

TITLE OF REPORT: **Budget Approach 2022/23 to 2024/25**

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Purpose of the Report

1. To seek Cabinet approval of the Council's approach to budget 2022/23 to 2024/25 including a timeline that will support the delivery of the Council's thrive priority objectives and also meet the increasing financial challenges outlined in the Council's Medium Term Financial Strategy.

Background

2. On 19 October 2021 the updated Medium Term Financial Strategy (MTFS) was reported to Cabinet outlining an estimated financial gap of £63m including COVID impacts over the five-year period 2022/23 to 2026/27. The impact will be mitigated temporarily through planned application of pandemic reserves of £18m. In addition, the plan assumes proposed use of £20m from the budget sustainability reserve over the next three financial years. It is estimated that budget cuts, efficiencies and savings totalling £45m will be required over the medium term. It is essential that these are delivered to ensure that a balanced budget and financial sustainability of the Council can be achieved and maintained.
3. The proposed budget approach will be over a three-year period 2022/23 to 2024/25 and the scale of the challenge outlined in the MTFS requires a radically different approach to the budget.
4. On 27 October 2021, the Chancellor of the Exchequer presented the Government's Budget and Spending Review covering the period to 2024/25. The full implications for the Council will not be known until the Local Government Financial Settlement is presented, currently expected on 16 December 2021.

Proposal

5. The budget approach will be over a three-year programme set within the context

of the five-year rolling MTFS. This report outlines the high-level framework and broad timeline over the period 2022/23 to 2024/25.

6. The MTFS was prepared in the context of continuing uncertainty on the funding of local government beyond the current year alongside the backdrop of uncertainty of the medium to longer term impacts of both the covid pandemic and Brexit. The Spending Review has provided some high-level direction of travel but, until the local government settlement is announced, there is still no clarity of what this means for Gateshead.
7. The Council previously developed a set of core principles that it is proposed will be retained to continue to underpin the budget approach, these were agreed by Council in November 2019, 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 to enable effective planning;
 - Iterative to reflect continuous approach;
 - Supported by investment to deliver improvements and efficiencies;
 - Targeted approach to those with 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.
8. The proposed budget approach incorporates the activity areas outlined below with detail provided in Appendix 1:
 - i. Priority Zero Based Budget Challenge
 - ii. Priority Based Transformation Programme
 - iii. Outline use of reserves
9. In the context of the MTFS gap and facing tough financial challenges ahead, it is vital that financial sustainability is at the core of the budget approach, and all resources are targeted to achieving priority outcomes. It is important to make best use of resources available and adapt and change the delivery of Council services accordingly.

Next Steps

10. Following Cabinet approval, work will commence to generate options for budget cuts and savings and areas for investment within required timescales and guided by the budget approach framework.
11. On 22 February 2022, a report will propose a Budget and Council Tax for

2022/23 to reflect the statutory requirement to produce a balanced budget by 11 March each year and recommend this to Council on 24 February 2022.

12. Further reports will be considered throughout the three-year timeframe as areas of work are clarified and progressed.

Recommendations

13. It is recommended that Cabinet:
 - i. approves the budget approach 2022/23 to 2024/25 contained within this report; and
 - ii. agrees to receive update reports as work progresses and options to deliver Council Thrive priority objectives and a sustainable financial position are developed.

For the following reasons:

- To contribute to the good financial management practice of the Council;
- To assist the financial sustainability of the Council over the medium to long term.
- To support delivery of Council Thrive objectives.

Policy Context

1. Making Gateshead a Place Where Everyone Thrives provides the policy direction for the Council, redressing the imbalance of inequality, championing fairness and social justice. This approach underpins the Council approach to the budget and will determine future budget proposals.
2. 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 strategic approach the Council will need to be resolute in its determination to make Gateshead a place where everyone thrives. This means the Council's decision-making including resource allocation through the budget will be policy and priority led and data driven.
3. The 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

4. The Council's MTFs sets out the financial context for the Council's resource allocation process and budget setting. The Council's Performance Management Framework supports the aims within the strategy by aligning performance with the overall approach to the budget to support the financial sustainability for the Council ensuring that resources are deployed on the outcomes for making Gateshead a Place Where Everyone Thrives.
5. As a Council, there is a need to focus the reduced resources at our disposal on priority areas which will help us deliver 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 can be afforded against the income raised through local taxation. Investment in priorities will need to be funded by redirecting resources. 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 the Council's strategic aims, but also with a clear understanding of the statutory requirements of local government and, importantly, learning from the pandemic.
6. Although the budget approach is over a longer timeframe, 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 these to the estimated funding available in that financial year.

