Gateshead Council

Medium Term Financial Strategy 2023/24 - 2027/28

1.Summary

This Medium-Term Financial Strategy (MTFS) sets out the forecast financial resources that are needed and also that are available for the Council to deliver its key priorities. Since the last MTFS was agreed by Council in October 2021, a number of factors have affected the financial outlook for the Council.

Externally, the war in Ukraine and the pandemic has led to inflation increasing beyond the provisions in the previous MTFS, with the cost-of-living crisis notably around food, fuel and utility prices across the country.

Internally work has begun to identify and address the in-year inflationary pressures and progressing the three-year budget approach agreed in December 2021. This approach was in line with the agreed approach for the planned use of reserves of £20m to allow time to identify cuts and efficiencies required over a three-year planning period.

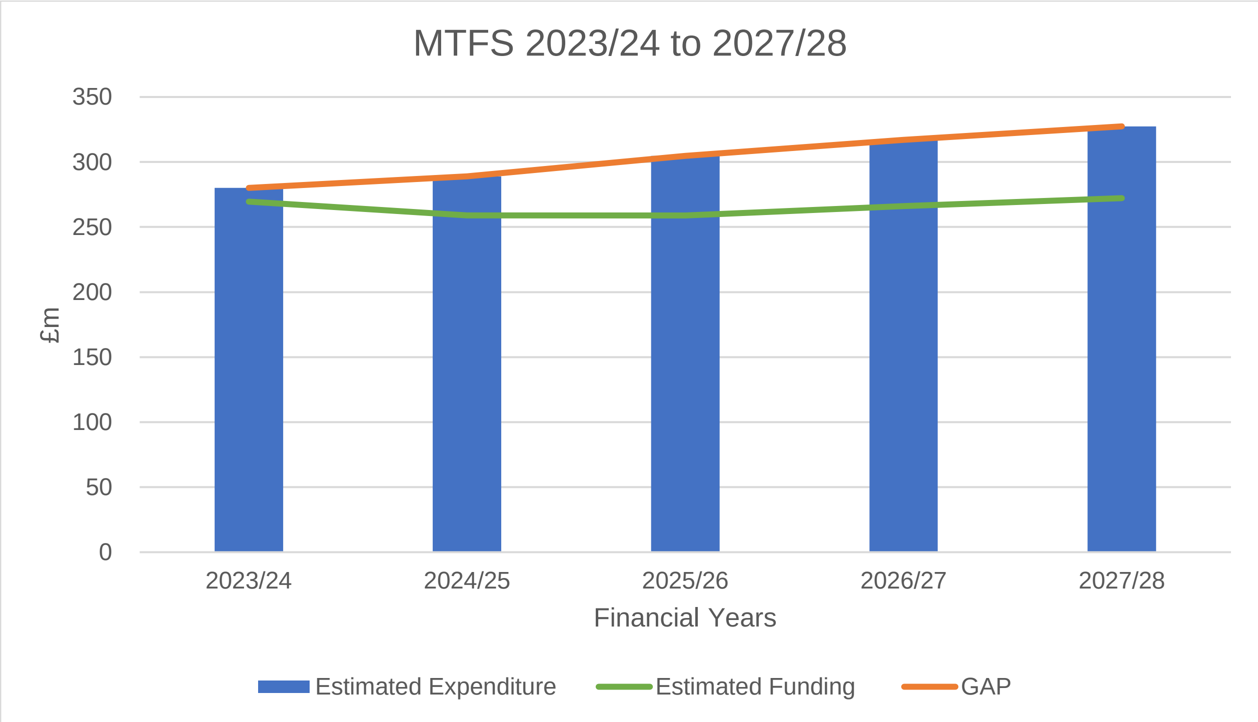
Based on local estimates outlined in this report, the council estimates that overall, it will need to close a cumulative financial gap of £55m to 2027/28. In calculating the gap, £14m reserves has been applied over the medium term in line with the agreed approach (£6m in 2022/23). In addition, the gap assumes use of pandemic reserves of £8.9m in the current year, £13.5m in 2023/24 and £3m in 2024/25.

This gap can be summarised as follows (there may be slight differences due to roundings):

2022/23 £m	Indicative Budget Forecast	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
254.304	**Estimated Base budget**	280.117	288.867	304.807	317.093	327.410
(254.304)	**Estimated Funding Resources**	(245.941)	(252.008)	(258.895)	(265.981)	(272.218)
	Funding Gap (before Reserves)	34.176	36.860	45.912	51.112	55.191
	Pandemic Reserves	(13.520)	(3.065)			
	Budget Sustainability Reserve	(10.000)	(4.000)			
	Total Reserves	**(23.520)**	**(7.065)**	0.0	0.0	0.0
	Minimum Cumulative Funding Gap	10.657	29.795	45.912	51.112	55.191
	Minimum Annual Funding Gap	10.657	19.139	16.117	5.200	4.079

The budget gap is predominantly driven by the significant ongoing impact from demand pressure (for social care) and inflation on the Council's cost base in 2023/24. This is forecast to increase core costs by £25.813m in 2023/24.

Although we expect some compensatory increases, the funding resources initially fall back in 2023/24, due to the continuing uncertainty of the Government settlement but then slowly increase, largely due to the potential impact of council tax increases.
This can be presented graphically as follows:



After the planned use of reserves the gap for 2023/24 is £10.657m – Securing savings to support closure of a gap at this level is a significant challenge but will be assisted by the emerging work on the delivery of the budget approach and through the delivery of change to align resources to priorities to enable residents of Gateshead thrive.

Since the start of austerity, the Council has made substantial cuts and responded to demand pressures to deliver £179m budget savings. Despite ongoing financial challenges, the Council has delivered against its revenue budget since 2010 showing strong and stable financial management with an outstanding record of budget delivery.

