



TITLE OF REPORT: Budget Approach 2020/21

REPORT OF: Darren Collins, Strategic Director, Resources and Digital

Purpose of the Report

1. To seek Cabinet approval on the Council's budget approach 2020/21 that will support the delivery of the Council's thrive objectives.

Background

2. The challenging context of funding reductions and increasing demand on council services, in particular social care, has compelled the Council to refocus on what matters most.
3. The Council's strategic approach ***Making Gateshead a Place Where Everyone Thrives*** was agreed in March 2018. The approach provides a framework to demonstrate how the Council will work and make decisions which will be policy and priority led. The approach is aligned to the timeframe of the Council's Medium Term Financial Strategy and is predicated on the following pledges:
 - Put people and families at the heart of everything that we do
 - Tackle inequality so people have a fair chance
 - Support our communities to support themselves and each other
 - Invest in our economy to provide sustainable opportunities for employment, innovation and growth across the borough
 - Work together and fight for a better future for Gateshead
4. The Council recognises there are huge financial pressures on not just council resources, but those of partners, local businesses and residents. To deliver on the new strategic approach over the next five years, the Council will need to be resolute and dynamic in its determination to make Gateshead a place where everyone thrives. The strategy was agreed with the Council's purpose and beliefs in mind, along with what matters most to the people of Gateshead.
5. The Medium Term Financial Strategy (MTFS) 2020/21 to 2024/25 agreed in October 2019, estimates the Council has a funding gap of £50m over the next five years, with at least £8m to be found in the next year. Thus, 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 estimated demand and budget pressures.
6. In August 2019 the Government announced there would be a one-year spending round in September, with the expectation that the detail will be received in the local government finance settlement (LGFS) in early December. The subsequent

announcement of the General Election to take place on 12 December 2019 now means that there is some uncertainty as to when the detail will be received and more importantly whether any change of Government and policy changes the spending round outcomes. The Ministry of Housing, Communities and Local Government (MHCLG) anticipates that the LGFS will be a priority for Ministers to consider after the General Election and they will take all possible steps to ensure that the final LGFS aligns with local authority budget setting timetables. Notwithstanding this, the Council is required by law to produce a balanced budget by 11 March each year and decisions will need to be taken in the context of this uncertainty.

7. Financial sustainability requires all stakeholders in the Borough to understand that resources available to the Council are scarce. As a Council we can no longer afford to do everything for all residents, and there is a need to focus the limited resources at our disposal on priority areas which will help us realise the biggest impact and achieve the best possible outcomes for residents in Gateshead. Important decisions need to be made about both the relative priority of different services and the balance between what we can afford to deliver against the income raised through local taxation. Investment in these priorities will need to be funded by redirecting resources currently directed at areas of lower priority. The Council needs to challenge not only how services are delivered but also what is being delivered. Critically, these decisions need to be taken in the context of ensuring that they meet our strategic approach, ***making Gateshead a place where everyone thrives***, but also with a clear understanding of the statutory requirements of local government.
8. While the statutory budget setting process will continue to be on an annual basis, a longer-term approach is essential if the Council is to deliver on its priorities and remain financially sustainable. The greater the uncertainty about future government policy then the greater the need to demonstrate the long-term financial resilience of the Council given the risks attached to its core funding.
9. The Council has a strong track record of achievement and although the Council's approach to the budget in previous years has served us well, a fundamentally different approach is now required to reflect the challenges that the Council is facing. The Council has developed a set of core principles that will underpin our approach, specifically the approach will be:
 - Priority driven – the Council will focus on what matters most;
 - Performance driven – a focus on measurable outcomes;
 - Council wide rather than service focus;
 - Over an extended budget time horizon of 5 years to enable effective planning;
 - Iterative to reflect a continuous approach;
 - Supported by investment to deliver improvement and efficiencies;
 - Targeted approach to those with the greatest need;
 - Community focussed to maximise local wealth; and
 - Integrated to cover all aspects of the Council's budget including revenue, capital, schools, and housing.

10. The Council has identified five key areas for driving forward progress in achieving thrive outcomes to narrow the inequalities which exist in Gateshead. These priority areas will be supported by targeted interventions to accelerate the pace of delivery:
 - i. Economy - This means achieving strong business growth with good quality jobs at all levels that are accessible to local people and delivery of key developments, such as Gateshead Quays, attracting visitors and business to Gateshead.
 - ii. Health and Housing - Good quality housing with a mix of tenures and affordable options that meet the needs of local people including families and older people enabling them to live healthy lives as well as enabling people to make healthy choices and prevent ill health.
 - iii. Poverty and Inequality – Helping to ensure that everyone gets the opportunities and support they need to thrive.
 - iv. Climate Change – environmentally sustainable policies and approach across council activities to reduce carbon and harmful emissions across Gateshead, reducing waste and securing a better future.
 - v. Transport – A transport system that supports the economy, reduces emissions and encourages more sustainable forms of travel including cycling and public transport.
11. The approach will identify the interventions required in each key area over the next 3-5 years and invest resources in these to help enable all residents of the borough to prosper, be successful and to thrive, focusing service delivery to secure the best outcomes for local people. It is recognised that investment in these key areas may need to flex, evolve and change over time.
12. The outline plan for each priority area will identify the outcomes, key interventions and investment requirements over the medium term to allow engagement with residents, strategic partners, and other stakeholders. The Council will report the outcome of this engagement and seek approval of these priority investment plans in a future report.
13. The ability to invest in priority areas will require available resources. Ultimately this investment will need to be resourced from other areas of the Council where services could be recommissioned and delivered differently. Areas of cross council efficiencies and service delivery models will be developed to ensure the Council is focused on delivering priorities and statutory functions in the most effective way, making the best possible use of resources. The Council intends to take a long-term approach to the shift in resources to achieve priority outcomes. Five-year plans will set out intentions for redirection of resource to support the Thrive agenda.