7. The Council will ensure that reducing resources are used to maximum effect which will 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 massive increases in demand alongside the continuing financial challenges arising from the pandemic 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 challenge to its services effectively but in the context that change is inevitable.

Proposal

8. The proposed approach to budget 2022/23 to 2024/25 is set out below.

Overall Budget Framework

9. Prior to the pandemic the Council began planning to take a longer-term approach to budget savings and growth, reflecting on demand cost drivers and how current services are linked to achieving thrive outcomes as well as Health and Wellbeing Strategy aims.
10. To deliver this, particular attention and identification of any gaps in the activity required to drive forward a priority and existing activity is required. This will also entail considering cross council working and the potential targeted interventions in areas, groups or sectors that would contribute to securing the Council's agreed outcomes. This work should also identify areas of activity which could reduce or cease to allow for resource redirection. Invest to save areas including preventative investment leading to budget savings should be considered. A programme of '**Priority Zero Based Budget Challenge**' and '**Priority Based Transformation**' areas outlines the high-level approach. This will be refined as the challenge progresses and reported to Cabinet.
11. The approach is in line with the CIPFA's Financial Management Code which the Council is expected to demonstrate it is working towards this year and fully compliant by next year. The recommended standard being that the authority has a rolling multiyear medium-term financial plan of growth and savings consistent with sustainable service plans, linked to asset and workforce plans. This approach will also facilitate meaningful public consultation and engagement later in the calendar year.
12. The budget framework will provide the means by which the Council's priorities will be delivered in alignment with the assumptions and principles of the MTFs. The framework sets out the overall principles for the development of revenue and capital budgets:

- The revenue and capital budget will be developed in accordance with the core principles above and the MTFS;
- In allocating resources, priority will be given to those areas of spending that contribute to the achievement of the Council's priorities;
- Budget resources will be directed from low priority to high priority areas;
- The revenue budget will reflect a three-year approach. To allow a longer-term approach over this timescale, in the first year, any growth will need to be met from savings;
- Additional budget to meet new statutory requirements and unavoidable growth e.g. inflation and increased demand, will be clearly identified and evidenced. This will include transparency over the relationship between the MTFS gap and the savings requirement;
- Linked to the new performance framework and outcomes, the approach will incorporate a rolling review to reflect the dynamic nature and uncertainty of local government funding and the need for continuous improvement.

Establishing Outcomes/Priorities. How do we target resources to areas most in need?

13. The Council's strategic approach is delivered by the Thrive Agenda and the Health and Wellbeing Strategy. In addition to this the Council has recently agreed it's Economic Strategy and is consulting on an emerging Climate Strategy. Reducing resources means that choices and decisions need to be made in order to redirect or allocate investment to achieve the best outcomes for Gateshead residents.
14. The budget approach needs to be linked to the hierarchy of delivering thrive through the Health and Wellbeing Strategy, the Economic Strategy, the Housing Strategy and the Investment Strategy. Areas of focus will be:
 - Climate change;
 - Housing Strategy;
 - Health and Wellbeing and addressing inequalities;
 - Economic Strategy and Community Wealth Building; and
 - Financial sustainability.
15. This will require a fundamental shift away from the historical incremental service approach to budgeting. Incremental budgeting has its advantages in a stable environment, but the disadvantages are:
 - a. backward looking – a focus more on previous budget rather than future operational requirements and objectives;
 - b. does not allow for overall performance overview, linked to service rather than strategic priorities;
 - c. often underpinned by data or service provision which is no longer relevant or is inconsistent with new priorities;
 - d. encourages systemic inertia and 'silo mentality';
 - e. tends to be reactive rather than proactive; and,
 - f. assumes existing budget lines are relevant and satisfactory.