The budget gap as identified within this MTFS will present a significant financial challenge that will be met by a Council wide approach driven by the delivery of Council priorities.

2.The Purpose, Priorities and Principles of the Medium-Term Financial Strategy (MTFS)

What is the Medium-Term Financial Strategy?

This Medium-Term Financial Strategy outlines our approach to setting out the Council's financial future over next five years (2023/24 to 2027/28).

Purpose and priorities

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 the delivery of Council priorities. The Strategy describes the financial direction of the Council for financial 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.

The MTFS establishes the likely level of revenue resources available to the Council over the medium term and estimates the financial consequences of the demand for Council services. It improves financial planning and strategic financial management through providing the financial context within which the Council budget will be set.

The review also allows for consideration of the Council's reserves policy and level of reserves to ensure there is adequate protection against unforeseen events.

In the current financial climate, the Council's principal financial aim is to continue to effectively align scarce resources to support Council priorities.

The Council's strategic approach, **Making Gateshead a Place Where Everyone Thrives -** provides a framework to demonstrate how the Council will work and make decisions in the future which will be policy and priority-led and help resource the impact being made on delivery of the Health and Wellbeing Strategy. It is predicated on the following Council 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**

The Council's MTFS sets out the financial context for the Council's resource allocation process and budget setting. The Councils 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.

There are huge financial pressures on not just Council resources, but those of partners, local businesses, and residents. The Council will continue to work with partners, other organisations, residents and communities to deliver positive outcomes.

To remain affordable and deliver sustainable public services, the MTFS has three main objectives: -

- Consider the scale of financial challenges over the medium term and take appropriate actions to achieve financial sustainability and a balanced budget year on year.
- Ensure the Council aligns its funding to deliver against priorities.
- Prioritise capital schemes based on deliverability of tangible outcomes whilst considering the context of the overall capital and revenue affordability.

Approach and principles

The MTFS is consistent with the priorities the Council is pursuing. The principles underlying the MTFS 2023/24 to 2027/28 are as follows:

- The overall financial strategy will be to ensure that the Council's resources are directed to the Thrive agenda framework. Financial sustainability will be achieved and maintained through targeted investment, reducing costs and more efficient ways of working. The Council's MTFS will be reviewed on at least an annual basis.

- The Council will consider a range of delivery mechanisms and funding sources to support capital investment to deliver thrive priorities, including the use of prudential borrowing, and will ensure that the full costs associated with financing the investment are considered when investment decisions are taken.

- 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 at least annually.

- 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.

- 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 the thrive framework and the need for services.

- The Council will meet its financial obligations and maintain financial sustainability through the setting of a balanced budget and the delivery of outturn within the overall budget each year.

3.External (Cost) Pressures

The Council is facing numerous financial challenges from external factors which it needs to overcome if it is to remain on a sustainable financial footing. (Also see PESTEL analysis in supporting information)

Inflationary Pressures (Unavoidable)

Since February 2022, the war in Ukraine has led to inflationary increases, notably around food, fuel and utility prices, which are affecting the economy generally. The average inflationary pressure anticipated for the year was +2%. The Consumer Price Index (CPI) is now 10%, with Retail Price Index (RPI) at 12% based on the current Office for Budget Responsibility (OBR) forecast. There is uncertainty as to when or if these will fall back to previous levels.

Energy Costs

2022 is an unprecedented year in relation to energy costs with +100% increase in both Gas and Electricity costs with expectation to rise further in 2023/24.

Pay Award / National Living Wage (NLW)

This cost pressure relates to the cost of pay awards agreed for employees of the Council as well as agreed pay increments. Local Authority pay awards are determined through the national bargaining process rather than being mandated by Government. Pay award 2022/23, (offer status) made by the National Employers is significantly higher than previously estimated. Any pay award or NLW increases is unfunded from Government and must be met from settlement funding which puts additional pressure on the Council's budget.

In May 2022, the Council agreed to take steps to address low pay in the workforce and this work will continue.

Government response to Cost-of-Living Crisis (The Government's Growth Plan 2022 and 'Mini Budget')

- **Energy Bill Relief Scheme -** On 21 September 2022 the Government announced a six-month scheme for businesses and other non-domestic energy users (including Local Authorities). This is welcome news as prices have been significantly inflated in light of global energy prices. After this initial six-month scheme, the Government will provide ongoing, focused support to vulnerable industries. There will be a review in three months to consider where this should be targeted to make sure those who most in need get support. No further details are available at this time.

- **Reversal of the Health and Social Care Levy -** On 22 September 2022, the Government announced cancelling the Health and Social Care Levy, initially introduced via a 1.25% percentage point rise in National Insurance contributions, which took effect in April 2022. This will come in two parts; reduction of NI rates from 6 November 2022, removing the temporary 1.25% for the remainder of 2022/23 and the 1.25% Health and Social Care Levy will not come into force as a separate tax from 6 April 2023 as previously planned. The Government have committed to maintaining the additional spending on health and social care that was associated with the introduction of the Levy. This will result in lower employers NI costs for the Council than previously anticipated. However, it should be noted Local Authorities were identified as receiving funding as part of the Service Grant and would expect this to be reduced to offset, therefore no expected saving to the council.

- **Plan for Patients -** In addition to the above on 22 September 2022, the Health and Social Care Secretary released a "Plan for Patients'. This included £500m of additional funding into Adult Social Care to help people get out of hospitals and into social care support.

- **Government's Growth Plan 2022**

  The Chancellor announced the Growth Plan 2022 on 23 September with potential implications for Local Government as set below:

  - **Investment Zones** – New zones are intended to drive growth and unlock housing across the UK by lowering taxes and liberalising planning frameworks to encourage rapid development and business investment. Government has written to all local leaders to invite discussion. The Secretary of State will shortly set out the selection criteria to become and Investment Zone and the process for designated sites within.