Engagement

14. As the longer-term budget approach is developed, the Council will ensure that there is appropriate engagement at the right time and in the right way, where proposals may have an impact on residents, businesses, the voluntary sector or other

stakeholders. Engagement activities will vary and may be broad in their focus or primarily targeted at a specific group of service users.

Next steps

15. This report sets out and proposes the overall framework for the budget approach. Further reports to Cabinet will propose:

Base Budget

- On 17 December 2019, a report will propose the Council's draft base budget to reflect the assumptions in the Medium Term Financial Strategy and the Council's new structure agreed by Cabinet in October 2019. The report will propose a 5-year draft base to reflect the longer-term planning horizon.

Priorities / Recommissioning

- On 21 January 2020, a report will propose a revised base to reflect the Council's budget approach focussing on priorities for investment resourced by areas for recommissioning. The report will also consider the outcome of any engagement with stakeholders and, subject to confirmation of the 2020/21 local government finance settlement, this report will also consider the funding envelope that is available to the Council.

Budget and Council Tax

- On 25 February 2020, a report will propose a Budget and Council Tax for 2020/21 to reflect the statutory requirement to produce a balanced budget by 11 March each year and recommend this to Council on 27 February 2020.

Proposal

16. It is proposed that Cabinet approve the outlined strategic budget approach and indicative timeline for further reports.

Recommendations

17. Cabinet is requested to approve the approach and principles contained within this report to guide the development and setting of the council budget 2020/21 to support the delivery of thrive objectives.

For the following reasons:

- (i) to contribute to the good financial management practice of the Council;
- (ii) to assist the financial sustainability of the Council over the medium to long term.

CONTACT: David Johnson

Policy Context

1. Making Gateshead a Place Where Everyone Thrives sets the major policy directions for the Council, redressing the imbalance of inequality, championing fairness and social justice. This approach determines future budget proposals and sets out the priorities for the Council over the timeframe of the Medium Term Financial Strategy.
2. Full Council is responsible for approving a budget following recommendations from Cabinet, in line with the budget and policy framework outlined within Gateshead Council's constitution.

Background

3. The Council is facing unprecedented financial and demand pressures following a decade of austerity. Achieving financial sustainability is critical to protect outcomes for the community and local economy.
4. Gateshead's strategic approach of Making Gateshead a Place Where Everyone Thrives was agreed with the council's purpose and beliefs in mind, along with what matters most to the people of Gateshead. Due to insufficient funding and increasing demands, the council will be forced to make very difficult choices in the years ahead about which services to prioritise for investment.
5. While the Council's financial challenge will mean that some tough choices are inevitable, experience over previous budgets has demonstrated that reducing budgets across the board is not an effective way to meet a financial challenge of this scale. By focussing on areas of priority which the Council considers will have the greatest impact and achieve the best possible outcomes for Gateshead and its residents, the financial challenge can be approached in a more considered way.
6. The Council will continue to keep the MTFs under review as a consequence of the high degree of uncertainty surrounding the potential impact of Government policies and announcements and funding reforms on budget decisions.

Engagement and Equalities Impact

7. Engagement will be ongoing until such time as the Council's budget is agreed in February 2020. Further engagement will be necessary throughout 2020 to reflect the continuous and longer-term approach to reach a financially sustainable position based on the Council's priorities.
8. The MTFs sets a financial context for budget consultation. The Council's budget planning framework is supported by the development of integrated impact assessments (IIA) for draft budget proposals. These assessments include identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010 and identify potential mitigation where applicable.

9. 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. IIAs help the Council to arrive at informed decisions and to make the best possible judgements about how to target resources.

Alternative Options

10. Local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Continuing to balance the budget in the same way as in previous years by reducing service areas to reflect reduced funding availability is no longer sustainable.

Implications of Recommended Option

11. **Resources:**

- a) **Financial Implications** – the Strategic Director, Resources and Digital confirms that:

- i. The Council will deliver a balanced budget consistent with legislation that is driven by council policy and which achieves priority outcomes. To achieve this, the Council must close an estimated financial gap of £8m for 2020/21 that is identified within the Medium Term Financial Strategy. Alongside the savings position the Council will seek to close the financial gap through consideration of other funding options. These other funding options include growth in council tax and business rates funding and consideration of a council tax increase as well as a full review of the cost pressures within MTFS assumptions and the optimum deployment of available reserves.
- ii. The government have provided some high level detail of indicative funding for 2020/21. 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. The Council's financial settlement will not be known until the final settlement is announced. Final confirmation is expected in January 2020 at which point assumptions around Council funding levels for 2020/21 will be clarified.
- iii. 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. Although there exists a great deal of uncertainty, overall it is estimated that the Council will need to close a funding gap of £50m over the five financial years. This represents an extremely challenging position for the Council and in order to strengthen our financial stability the Council will have to continue to prioritise additional 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.

- b) **Human Resources Implications** – there are no direct HR implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.
 - c) **Property Implications** – there are no direct property implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.
12. **Risk Management Implication** – there are no direct risk implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.
 13. **Equality and Diversity Implications** – an integrated impact assessment will be used to assess the equality and diversity and wider implications of the budget approach and will be the subject of future reports.
 14. **Crime and Disorder Implications** – there are no direct crime and disorder implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.
 15. **Health Implications** – there are no direct health implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.
 16. **Sustainability Implications** – The MTFFS provides a framework with the express objective of achieving a sustainable financial position over the medium term.
 17. **Human Rights Implications** – No direct human rights implications.
 18. **Area and Ward Implications** – All areas of the Borough are covered by the approach set out in this strategy.