG reserves will be required to meet in year funding shortfalls within the high needs block to fund these pressures, whilst an urgent review of high needs funded provision is undertaken. These anticipated pressures have been factored into the projected usage of the reserve over the medium term.



## 12. Reserves

- 12.1 The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. In establishing reserves, the Council must comply with the Code of Practice on Local Authority Accounting in the United Kingdom. The Strategic Director, Corporate Resources is required, as part of the budget setting process, to provide a statement on the adequacy of reserves.
- 12.2 Reserve management is used to help absorb any specific unforeseen expenditure, e.g. for the impact of a large insurance claim, alongside maintaining reserves at a prudent and adequate level over a period of time. Much like using savings to offset monthly household bills the use of financial reserves cannot solve a budget problem outright but allows for smoothing of impacts or allows the Council to ride any short term situations before returning to normal. Thus reserves are mainly used to;
- Soften the impact of cuts over a longer period of time
  - Invest in schemes that allow services to be delivered cheaper
  - Take “one-off hits” for the Council as a whole without the need to further reduce service budgets (e.g. changes to national insurance contributions or local tax regimes)
  - Provide capacity to absorb any non-achievement of planned budget reductions in a given year
  - To temporarily roll over unused portions of grants that can legally be used at a later date
  - To insure against major unexpected events (such as flooding)
  - To guard against general risk (i.e. saving up for unexpected events)
  - To guard against emergent specific risks, such as business rate appeals, council tax support funding cuts and welfare reform. These risks are predicted to continue to increase.

### Reserves Policy

- 12.3 The Council’s policy on reserves is outlined within the MTFS principles as follows:
- The Council will maintain its general reserve at a minimum of 3% of the net revenue budget to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.
  - The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed annually.
  - The Council’s general reserve is available to support budget setting over the period of the MTFS and usage should be linked to the achievement of financial sustainability over the medium term.

## Review of Reserves 2017/18

- 12.4 The Council undertakes a review of all strategic reserves in line with the CIPFA guidance on Reserves and Balances (LAAP Bulletin No 99 July 2014 which recommends at least annually) and the requirements of the Code of Practice on Local Authority Accounting. The review process covers each individual strategic reserve and identifies:-
- The purpose for which the reserve is held.
  - An assessment of the appropriate level of the reserve to meet potential future liabilities in line with the Council's reserves policy and aligned to the risk management framework.
  - Procedures for the reserve's management and control.
  - A process and timescale for future reviews to ensure continuing relevance and adequacy.
- 12.5 The 2016/17 Revenue Outturn position was reported to Cabinet on 20 June 2017, with the underspend position contributing to an increase in the Council's general fund reserve. Following the Outturn, as at 31 March 2017, the Council's usable revenue reserves are £56.044m (subject to external audit of accounts). Of this sum, £22.597m is held in earmarked reserves and £16.797m Council General Reserve. The remaining balance of £16.650m is ring-fenced to specific budget areas and cannot be used to support the general revenue budget and Council Tax requirement.
- 12.6 In support of the reviewed MTFS position a full review of reserves has also been carried out. An explanation of each reserve as at 31 March 2017 is shown below along with the value and an explanation of any changes following review;
- **General Reserve** (£12.400m following review)  
The General Reserve acts as a contingency and allows the Council to meet any unforeseen expenditure. It has been assessed at a minimum of 3% of the net revenue budget in line with the Council's reserves policy and MTFS principles and this currently equates to a minimum of £6 million. Due to the positive revenue outturn position in 2016/17 the balance on this reserve increased by £0.456m. Following the review of reserves £4.397m has been transferred from the general reserve to earmarked reserves as outlined in the following paragraphs. This has reduced the balance to £12.400m. A short description of each reserve is given below;
  - **Strategic Earmarked Reserves;**
    - Business Rates** (£5.000m)  
This reserve was created to mitigate the risk of current and future business rate valuation appeals and other risks associated with the business rates retention scheme. It is recommended that this reserve is retained and maintained at the current level pending the introduction of 100% rates retention.
    - Insurance** (£3.000m)  
This reserve is to allow for possible claims against the Council which are not covered by external policies and to cover insured liability claims falling within the claims excess and policy stop loss. It is recommended that this reserve is retained and maintained at the current level pending a full review of the insurance provision and reserve following the insourcing of claims management and a review of insurance cover.