  - **Universal Credit** – Rules are to be tightened by reducing benefits if people do not fulfil their job search commitments.

  - **Planning and Infrastructure Bill** – There are plans to accelerate new roads, rail, and energy infrastructure. New legislation will cut barriers and restrictions making it quicker to plan and build new roads etc. Further information and guidance is not available at this time.

  - **Housing** - The Government aims to accelerate the disposal of public land for housing development.

- **Cost of Borrowing** – On 22 September, the Bank of England increased its rate from 1.75% in August 2022 to 2.25% in response to rising inflation. It is anticipated that the base rate will continue to increase over the next few months as the Bank looks to reduce inflation to 2% and provide certainty in the financial markets. Any increase in the base rate or further uncertainty in the economy could translate into increased cost of borrowing.

Gateshead Context (Challenges)

Over the years all local authorities have faced significant cuts to their funding from central government because of austerity, at a time when pressure on core service delivery has increased, particularly in Children’s Services and Adult Social Care. Many Councils have been forced to abandon spend on preventative measures to fulfil their statutory duties.

- **Cost of living Crisis**

  Current financial outlook in terms of rising inflation and interest rates as well as cost of living risks, notable around food, fuel and utility prices that our residents and businesses are facing.

- **Continuing economic uncertainty of the pandemic**

  The pandemic has both exacerbated and magnified the precarious state and volatility of local government funding which was already under strain. Despite receiving emergency funding, it is likely that the Council will experience longer-term impacts of the pandemic, the impacts of increasing demand for services, and potential reduced Business Rates and Council Tax income. Direct Government support in relation to the impacts of covid has now ended.

- **Lack of Funding Reform to Address Areas with High Needs/Low Tax Bases**

  Longer-term reform of local government funding has been delayed and a structural solution is needed to meet the many statutory duties and demands placed on local authorities.

  Over the last decade, Government strategy to reduce reliance on grant and localise funding has resulted in moving ever-larger amounts of funding away from councils who have the highest need to those who can grow the most resource locally. The change of emphasis in how funding has been allocated has benefited councils with low needs, a large and growing council tax base, and a thriving business estate, by comparison to authorities like Gateshead with high needs and low council tax and business rate base.

  The Government has confirmed that the fair funding reforms initially consulted upon in 2016 will not be implemented in the 2023/24 settlement.

- **Social Care Funding**

  The funding for social care is already complex and the way in which funding is being considered for the charging reforms via short term grant allocations is going to further exacerbate this, and the reforms do not address the fundamental failings within the social care funding system.

  Adult Social Care represents the largest budget with significant demand pressures. The lack of clarity around the future funding for social care beyond the very short term makes it difficult to budget and resource effectively without risk to the Council.

- **Brexit Impacts**

  The medium and long-term implications of Brexit remain unclear and are still emerging and will continue to do so for some time to come, but they can be summarised as shortage of labour, shortage of goods and materials including longer lead in times and price increases.

- **Twelve Years of Austerity**

  An early consequence of over a decade of funding cuts has been cuts to preventative spend. As funding fell and demand for services grew, many councils have been forced to abandon spend on preventative measures to fulfil their statutory duties. The cumulative impact of years of cuts has a significant impact on communities. This Council has consistently lobbied the Government over the disproportionate cuts to funding which impact unfairly on local authorities with high levels of deprivation, and low tax bases.

- **Short-term and Late Funding Settlements /One-off tranches of Funding**

  One-year local government settlements hinders councils' ability to plan over the period of the MTFS, something which is crucial to deliver investment, valued local services and support to vulnerable residents. This situation is compounded by the lateness of financial settlements in the budget setting timetable with major grant funding announcements as late as February and some made after the budget is set in February.

  Whilst additional funding is always welcome, short term annual funding leaves councils and partners unable to plan service delivery over the medium/long term. It hinders the ability to recruit and put long term stabilising measures into action.

  The changing landscape to accessing funding has recently seen Local Authorities having to bid for additional funding. Furthermore, many of these specific grants are competitive, ringfenced, lower value which are then resource intensive to bid for and manage. Gateshead has been successful in the bid to the UK Shared Prosperity Fund; however, there is an expectation costs will offset the funding therefore not included in the MTFS forecast.

- **Pressure on Reserves**

  Reliance on use of reserves for permanent budget requirements is not a prudent and sustainable approach in the long-term but can be used, where appropriate, to pump prime invest to save initiatives or in a planned approach to bring permanent budget savings. The Council's balances are at a minimum and with many competing demands these must be managed effectively.

- **Devolution**

  The Government announced, in the Levelling Up White paper in February 2022 that discussions are to be held with county areas with regards to a new devolution deal. Any impact of devolution discussions is currently not included in the MTFS forecast.

4.Council's Current Financial Position

Revenue Outturn 2021/22

Through the pandemic and lockdown restrictions over the last couple of years, the Council has risen to the challenge. Recovery from the pandemic and learning to live with covid has started across all services of the Council to help the residents of Gateshead. Cabinet agreed in June 2022 a net revenue budget of £238.758m. The overall outturn position for the Council resulted in a surplus of £0.431m. The positive year-end position is a testament to the collective approach taken by groups and services to keep pressures under review within the financial year and ensuring that action was taken in a timely manner to ensure outturn within budget. Effective financial management has ensured that all covid funding resources and time limited funds have been maximised alongside consideration of setting aside funding for future pressures and lost income.

The Council has a strong and stable financial base with an outstanding record of budget delivery. Since the start of austerity, the council has made significant cuts and responded to demand pressures to deliver £179m of budget savings.

Revenue Budget 2022/23

On 24 February 2022 the Council agreed a revenue budget of £254.3m which was balanced through planned use of £5.8m of reserves. This approach was in line with the agreed three-year approach for planned use of reserves to allow time to identify cuts and efficiencies.

Given high inflation and demand the expectation that delivery of the budget will be under significant pressure. This is evident in current year monitoring and projections.