16. The scale of the challenge requires a radically different approach to the budget. The financial challenge faced by the Council will mean that all areas of council service activity will be impacted significantly. There will be no “business as usual”. The reality is that the Council will look very different following the fundamental review. This is not about doing less with less but about ***doing the right things with the limited resources at our disposal.***

Three-Year Budget Approach

17. This approach is not a short-term solution but rather a process that needs time to be embedded as the new normal.
18. The impact of the COVID crisis and associated volatility on funding and demand requires the Council to establish financial plans over a longer time period. Effective financial planning will require appropriate use of reserves to enable the plans to be developed and implemented so that financial sustainability can be maintained. The funding held in reserves can buy the Council the time to deep dive into the approach to enable proposals to be fully developed and agreed for years two and three. Each year, the process will then roll forward so that in effect we are always working towards the final year of the three-year cycle.
19. Some savings and efficiencies will need to be developed for 2022/23. There is still a requirement to produce a balanced budget in February 2022 reflecting the latest MTFS estimates, and the outcome of the Local Government Finance Settlement expected on 16 December 2021. It is imperative that the reshaping of the Council's services begins now.
20. Many of these areas of challenge will overlap and cannot be viewed in isolation. They will require a cross-council approach and a focus on strategic objectives of Making Gateshead a Place Where Everyone Thrives.

Refresh of Outline Approach

21. Cabinet is asked to approve two steps as part of the approach which will run in parallel:

➤ Priority Zero Based Budget Challenge

22. All current activity and budgets will be rigorously assessed against priorities and performance framework to deliver options for budget savings. This may include:
- Review of management and structure
 - Review of activities supporting the wider organisation
 - Review vacant posts
 - Potential reprioritisation of invest to save
 - Assessment of low Priority/Low Value activities
 - Consideration of statutory levels of service and discretionary activities
 - Assessment of performance impact of reduction or withdrawal of resources

23. Prioritisation will include identification of minimum levels of statutory service and potentially areas of discretionary services that can reduce or cease altogether. Each line of the budget will be scrutinised and will need to be justified. This can be categorised into two approaches to facilitate decision making:

- **Efficiency** - options that do not change the nature of the existing service, but focus on it being delivered more efficiently and effectively;
- **Stop / Reduce** – options that stop or reduce the level of service provided, or reduce the number of clients it is available to.

24. A set of principles will be developed to ensure a consistent approach. The objective is to review the service base budget against Council objectives, consideration of cease and/or reduce discretionary and statutory areas, potential consultation requirements, and consideration of potential reduction in service standards. Ultimately, the outcome will be the development of budget cuts and savings options that can be taken forward for wider consultation.

➤ **Priority Based Transformation Areas**

25. Agree a programme of Priority Based Transformation areas. All programme areas to have agreed and explicit financial targets and be managed and delivered to agreed timescales. A proposed approach is outlined in Appendix 2. Many of these areas will be cross-cutting and cannot be viewed in isolation.

26. These will be the longer-term challenge areas with a focus on delivering Council services differently to manage down demand, and a lead will need to be identified to drive each programme area forward. Regular reports will be required to update on progress, including the financial, HR, legal and equality and diversity consultation implications as they become clear.

Use of Reserves

27. The Council keeps a level of reserves to protect against the risk of uncertainties or unforeseen major one-off events. This is considered best practice and demonstrates sound financial planning. The use of reserves will not in itself resolve a budget problem, but it can allow for smoothing of impacts or allow the time to address issues.

28. The MTFS reported to Cabinet on 19 October 2021 agreed a review of reserves and created a Budget Sustainability reserve of £20m to help support the timing of achieving significant budget savings whilst still dealing with the impacts of the pandemic. In addition, the MTFS assumes the use of significant temporary funding of £17.991m held to mitigate pandemic impacts. Cabinet, in February 2022, will agree the final position on the use of reserves as part of the Budget and Council Tax report.

29. The approach assumes a use of significant levels of reserves to smooth the timing over the three-year approach. The risk of using reserves of this magnitude is significant and it is therefore critical that the outcome of the budget approach enables the Council to secure and maintain a sustainable position in the medium-term without further reliance on reserves.
30. The challenge to the base budget will include revisiting current commitments against reserves.

Meeting the Challenge

31. Responding to the challenge will not be an easy journey and will require difficult decisions, potentially on a scale not yet experienced. There is a requirement for an absolute clarity on priorities and a need for an understanding of the relative importance of key areas of activity and desired outcomes.
32. The approach should seek to mitigate the effects of funding reductions through cost-effective interventions that achieve better outcomes at lower costs, reassessment of priorities, service redesign and/or better targeting of resources.