### **Grant Clawback (£1.314m)**

This reserve is for grant received which may need to be repaid as a result of clawback of externally funded projects, such as ERDF schemes. It is recommended that this reserve is reduced to £0.600m following a review of the potential requirement.

### **Workforce Development Reserve (£6.009m)**

The Gateshead Development Pool reserve is used to support the redundancy scheme and workforce management. It is recommended that this reserve is renamed to Workforce Development Reserve and to increase the scope of the reserve to include training and development in support of the workforce plan.

### **Discretionary Social Fund (£0.781m)**

This reserve supports social fund activities following the end of the discretionary social fund grant. It is estimated that this reserve will be fully utilised by 2020/21. It is recommended that this reserve is retained for the current purpose.

### **Budget Flexibility (£1.794m)**

This reserve was created in 2013/14 to allow for the effective management of budgets across financial years. The reserve is recommended to be retained to support the current approach.

### **Economic Growth Culture and Place Shaping Reserve (£3.390m)**

It is recommended that the £3.390m Economic Growth Reserve balance is used to create a new Economic Growth, Culture and Place Shaping Reserve. This reserve would be used to stimulate economic growth and to lever investment into the area to support Culture 2030. The scope of the deployment of the reserve is to be extended to incorporate the facilitation of housing growth initiated within the Borough. All investment will need to be clearly linked to outcomes in respect of increased business rates and council tax income to the Council or economic growth in the wider Gateshead economy.

### **Strategic Revenue Investment Reserve (£4.206m following review)**

It is proposed that a new Strategic Revenue Investment Reserve is created from the £2.897m Airport Dividend and the £1.309m Strategic Change Reserve. This reserve would be used to support the financial strategy contained within the Council MTFS by allocating investment on a time limited short term basis in order to generate future savings, manage demand through investment in prevention strategies and to generate and maximise income. The intention will be to assist in the delivery of the financial sustainability of the Council in the medium and long term.

### **Voluntary Sector Reserve (£0.500m)**

It is proposed that £0.500m is earmarked from the general reserve to create a Voluntary Sector Reserve to support development and activity in this sector. This reserve would be used to mitigate savings in the voluntary sector where appropriate, prepare the sector for increasing demand by increasing capacity and skills, and preparing the sector for the transition to any new operating arrangements.

### **Anti-Poverty Reserve (£1.000m)**

It is proposed that £1.000m is earmarked from the general reserve to create an Anti-Poverty Reserve to mitigate the impact of poverty and social exclusion. The reserve would support a Council Anti-Poverty Strategy and also assist in alleviating the impact of welfare reform and austerity on the residents of Gateshead, consistent with Council priorities.

- **Ring-fenced;**

**Schools LMS (£5.473m)**

Combined with the General Reserve, this reserve forms the General Fund but use of this reserve is ring-fenced to schools and there is a duty to report planned use to Schools Forum. The reserve is made up of individual balances relating to each maintained school.

**Developer Contributions (£1.937m)**

This reserve, which is ring-fenced and not available to support the budget, consists of developer contributions in respect of agreed regeneration schemes following Section 38 and 106 agreements. The movement on the reserve will fluctuate depending on the use of the contributions to support regeneration schemes such as play areas in areas of new housing.

**Dedicated Schools Grant (£3.167m)**

This reserve is ring-fenced for schools use and cannot be used for other priorities within the Council. Use of this reserve will be agreed by Schools Forum.

**Unapplied Revenue Grants / Receipts (£3.642m)**

This reserve was created as a result of changes to the Accounting Code of Practice whereby unused grants and contributions, without conditions attached, should be appropriated to reserves to fund future expenditure rather than creating creditors on the Balance Sheet

**Public Health (£2.431m at 31 March 2017)**

The responsibility for Public Health transferred to local authorities on the 1 April 2013. The funding is ring-fenced for future Public Health use.