5.Financial Challenge Beyond 2022

Medium term financial planning remains extremely difficult due to significant uncertainty amidst international issues, the national economy and cost of living crisis, coupled with the delays to finance reforms, which are now unlikely in this parliament.

The level of funding beyond 2022/23 has not been specified by Government resulting in greater risks in relation to the localisation of business rates and the local council tax scheme. The unknown impacts alongside the level of risk to finances mean that all forecasts will need to be closely monitored and potentially refreshed more frequently than usual as consequences become clear. Staying the same will not be an option for the Council. The Council will be required to change to deliver its priority outcomes within the limited funding available.

In response to the impact on the economy that the inflationary pressure is causing, the Bank of England has increased its base rate from 1.75% in August 2022 to the current rate of 2.25% on 22 September 2022.

Any increase in the base rate or further uncertainty in the economy could translate into increasing the cost of borrowing should the Council need to borrow for the Capital Programme. This will have a corresponding impact on the revenue budget and business cases for projects included in the capital programme.

The financial impacts of the pandemic are expected to continue this year and beyond. The Council has set aside funding from reserves to cover cost pressures and lost income and therefore these impacts are neutral early in the MTFS estimates. This will need to be kept under review. Impact on council tax and business rates funding has been included as these are being managed over three years. Impacts are kept under regular review within the revenue budget monitoring framework.

For planning purposes provision is included for the impact of pay awards and estimated impacts of the National Living Wage which are unfunded by government.

Savings proposals will have staffing implications. These will be managed through the Council's Redundancy Policy and Procedure as necessary. At this stage it is proposed that any cost of redundancy payments and the release of pensions (if applicable) as required by the LGPS Regulations will be met from within the overall corporate resource position at outturn each year, should the position allow. This position will be kept under review and updated as part of the budget proposals to Cabinet.

Economic Growth

Local economies are linked to national economic growth. Our vision for Gateshead is of a fairer, greener and more resilient economy that enables everyone to thrive and delivers good jobs, growing businesses and great places. The Council aims to promote a strong and sustainable local economy leading to wellbeing and prosperity for residents, communities and businesses. This will be supported by a planned approach to investment to boost local economic growth such as improving local infrastructure and wider transport links. Success in this area will enable the Council to have a stronger medium- and long-term financial position and allow redirection of resource to activities which protect the most vulnerable.

The Council faces challenges with additional burdens relating to Planning and Building Control due to the changes in legislation with the new Building Safety Act 2022 coming into effect early 2023.

From a financial perspective the Council will look to invest resources to generate economic growth that may result in increased business rates and council tax income to the Council. This may contribute to closing the financial gap.

Significant Challenges in Social Care

Adult's Social Care

Adult social care experience pressures year on year in relation to increasing demand for services due to the increase in population of older people and pressures due to fee increases in the commissioned sector. These pressures are expected to continue and be exacerbated for the short, medium and long term.

In December 2021 the Government published the People at the Heart of Care Adult Social Care Reform White Paper. The Paper sets out a 10-year vision that puts personalised care and support at the heart of adult social care. It includes plans to fundamentally reform the amount someone might pay for their care over their lifetime and significantly raises the threshold at which people start to pay for care. The charging reforms together with the requirement to undertake a market sustainability and fair cost of care exercise will come with significant cost pressures and the adequacy of the government funding to meet these costs is unclear. The funding for social care is already complex and the way in which funding is being considered for these reforms via short term grant allocations is going to further exacerbate this, and the reforms do not address the fundamental failings within the social care funding system.

The proposed charging reforms come at a time of other significant reforms such as the introduction of assurance across all adult social care and following the backdrop of a global pandemic which has severely impacted social care demand.

The discharge to assess model is resulting in people with more complex needs being discharged from hospital sooner which is inevitably having an impact upon social care spending.

Despite the increasing demographic pressures on social care through an ageing population and the increasing need of individuals requiring support, the workforce vacancy rates continue to be an issue and consequently people waiting for care and support, often in more expensive settings, is increasing.

In response to some of the challenges the Council is analysing our workforce data to understand the size of the challenge going forward. Regionally and locally, we are developing new and innovative approaches to workforce recruitment and retention across the health and care sector, however this is against a backdrop of a high wage economy policy, and a challenging labour market in other sectors, which compete with social care such as retail and hospitality.

Children's Social Care

With regards children's social care, The End Child Poverty coalition reports the North East as having the second highest rate of child poverty at 38% and this region has seen the steepest rise in the last 5 years. The North East Child Poverty Commission's report in September 2022 reminds us that the NE has gone from having a child poverty rate below the UK average to the highest of any UK nation or region in the space of seven years and that is even by the government's preferred measure of 'absolute child poverty', which has fallen marginally across the UK since 2014/15. All 12 NE local authorities feature in the top 20 local authorities nationally that have seen the sharpest increase in child poverty between 2015 and 2021.

Around 16% of Gateshead residents live within the most deprived 10% of neighbourhoods in England and many of the families open to Children's Social Care and Early Help live in the most deprived areas of the borough. Research available leaves little doubt of the clear evidence linking the impact of deprivation to risk for children, and subsequently higher levels of demand for statutory social care and early help services.

Locally in Gateshead some significant pressures are emerging. Over the course of the pandemic, since March 2020 to present, there have been substantial increases in referrals and demands and for services. Caseload numbers in children's social care since March 2019 are as follows:

31 March 2022 – 1,979
31 March 2021 – 1,697
31 March 2020 – 1,587
31 March 2019 – 1,505

This is a 31% increase since March 2019 and assuming a caseload of 20 children per social worker a requirement of 23 additional posts. Numbers have started to fall recently and were 1,869 as at 31 August 2022.