Consultation and Engagement

33. The Leader of the Council has been consulted on this report.
34. The Trade Unions have been consulted on this report. Their response is:

“We recognise despite the government rhetoric - austerity continues at pace across Local Government and wider public services, whilst the demands from our communities continues to rise. We further recognise and understand this is a critical period; consequently, the council needs to fundamentally change its budget setting approach. This new budget approach needs to have service delivery, performance, benchmarking, organisation/political transparency as key cornerstones. The review needs to concentrate on providing services that will deliver the best outcomes for the people of Gateshead. It needs to be transparent and complete, reviewing all council services. We would welcome more objectivity, a fresh set of eyes from external peer support specialists like APSE who have a public service ethos in supporting local councils develop the financial objectives needed to deliver high-quality, effective, and efficient public services”.

Council Approach to Consultation and Engagement

35. The Council is committed to representing the needs and views of residents. The Council recognises consultation as a key part of policy formulation and makes considerable effort to ensure that the views of residents, businesses and other key stakeholders are taken into account.

36. As part of our communication and engagement approach to setting the budget during the next three years, the Council has a commitment to consult with the business community and voluntary and community sector on proposals and also seek to engage all residents in a wider conversation about how the budget is spent.
37. The Council currently undertakes a number of different approaches to engagement on the budget as follows:
- Population survey on budget themes and issues, including use of ViewPoint consultation panel, together with online surveys to enable residents to give their views on key issues. These surveys are widely promoted across our key channels (website, social media, newsletter, partner networks).
 - Complementary to this the Council has also engaged and consulted with service users on specific proposals – services and teams consult service users on specific proposals relating to a particular service.
 - The Council also undertakes wider engagement, including with voluntary and community sector organisations, businesses and key strategic partners in the borough.
38. As part of our commitment to increase involvement and engagement in decision making, this year, the proposal is to undertake two phases of activity in order to enable residents and partners to consider the council's medium term financial position with a more detailed focus on the service specific proposals in 2022/23. This approach is set out below.
39. **Phase 1** – This will provide an opportunity to engage residents and partners in the strategic approach and public service challenges facing the borough over the coming years. This will include a focus on:
- Sharing the strategic context and direction.
 - An increasingly open and transparent communication of Gateshead Council's budget and challenges - using the Medium Term Financial Strategy (MTFS) to frame a conversation about the borough's finances over the coming years and our budget strategy.
 - Build greater public awareness of the financial challenges and decisions faced by the Council.
 - Accompanying online and face to face consultation, asking for views on the broad budget strategy, as well as service specific engagement on individual proposals.
 - Strategic engagement on budget with key strategic partners.
 - Opportunity for some joint activity with local media (e.g. Q&A events).
 - Increased opportunity for the Corporate Resources Overview and Scrutiny Committee in the budget setting process.
 - Partner 'deep-dive' sessions - events focusing on some key specific opportunities / issues / challenges each year, bringing together key partners e.g. focussed economic development and we could then focus on different theme areas each year, developing boroughwide perspectives on key public service challenges.

- Shared campaign for change - continue to make the case to Government for a fairer financial settlement for Gateshead.
 - Demonstrate our coherent approach to delivering solutions (i.e. public service reform/improved 'Gateshead offer' across all public sector bodies; supporting fairer economic growth; and climate change response).
40. **Phase 2** - we will focus more heavily on specific proposals which emerge in support of the 2023/24 budget. This will include a focus on:
- The role of service-level consultation on specific budget proposals, which is a critical part of our budget setting approach. This approach includes pre-proposal dialogue with those likely to be affected by budget cuts if they can be specifically tied into a proposal, together with an Integrated Impact Assessments (IIAs) of the full budget and specific IIAs of contentious areas.
 - An essential part of our engagement approach will include reaching out to the wider population in Gateshead. An option within this phase could include a Residents Survey, to better understand the perception and views of those living in Gateshead. This would feed in directly to the budget consultation exercise.
 - All activity would be supported by the Council's Communications and Engagement team.
41. The Council's budget planning framework is supported by the development of IIAs. These include identifying the possible disproportionate impacts in relation to protected characteristics as described within the Equality Act 2010 and propose possible mitigation where applicable. Further consideration will be given to the Public Sector Equality Duty (2012).