## Reserves Summary 2017/18 to 2022/23

- 12.7 The following table illustrates the estimated use, following review, of all revenue reserves over the period to March 2023;

	Revised Reserves MTFS £000s	Estimated Use 2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	Remaining Balance March 2023 £000s
<b>MTFS Projections</b>								
<b>General Fund</b>								
General Reserve	(12,400)		2,000	1,000	3,000			(6,400)
LMS Budget Share Reserve*	(5,473)	2,000	2,000	1,473				0
<b>Total General Fund Reserve</b>	<b>(17,873)</b>	<b>2,000</b>	<b>4,000</b>	<b>2,473</b>	<b>3,000</b>	<b>0</b>	<b>0</b>	<b>(6,400)</b>
<b>Earmarked Fund Reserves</b>								
<b>Strategic Reserves</b>								
Business Rates Reserve	(5,000)							(5,000)
Insurance Reserve	(3,000)							(3,000)
Grant Clawback Reserve	(1,314)	314	400					(600)
<b>Workforce Development Reserve</b>	<b>(6,009)</b>	<b>2,000</b>	<b>2,000</b>	<b>2,009</b>				<b>0</b>
Economic Growth Reserve	0							0
Discretionary Social Fund Reserve	(781)	200	200	200	181			0
Strategic Change Reserve	0							0
Budget Flexibility Reserve	(1,794)	1,619	175					0
<b>Economic Growth, Culture and Place Shaping Reserve</b>	<b>(3,390)</b>	<b>1,100</b>	<b>1,100</b>	<b>1,190</b>				<b>0</b>
<b>Strategic Revenue Investment Reserve</b>	<b>(4,206)</b>	<b>1,400</b>	<b>1,400</b>	<b>1,406</b>				<b>0</b>
<b>Voluntary Sector Reserve</b>	<b>(500)</b>	<b>250</b>	<b>250</b>					<b>0</b>
<b>Anti Poverty Reserve</b>	<b>(1,000)</b>	<b>500</b>	<b>500</b>					<b>0</b>
<b>Ring Fenced Reserves</b>								
Developers' Contributions*	(1,937)	300	300	300	300	300	300	(137)
DSG Reserve*	(3,167)	1,500	1,000	417				(250)
Unapplied revenue grants*	(3,642)	1,935	870	837				0
Public Health Reserve*	(2,431)	385						(2,046)
<b>Total Earmarked Fund Reserves</b>	<b>(38,171)</b>	<b>11,503</b>	<b>8,195</b>	<b>6,359</b>	<b>481</b>	<b>300</b>	<b>300</b>	<b>(11,033)</b>
<b>Total Reserves</b>	<b>(56,044)</b>	<b>13,503</b>	<b>12,195</b>	<b>8,832</b>	<b>3,481</b>	<b>300</b>	<b>300</b>	<b>(17,433)</b>
Total Ring fenced*	(16,650)	6,120	4,170	3,027	300	300	300	(2,433)
No Ring-fence	(39,394)	7,383	8,025	5,805	3,181	0	0	(15,000)
	<b>(56,044)</b>	<b>13,503</b>	<b>12,195</b>	<b>8,832</b>	<b>3,481</b>	<b>300</b>	<b>300</b>	<b>(17,433)</b>

- 12.8 The Council may need to consider replenishment of the general reserve over the MTFS period.
- 12.9 The overall level of financial resources available to the Council is finite and therefore the continued use of reserves above a certain level cannot be sustained in the longer term without placing the Council's financial position at risk. The MTFS recognises that the Council's financial reserves are maintained at a prudent level to protect present and future Council services.
- 12.10 In line with LAAP 99 the Council accepts that while balancing the annual budget by drawing on general reserves can be in certain circumstances a legitimate short term option it is not considered prudent to finance recurrent expenditure in this way. Where this approach is adopted the Council will be explicit as to how such expenditure will be funded in the medium to long term to achieve financial sustainability. The Council recognises that usage of reserves is one-off in nature and must be linked with expenditure and income plans to support financial sustainability in the medium term.

### 13. Indicative Budget Forecasts 2018/19 to 2022/2023

13.1 Indicative budget forecast models for the period 2018/19 to 2022/23 have been produced to reflect the issues identified as part of the review of the MTFS.