For too many of our families, life with a range of issues such as domestic abuse, poor mental health, the impact of trauma, coupled with significant poverty creates a complex and unequal system which leaves many families ill equipped to provide the safe nurturing environment for their children that they crave, and their children need.

Gateshead Council had circa 510 looked after children (end September 22) costing on average £40,000 per child annually. This compares to:

31 March 2022 – 484
31 March 2021 – 440
31 March 2020 – 414
31 March 2019 – 379

This is a 33% increase since March 2019. The national and local increase in safeguarding pressures is the result of a complex myriad of factors, including longer term pandemic impacts which are still to be recognised. The internal residential estate in Gateshead has grown in recent years, however this has not been able to meet the increased demand seen in the system because of overall numbers of children.

The outsourcing of placements comes at a higher cost, the most expensive of which is costing £24,000 per week currently. This is not only occurring due to increased complexities of need for the children in the system but also due to the increased numbers of children requiring placements. Increased activity set out above has resulted in a significant impact on the social care workforce with caseloads per social worker increasing which will also need to be kept under review.

Looking Ahead Threats

- Cost of living crisis and high inflation rates if these continue to rise.
- Any unachieved budget savings in the agreed savings programme leading to pressure the following financial year
- Continued growth in demand in Adult and Children’s Social Care Services and funding reforms are insufficient to address this;
- Unfunded pay pressures such as public sector pay award and the Governments National Living Wage aspirations, which also impacts on negotiations with care providers and commissioning costs;
- The performance of traded and investment income linked to wider economy;
- Significant uncertainties on the pandemic impact on income from business rates and council tax and fees and charges;
- The financial impacts of the UK’s vote to leave the European Union (EU) and the current uncertainty which is likely lead to instability in the short to medium-term.
- Challenges in recruitment and reductions/ shift in work force from working in social care/ linked to competing industries such as retail, hospitality;
- Addressing the health, employment and poverty inequalities that the pandemic has added to;
- Increased demand for welfare, mental health services and debt advice
- Increased demand for business advice and support.

Looking Ahead Opportunities

- Review all Council services to focus resources on the delivery of priority outcomes and shaping the Council to how it needs to be in the future to withstand other pressures and delivery priorities
- Embrace and embed new ways of working arising from the pandemic such as putting the customer first, more efficient working practices staff resilience and adaptability
- Opportunity to accelerate climate change targets through reduced building use and travel
- Accelerating and building on working with communities in hubs alongside the voluntary sector and other partners
- Embracing the move to self-service and online services to provide a quick and streamlined service
- Opportunities to rationalise Council buildings and assets
- Working closer in partnership with key partners such as the voluntary sector, health partners and the Police and Crime Commissioner to help residents to thrive
- Following the housing review the ability to drive forward housing delivery and provide a good service to tenants.

6.MTFS Estimates

Hyper- inflation has exacerbated the uncertainties of accurate modelling adding pressure to the current year as well as forecasting for the future years impact, increased pay award and increased uncertainty around funding.

The MTFS has been prepared on best estimates using the current information we have to date amidst significant uncertainty about international issues, the national economy and cost of living crisis. Given the high uncertainty the impact of any changes to some of these assumptions and key risks are included in the supporting information. The table shows the financial gap expected over five years with the proposed use of reserves. These are shown in more detail within the review of reserves section.

In December 2021, the budget approach was agreed for planned use of reserves of £20m to allow time to identify cuts and efficiencies required over a three-year period 2022/23 to 2024/25. The scale of the challenge required a radically different approach to the budget. With reducing resources, the Council cannot keep doing everything it has previously done, so the approach needs to be more clearly linked to the hierarchy of delivering on thrive priorities through the Health and Wellbeing Strategy and the Economic, Housing and Investment Strategies.

Based on estimates outlined in this report, the Council will need to close a cumulative financial gap of £55m in the next five years. This impact will be mitigated temporarily through the agreed planned application of £14m budget sustainability reserve (£6m in 2022/23). In addition, the gap assumes use of pandemic reserves of £8.9m in the current year, £13.5m in 2023/24 and £3m in 2024/25.

This is an extremely challenging medium-term forecast. Using reserves in this way means that it is crucial to plan and deliver a schedule of savings, efficiencies and reinvestment to achieve a balanced budget in future years and to achieve Thrive priorities.

Budget Approach

The Budget approach incorporates the following activities:

- Priority Zero Based Budget Challenge
- Priority Based Transformation Programme
- Planned use of reserves

Work has commenced to generate options for budget cuts and savings and areas for investment within required timescales and guided by the budget approach framework. In February 2023, a report will propose a budget and council tax for 2023/24 to reflect statutory requirement to produce a balanced budget by 11 March each year and recommend this to Council in late February 2023.

The financial gap can be summarised as follows (there may be slight differences due to roundings):

2022/23 £m	Indicative Budget Forecast	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
254.304	**Net Revenue Budget**	254.304	280.117	288.867	304.807	317.093
	Adjustment (Contingency level to 3.5%)	**5.031**				
	Base Adjustments: Reserves budgets removed	(1.750)	(9.245)	0.00	(0.440)	0.00
	Inflation	8.107	3.894	3.961	4.028	4.097
	Demand Pressures	13.098	7.767	6.417	7.206	7.416
	Corporate Pressures	1.250	2.050	1.250	0.500	0.000
	Strategic Economic Investment (Capital)	0.077	4.284	4.312	0.992	(1.197)
254.304	**Revised Base Budget**	280.117	288.867	304.807	317.093	327.410
	Other Grants (Inc Public Health)	(63.830)	(64.635)	(65.455)	(66.294)	(67.152)
	Resources					
	Revenue Support Grant	(17.395)	(18.091)	(18.453)	(18.822)	(19.198)
	Top up/Equalisation	(15.355)	(15.355)	(15.355)	(15.355)	(15.355)
	Retained Business Rates	(41.884)	(42.722)	(44.587)	(46.511)	(47.440)
	Council Tax Base & Growth	(104.356)	(107.976)	(111.705)	(115.545)	(119.499)
	Council Tax /Council uplift	(2.077)	(2.149)	(2.223)	(2.299)	(2.378)
	Council Tax Potential ASC precept	(1.044)	(1.080)	(1.117)	(1.155)	(1.195)
(254.304)	**Total Resources**	(245.941)	(252.008)	(258.895)	(265.981)	(272.218)
	Funding Gap (before Reserves)	34.176	36.860	45.912	51.112	55.191
	Reserves					
	Pandemic Reserves	(13.520)	(3.065)	0.0	0.0	0.0
	Budget Sustainability Reserve	(10.000)	(4.000)	0.0	0.0	0.0
	Total Reserves	(23.520)	(7.065)	0.0	0.0	0.0
	Minimum Cumulative Funding Gap	10.657	29.795	45.912	51.112	55.191
	Minimum Annual Funding Gap	10.657	19.139	16.117	5.200	4.079