Alternative Options

42. 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 these to the estimated funding available over that time.
43. Options to close the budget gap will be considered following the provisional Local Government financial settlement expected on 16 December 2021 and confirmed in the final settlement expected in January 2022, and when the budget is set alongside potential increases in Council Tax.

Implications of Recommended Option

44. **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 £45m that is identified in the Medium Term Financial Strategy.

- ii. The Council's provisional financial settlement will not be known until late December and this will be expected to be confirmed in January following consultation by the Government, at which point assumptions around Council funding levels for 2022/23 will be clarified.

- 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.
45. **Risk Management Implication** – There are no direct risk implications arising from this report. The use of reserves over the three-year budget approach carries a significant risk to the Council's sustainability if savings are not identified and delivered. Any implications arising from the budget approach will be the subject of future reports.
46. **Equality and Diversity Implications** – There are no direct equality and diversity implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.
47. **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.
48. **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.
49. **Climate Emergency and Sustainability Implications** - There are no direct climate change and sustainability implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.
50. **Human Rights Implications** – There are no direct human rights implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.

51. **Ward Implications** – All wards are covered by the approach set out in this report.

52. **Background Information:**

- Budget – Approach to Recovery 2021/22 – 15 December 2020
- Budget and Council Tax Level 2021/22 – 23 February 2021
- Medium Term Financial Strategy 2022/23 – 2026/27 – 19 October 2021

**Draft Budget Approach 2022 to 2024
Priority Based Transformation**

Appendix 2

<u>Cross Council Review</u>	<u>Principles</u>	<u>Working Links</u>	<u>Milestone</u>
Cross Council – Thriving Place, Locality Working	Establish assets and services to be used to deliver locality working model this includes future plans for hubs. Plan to include pandemic response	Housing improvement plans Asset review Working with VCSE Capital plans Climate change aims	Develop three-year plan by December 2021 as this informs other future service delivery requirements Indicative savings to be agreed for each of the 3 years
Cross Council - Asset Review	Productive use of land and assets to deliver Thrive outcomes. Includes property & assets & facilities management arrangements. Rationalisation of offices and other buildings aligned to post-pandemic approach to new ways of working. Consideration of future ways of working. Approach to hybrid offer and office requirements	Locality Ways of Working Digital and Customer Services Working with VCSE Capital plans Climate change aims	Current saving of £250k to be achieved by March 2022. Subject to separate action plan Indicative savings to be agreed for each of the 3 years
Cross Council – Housing Improvement Plan	Delivery of the strands of the Housing Improvement Plan. Including HRA funding.	Asset Review Locality Working Digital and Customer Services Working with VCSE Capital plans Climate change aims	Develop three-year plan. Indicative savings to be agreed for each of the years. This will run alongside the Council general fund work
Cross Council – Thriving Economy & Business	Economic Strategy/plan outcomes Approach to jobs and employment and support to business	Locality Working Climate change aims	Develop three-year plan. Indicative savings to be agreed for each of the years.
Cross Council Taskforce - Adults	Cross Council support to managing demand and fees pressures. To include pandemic response.	All council services support Capital plans	Develop three-year plan Indicative savings to be agreed for each of the 3 years
Cross Council Taskforce – Children’s	Cross Council support to managing demand and fees pressures. To include pandemic response.	All council services support Capital plans	Develop three-year plan Indicative savings to be agreed for each of the 3 years

Priority Zero Based Budget Challenge

<u>Review Areas</u>	<u>Principles</u>	<u>Working Links</u>	<u>Milestone</u>
Children's Adults and Families Public Health & Wellbeing Housing Environment & Healthy Communities Economy Innovation and Growth Corporate Services & Governance Resources and Digital Office of Chief Executive Other Services	Assess all current activity and budgets against priorities and performance framework, assess options for budget savings. This may include; <ul style="list-style-type: none"> • Review of management and structure • Review of activities supporting the wider organisation • Review vacant posts • Potential reprioritisation of invest to save • Assessment of low Priority/Low Value activities • Consideration of statutory levels of service and discretionary activities • Assessment of performance impact of reduction or withdrawal of resources 	Cross Council Reviews	Develop Indicative savings options