2017/18 £m	Indicative Budget Forecasts	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
215.839	Estimated Base Budget	216.604	231.330	245.004	254.848	263.984
(202.649)	Estimated Funding Resources	(195.995)	(189.454)	(172.381)	(174.143)	(175.940)
13.190	Cumulative Funding Gap	20.609	41.876	72.623	80.705	88.044
13.190	Annual Funding Gap	20.609	21.267	30.747	8.082	7.339

2017/18 £m	Indicative Budget Forecasts	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
198.883	Net Revenue Budget	202.649	216.604	231.330	245.004	254.848
	<b>Cost Pressures:</b>					
5.163	Base Adjustments	0.000	0.000	0.000	0.000	0.000
0.862	Inflation (General)	0.950	0.900	0.900	0.850	0.850
1.928	Inflation (Contractual inc Social Care Fees)	2.350	2.350	2.600	2.700	2.700
3.812	Corporate Council Wide (inc pay)	4.321	5.004	5.848	3.999	3.312
4.568	Demand (Social Care)	3.618	3.378	1.500	1.500	1.500
0.623	Demand (Other)	0.650	0.650	0.650	0.150	0.150
0.000	Strategic Investment (Capital)	2.066	2.444	2.175	0.646	0.624
215.839	<b>Total Cost Pressures</b>	216.604	231.330	245.004	254.848	263.984
	<b>Funding Resources:</b>					
(27.783)	SFA - Revenue Support Grant	(21.423)	(15.012)	0.000	0.000	0.000
(41.093)	SFA - Retained Business Rates	(41.915)	(42.754)	(88.107)	(89.869)	(91.667)
(13.936)	SFA -Top Up Grant	(14.385)	(14.896)	0.000	0.000	0.000
(81.819)	Council Tax	(84.274)	(84.274)	(84.274)	(84.274)	(84.274)
(35.379)	Other Grants (inc Public Health)	(33.998)	(32.519)	0.000	0.000	0.000
(2.638)	Collection Fund	0.000	0.000	0.000	0.000	0.000
0.000	Reserves	0.000	0.000	0.000	0.000	0.000
(202.649)	<b>Total Funding Resources</b>	(195.995)	(189.454)	(172.381)	(174.143)	(175.940)
13.190	Cumulative Funding Gap	20.609	41.876	72.623	80.705	88.044
13.190	Annual Funding Gap	20.609	21.267	30.747	8.082	7.339

Note there may be slight calculation differences in the table totals due to roundings

13.2 The indicative budget forecast shows an estimated funding gap of around £88.0m for the five-year period 2018/19 to 2022/23.

13.3 There are a number of key risks associated with the assumptions in this report including delivery of economic growth to generate additional retained business rates, significant uncertainty in relation to funding reductions and the outcome of any future reforms to the finance system. There may be wider implications arising from the Government's welfare reform agenda, uncertainty in relation to the Better Care Fund and the financial implications of the Social Care Act and Devolution as well as the impacts on the wider economy following Brexit.

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- 13.4 Indicative revised funding levels including local growth projections in business rates and council tax as well as trading activities will be used for internal budget planning. A five year approach in key budget areas to 2022/23 will allow for improved financial strategies linked closely to the outcomes of the Council plan and resilient management of reserves.
- 13.5 Proactive financial planning will allow the Council to continue to work closely in collaboration and partnership with neighbouring authorities and across public sector partners. In particular work continues to be progressed towards greater alignment and integration of health and social care to meet current aspirations for the health and wellbeing of local people, working with health partners e.g. through work to progress new models of care for Gateshead's local health and care economy and through initiatives such as the Better Care Fund Plan for Gateshead which will see the transition of its core schemes to new models of care.

## 14. Options to Close our Financial Gap

14.1 The indicative budget forecasts outlined in Section 13 show that all funding options will need to be considered to deliver a balanced budget.