Table 2 – Rates (at a glance) used within the MTFS 2023/24 to 2027/28 assumptions

Assumptions	2023/24	2024/25	2025/26	2026/27	2027/28
CPI	10%	4%	2%	2%	2%
RPI	12%	5%	3%	3%	3%
Energy Increase	NEPO Guidance	2%	2%	2%	2%
Pay Inflation	1.75%	1.75%	1.75%	1.75%	1.75%
CTAX Increase (%)	1.99%	1.99%	1.99%	1.99%	1.99%
ASC Precept	1%	1%	1%	1%	1%

Capital investment must also be kept under review and clearly aligned to priorities and financial sustainability to ensure affordability and to manage risks. This will include a strategic investment plan to underpin the prioritisation of capital investment. All budget growth (excluding social care demand or fees) must be funded through planned savings.

The starting point for the above forecast is the 2022/23 net budget of £254.304m approved by Council in February 2022. The forecast assume delivery of this budget and ongoing costs are incorporated into the projections.

Inflation

Inflationary Pressures (Unavoidable) – The inflationary pressures identified in 2022/23 will have a cumulative effect across the MTFS period. It is anticipated that levels of inflation will not reduce significantly by the end of 2022/23 and therefore there is likely to be ongoing pressures during 2023/24 as well.

The CPI and RPI assumptions are based on current Office for Budget Responsibility (OBR) forecast and shown in table 2 above. CPI potentially impacts on both costs and funding.

Energy Costs – Energy costs are set within a North East Procurement Organisation (NEPO) framework. 2022 is an unprecedented year in relation to energy costs with +100% increase in both Gas and Electricity costs with expectation to rise further in 2023/24.

Fuel Costs – Fuel cost have risen significantly in 2022, although recently started to reduce but still high cost compared to 2021 with uncertainty as to future years.

Pay Pressures – Current Pay award 2022/23 made by the National Employers is significantly higher than previously estimated (5.7%). Assumed 1.75% pay award over future years which would be above the NLW set for 2024. For planning purposes provision is included for the impact of pay awards and estimated impacts of the National Living Wage which are unfunded by government.

Contractual Inflation – Rising costs to existing contracts.

Inflation	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	£m	**£m**	**£m**	**£m**	**£m**
Energy Increase (NEPO Guidance)	4.372	0.241	0.245	0.250	0.255
Other Costs (NNDR, Fuel , Insurance)	0.220	0.229	0.233	0.238	0.243
Pay Inflation (1.75%)	2.932	2.975	3.018	3.062	3.107
Contractual Inflation	0.583	0.450	0.464	0.478	0.492
Inflation	**8.107**	**3.894**	**3.961**	**4.028**	**4.097**

Demand Pressure (Social Care)

Increasing demand across Social Care in both Adult Social Care and Children's Services. This is due to the increase in population of older people fee increases in the commissioned sector in order to meet the cost of care. In addition, there are increases in demand pressure on Looked after Children and Care packages for children with multiple complex needs.

Demand Pressures	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	£m	**£m**	**£m**	**£m**	**£m**
Adult Social Care Demands	1.241	1.190	0.987	1.490	1.397
Adult Social Care Fees (External)	6.119	4.389	3.462	3.625	3.796
Childrens Social Care Demands	3.800	1.321	1.220	1.316	1.419
Childrens (s17 payments and individually commissioned placements)	1.938	0.867	0.748	0.775	0.804
Demand Pressures	**13.098**	**7.767**	**6.417**	**7.206**	**7.416**

Corporate Pressures

Cost pressures such as pensions costs, and a range of pay issues requiring a fundamental review of the whole pay and grading structure to tackle recruitment and retention issues and market pressures facing the Council, including job evaluation review covering all posts.

Strategic Economic Investment

The Council's capital investment plans are set out in the capital strategy and programme, with the latest approved programme covering the period between the 2022/23 and 2026/27 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.

All capital investment decisions 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.
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.

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. The generation of capital receipts to support the capital programme has historically been challenging, representing low land values and high remedial costs due to land contamination. It is currently assumed that £1m p.a. will be achieved through capital receipts and further consideration is needed into how the few potentially higher value sites can be brought forward to achieve improved capital receipts to support the delivery of capital schemes.

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:

- Investing in assets to enable the Council to meet its key objective of Making Gateshead a Place Where Everyone Thrives.
- Investment in housing to ensure the supply of housing best meets current and future needs and aspirations to create thriving, mixed communities throughout Gateshead.
- Investment to achieve the Council's climate change aspirations.

- 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 Urban Core 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 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.
- Meeting essential health and safety and mandatory obligations, such as Equality Act improvements, to improve the accessibility and sustainability of Council owned assets.

The financial planning framework provided by the MTFS will provide the context for a Council Investment Plan that will inform the allocation of resources within the capital programme.