14.2 Funding options include:-

- Budget savings – savings identified from within and then removed from the base expenditure budget.
- Retained business rates from economic growth – increased income from retained business rates in the borough.
- Realignment of spending priorities with the Council Plan - reassesses the current base budget and the priorities for spending to ensure all resources are focused in delivery of the Council Plan 2015 to 2020.
- Capacity building within communities - seek to mitigate demand pressures within services by capacity building within communities including, where appropriate, work with partners and volunteers.
- Additional external funding grant income - Specific general and one-off funding will continue to be sought in line with the principles of the MTFS although the climate for generation of external funding is more challenging than has been the case in previous years.
- Additional income generation. Additional income will be sought from a full review of fees and charges as part of the annual work programme and consideration of potential trading and investment opportunities.
- Reduction in the revenue costs of capital – through alternative decisions for reductions in capital investment or increased use of capital receipts generated through the disposal of any Council surplus assets.
- Council tax increases – over and above assumed increases but subject to increases in referendum thresholds set by central government.
- Use of reserves - At this stage the MTFS funding gap assumes no reliance on a contribution from reserves to set the budget. Use of reserves is finite and priority should be given to invest to save initiatives to promote economic growth and increase the level of retained business rates.

## 15. Consultation

- 15.1 The Council will continue to strive to deliver efficient services that provide value for money. Budget proposals will be prepared following budget guidance and these will be made available for public consultation.
- 15.2 The Council's budget planning framework is supported by the development of Equality Impact Assessments (EIAs) for the budget proposals, identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010. The EIAs will also identify potential mitigation where applicable. Specific consultations will also be launched throughout the year and are made available via the Council's website.
- 15.3 The Council maintains its strong commitment to equality, believing that all groups and individuals within the community and its workforce have equal opportunity to benefit from the services and employment it provides. EIAs help the Council to arrive at informed decisions and to make the best judgements about how to target resources.



## 16. Risk Assessment

- 16.1 A comprehensive financial risk assessment is undertaken for the Revenue and Capital Budget setting process to ensure that all risks and uncertainties affecting the Council's financial position are identified. These are reviewed each year as part of the refresh of the MTFS. The key strategic financial risks to be considered in developing the MTFS are as follows:-

Risk	Likelihood	Impact	Risk Management
1. Future available resources less than assumed.	Possible	High	Annual review of reserves and reserves policy to identify future resources. Assumptions on funding for 2018/19 and beyond are based on national policy context outlined in various government documents. A prudent approach has been adopted based on previous years' experience as well as using regional network contacts to inform modelling.
2. Volatility of Business Rates funding given uncertainty around impact of appeals	Likely	Medium	Volatility of funding stream outside of Council control but impact mitigated by establishment of specific earmarked reserve and financial monitoring framework. Modelling of potential impacts is used to inform internal financial planning.
3. Public Health funding not sufficient to meet responsibilities	Possible	Medium	Funding confirmed for 2017/18 but not in future years. The lack of certainty of continuation of grant going forward is a significant risk. Public Health responsibilities will be rolled into the new system under 100% rate retention.
4. Pay Awards, fee increases and price inflation higher than assumed	Possible	Medium	Impact of potential increases mitigated by central contingency budget for pay, price increases and care fees.
5. Future spending plans underestimated	Possible	Medium	Service planning process identifies future budget pressures and these have informed the indicative budget forecasts. An effective budget monitoring framework is in place to identify in year and potential future cost pressures.
6. Anticipated savings/ efficiencies not achieved	Possible	High	Regular monitoring and reporting takes place but the size of the funding cuts increase the likelihood of this risk. Non achievement of savings would require compensating reductions in planned spending within services. MTFS principle to maintain General Reserve at 3% of net revenue budget to cover unforeseen events. Recent track record of delivery provides some assurance. Greater scrutiny of savings will take place in 2017 through the revenue monitoring process.

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Risk Management</b>
7. Revenue implications of capital programmes not fully anticipated	Unlikely	Low	Capital bid approval framework identifies revenue implications and links to Council priorities. Full analysis of revenue implications assessed and considered in scenario planning. The increasingly commercial nature of investment opportunities means that the Council engages the appropriate advisors to assist with undertaking the required due diligence to fully understand the potential financial implications and risks.
8. Income targets not achieved	Possible	Medium	Current economic climate likely to impact. Regular monitoring and reporting takes place. Full review of fees and charges is undertaken on an annual basis.
9. Budget monitoring not effective	Unlikely	High	Regular monitoring and reporting in line with corporate framework. Action plans developed to address problem areas. Regular reports to Strategy Group and Cabinet. Track record of delivering budget.
10. Exit strategies for external funding leasing/tapering not met	Possible	Medium	Regular monitoring and reporting. Government policy to remove ring fencing provides greater flexibility.
11. Loss of principal deposit	Unlikely	Medium	Limited by the controls in the Treasury Management Strategy which prioritise security of deposit over returns. Impact limited due to the strategy of a diverse portfolio with top rated institutions.
12. Interest rates lower than expected	Unlikely	Low	Regular review, monitoring and reporting on interest rates. Prudent assumptions on likely interest rates for 2017/18 and onwards have been incorporated into the MTFS.
13. Collection rates for retained business rates and council tax lower than anticipated	Possible	High	Impact mitigated by the review of bad debt provisions. Proactive approach to stimulating economic growth including pump priming from reserves. Monitoring of Collection Fund is formally incorporated into the revenue monitoring process.
14. Changes to Government policy including Health and Social Care integration and Welfare Reform	Likely	High	Best estimates of impact of Government policy on funding factored into MTFS. Estimates are prudent and based on recent experience. Specific areas of uncertainty identified and subject to focussed actively, close monitoring and review. Risks of Better Care Fund are managed through the joint Council/CCG Better Care Fund Programme Board. The impacts of welfare reform continue to be planned for and monitored through the Council Scrutiny Framework.

Risk	Likelihood	Impact	Risk Management
15. Financial budget impacts of UK's vote to leave the European Union	Likely	Medium /High	Continue to work collaboratively with treasury advisors to assess potential budget impacts whilst the Government attempts to ensure an effective transition to a new economic relationship between the U.K. and the EU, including clarifying the procedures and broad objectives that will guide the process.
16. All MTFS risks not adequately identified	Unlikely	Low	Council's Risk Management Framework ensures all operational and strategic risks are identified as part of the annual service planning process. Regional networks such as SIGOMA , ANEC provide ability to assess and compare strategies to ensure assumptions are comprehensive.

## 17. Conclusion

- 17.1 The review of the MTFS has again been undertaken against a background of significant reductions and changes in grant funding and increasing costs due to service pressures. These factors could jeopardise the Council's sustainable financial position unless budget savings continue to be delivered alongside the delivery of the Council's corporate priorities.
- 17.2 The MTFS covers five years and funding beyond 2018/19 remains uncertain although all indications are that austerity measures are likely to continue throughout the medium term.
- 17.3 The MTFS identifies a potential financial gap of £41.9m in the next two years from 2018/19 to 2019/20. This funding gap comes on top of budget savings of £143m that have already been taken from budgets by this Council since 2010.
- 17.4 The MTFS supports the requirement to continue a rolling programme of internal indicative budget setting and efficiency plans to bridge an estimated £88.0m financial gap covering the period 2018/19 to 2022/23.
- 17.5 Although the financial context continues to be increasingly challenging and uncertain the Council has a track record of identifying and delivering significant savings and achieving budget outturn under agreed budget, supported by a framework of effective financial planning. This approach will need to continue to ensure that a sustainable medium-term financial position can be maintained. The approach will need to be built upon the delivery of significant changes in service delivery arising from effective decision making at an appropriate pace.
- 17.6 The Council will continue to keep the MTFS under review given the high degree of uncertainty surrounding the potential impact on Government policy and Government funding decisions in relation to Local Government arising from the European referendum result and future finance reforms.

## Further Information

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### Web links:

Gateshead Council:	<a href="http://www.gateshead.gov.uk">www.gateshead.gov.uk</a>
Council Finance:	<a href="http://www.gateshead.gov.uk/Council Finance">http://www.gateshead.gov.uk/Council Finance</a>
Annual Statement of Accounts:	<a href="http://www.gateshead.gov.uk/Council finance statement">http://www.gateshead.gov.uk/Council finance statement</a>
Council Plan 2015-2020	<a href="http://www.gateshead.gov.uk/Council plan">http://www.gateshead.gov.uk/Council plan</a>