Resources - Other Grants

Regarding funding changes, the New Homes Bonus scheme was due to be phased out by now, however it remains a key funding source for some councils. The New Homes Bonus money is in the Local Government system, and we anticipate that the funding would be redistributed via an alternative mechanism where the Council would expect to receive an allocation.

Regarding Better Care Fund, the Council has received inflationary increases in previous years and expects this to continue. Although the Improved Better Care Fund received a CPI increase in 2022/23, it has assumed cash flat in the current forecast as there is uncertainty this will continue.

Inflationary increases in respect of the Public Health Grant are anticipated. It should be noted if any funding formula are changed this could result in significant changes and potential reduction to grant. However, Government Departments may seek to mitigate the extent of any reductions to Councils that are adversely affected by formula changes by providing transitional arrangements.

Regarding Social Care reforms which will see the cost of care capped, it is anticipated that additional funding will pay for these reforms. Although the increase in funding may be significant, it will be coupled with new burdens. The MTFS has assumed that the reforms are cost neutral to the Council overall and not been included at this time.

In recent years, the Government have provided additional social care grants of which we assume will continue. There are well documented national pressures on Social Care, and the need for additional Social Care Funding has been prominent in the recent Government Leadership contest.

In 2022/23 the Council received a Lower Tier Services Grant of which we expect was one off in nature. However, the Council also received a new Services Grant which is anticipated will continue in some form of distribution to the Council.

Other Grants	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	£m	**£m**	**£m**	**£m**	**£m**
Social Care- Better Care Fund (CPI)	(7.796)	(8.186)	(8.432)	(8.685)	(8.945)
Social Care- Improved Better Care Fund (cash flat)	(11.387)	(11.387)	(11.387)	(11.387)	(11.387)
Social Care- New Social Care Grant (cash flat)	(12.343)	(12.343)	(12.343)	(12.343)	(12.343)
Public Health Grant (CPI)	(18.948)	(19.706)	(20.100)	(20.502)	(20.912)
S31 Business Rates	(8.837)	(9.014)	(9.194)	(9.378)	(9.565)
New Homes Bonus inc top slice return (£000)	(0.520)	0.000	0.000	0.000	0.000
New 2021 lower tier services grant. Removed for 2023/24.	0.000	0.000	0.000	0.000	0.000
New 2022 Services Grant - assume continues (£000)	(4.000)	(4.000)	(4.000)	(4.000)	(4.000)
Other Grants	**(63.830)**	**(64.635)**	**(65.455)**	**(66.294)**	**(67.152)**

Council Resources

There is still no clarity from Government on funding beyond the current year therefore it is assumed the Revenue Support Grant (RSG) model will be in place going forward. The Settlement will not be known until mid to late December. It was announced (prior to changes to Government Leadership and Cabinet) that a possible 2-Year settlement may be delivered although this now appears unlikely.

For forecast purposes only a 1.99% increase in council tax has been assumed, and a 1% Adult Social care precept has also been assumed. Should the Government increase the Council Tax referendum limit, or allow for additional Adult Social Care precept and the Council decide to apply increases above those limits then every 1% increase would result in £1m of additional income.

A revised Council Tax and Business Rates base will be updated and will go to Cabinet in January 2023, in advance of setting the Council Budget in February 2023.

The Council receives Section31 compensation from Government when they decide to freeze the business rates multiplier which is applied against the rateable value of business properties.

This has been capped or frozen by the Government on many occasions previously. In 2018/19 it has been uprated using Consumer Price Index rather than the (higher) Retail Price Index. Our estimates are based on modelling with 2% uplift for future years.

Current Government policy is that Business Rates reset will occur in 2025/26 and at this point Section31 compensation grants would end, but the equivalent funding would be returned to the Council through some other mechanism.

7.Housing

The Council's Housing Strategy recognises that the future success of Gateshead is dependent on ensuring that all its different neighbourhoods thrive and are great places to live and visit. This requires the right mix of safe and secure housing that people can afford, together with good schools, parks, sports and cultural facilities, roads and transport links, and streets and public spaces free of litter and anti-social behaviour. This will be brought together in the development of the next Gateshead Local Plan which is currently underway.

The housing pipeline is continuing to deliver new homes across Gateshead, with 373 new homes completed in 2021/22. The Council recognises that the scale of new housing development needs to increase. A new Residential Growth Strategy is currently being developed that will confirm the priority actions to be undertaken over the next 5 years to maximise additional housing supply on existing and new sites, and to bring long term empty homes back into use. This strategy will also align with the Council's medium-term position and investment plan.

A major review of the Housing Revenue Account (HRA) Business Plan and associated Asset Management Strategy took place in 2021 which ensured affordable 5 and 30 year financial and investment plans moving forward. The plan will make a significant contribution to the Residential Growth Strategy, with a planned HRA funded development programme of 400 new homes over the next 10 years. Due to the significant external cost pressures already outlined above and the proposed ceiling on rent increases the HRA Business Plan is currently being refreshed to ensure it continues to be financially viable and investment is affordable.

8.Schools

Schools are funded through ring-fenced resources (Dedicated Schools Grant (DSG) and several other grants including the Pupil Premium). Children's services funding is included within the core council funding known as the Settlement Funding Assessment.

The Government introduced a National Funding Formula (NFF) for mainstream schools from 2018/19, with some local discretion available within formula. Government have recently sought views on the approach to completing further reforms to the NFF and how to transition away most effectively from local formulae to all mainstream schools' funding allocations being determined directly by the NFF in the years ahead.

At 31 March 2022 the overall reserves balances for all maintained schools in Gateshead totalled £8.94m, an increase of £0.31m from March 2021. This increase was due to several factors many Covid related. This position masks that overall, the number of schools with projected deficits is increasing, but with the current turbulent times and the additional Covid and cost pressure related grants the position is difficult to estimate.

To support with the pandemic demands schools are currently getting additional grants such as Recovery Premium and National Tutoring Programme aimed at helping children recover lost education resulting from the pandemic. It is uncertain how long this funding will continue as allocations are usually single year allocations. The National Tutoring

Programme funding is at risk of claw back if schools do not spend it in line with the very specific conditions of grant.

The impact of future wage inflation is also not known with higher-than-expected pay offer for teachers and a flat rate offer for non-teaching staff. The Department of Education (DfE) provided an additional grant in 2022/23 for additional costs including the increase in national insurance (NI) contributions. This funding has been mainstreamed into the DSG for 2023/24, however, the 22 September 2022 mini budget implications of the NI 1.25% reversal and the funding announcement for public bodies including schools for the increase in energy costs are not yet known. The impact of the Supreme Court ruling on Harpur Trust V Brazel for part time term time only workers will also have a financial impact on schools. Whilst Schools have been setting aside a provision for this possible outcome further detailed work will need to be undertaken to assess the impact on individual schools.

It is also thought that the full impact of the pandemic on pupil’s characteristics is not fully known with increased numbers of pupils eligible for Free School Meals (FSM) which will impact on the funding to schools. The percentage of FSM pupils in state funded schools has increased each year from 15.4% January 2019 to 22.5% January 2022. The cost of the provision of school meals has been heavily impacted by inflationary increases presenting a significant financial issue.

The number of Education Health and Care Plan (EHCP) requests continues to increase, and even with the creation of additional special school places, the waiting list of special school places and specialist provision continues to increase with demand outstripping supply.

9.Reserves

Local authorities must consider the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. The Strategic Director, Resources and Digital is required, as part of the budget setting process each year, to provide a statement on the adequacy of reserves that is subject to an external audit review to assess value for money and a going concern opinion.

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

The audited statement of accounts shows all the reserves balances held by the Council, but it should be noted that not all of these can be used to support the budget. Reserves can be;

- Held for accounting purposes. These are not true cash balances and are unable to be used to support the budget and are classed as unusable in the Council's statement of accounts and therefore will not be detailed in the sections below.
- The General Fund is split between a General Reserve and reserves attributable to schools (LMS Budget Share Reserve).
- Strategic earmarked reserves the Council has chosen to hold for a specific purpose
- Ring fenced reserves which can only be used for a specific purpose and are not available to support council tax or budget setting of general Council services.

Reserves Policy

The Council's policy on reserves is 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

A review of reserves will be undertaken to inform the 2023/24 budget and covers:

- 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.

The balances as at 31 March 2022 remain subject to audit.

A breakdown of each reserve and the reason it is needed is outlined below;

Reserve	**Why Needed**	**Available to support Council budget**	**Balance as at 31 March 2022**
Council General Reserve	This is a statutory fund that acts as a contingency and allows the Council to meet any unforeseen costs. If the Council overspends in a year this fund will meet that liability. The minimum balance on the reserve is 3% of the net revenue budget	Yes (subject to minimum levels being maintained)	£8.5m
Schools Balances	Use of this reserve is ring-fenced to schools and there is a duty to report planned use to Schools Forum. The balance is for schools collectively, but this includes both surplus and deficit balances of individual schools	No – ringfenced for to schools	£8.9m

The Strategic Director, Resources and Digital has reviewed the level of the general reserve and it is considered that a 3% minimum level should be retained given the current level of risk and uncertainty.

Reserve	Why Needed	Available to support Council budget	Balance as at 31 March 2022
Financial Risk and Resilience	This reserve is held in respect of key financial risks identified through the risk management process and the savings required as part of the Council MTFS. This includes Insurance (£2m), grant clawback (£3m), workforce development costs (£2.6m), commercial risk (£1.5m) and budget flexibility (£0.3m)	Yes	£9.4m
Thrive	This reserve is held support to Council thrive priorities of Economic, Housing and Environmental Investment (£3.9m) and Poverty, Health and Equality Investment (£4.5m)	Yes	£8.4m
Budget Sustainability	This reserve was created in 2021 to help support the timings of achieving significant budget savings and Thrive outcomes whilst still dealing with pandemic impacts. £5.8m of this is committed within the 2022 budget.	Yes	£20.0m

COVID			
Pandemic Services Impact	This reserve is held to mitigate the budget impacts of the pandemic across all council services for the next several years	Yes	£25.6m
Pandemic Collection Fund Impact	Specific grants provided by government to replace lost funding to council tax and business rates	Specific support only	£12.9m

It is important to note that the position above includes significant temporary funding held to mitigate pandemic impacts on services and funding to support loss of income to the collection fund.

Ringfenced Reserves

Ringfenced reserves balances are shown in the table below for information.

Reserve	Why Needed	Available to support Council budget	Balance as at 31 March 2022
Developer Contributions	This reserve 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 new housing developments.	No	£2.0m
Unapplied Revenue Grants	This reserve was created to comply with accounting rules where unspent grants and contributions, without grant conditions are to be used in the following years.	No	£1.4m
Public Health Reserve	The responsibility for Public Health transferred to local authorities on the 1 April 2013. The funding is for future Public Health use.	No	£2.6m
Dedicated Schools Grant Reserve	This is for schools use and cannot be used for other priorities within the Council. Use of this reserve will be agreed by Schools Forum.	No	£2.2m
Housing Revenue Account	This fund is statutory to maintain a revenue account for local authority Council housing provision. It contains the balance of income and expenditure as defined by the Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.	No	£26.2m
Capital Receipts Reserve	This reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end use and may be earmarked for use in the Council's capital programme.	No unless approved by government for transformation	£12.6m
Capital Grants Unapplied	This reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the funds, but which have yet to be applied to meet expenditure. The balance is restricted by grant terms.	No	£6.9m

For financial resilience the Council may need to consider replenishment of the general reserve over the MTFS period.

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.

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 good financial management to finance recurrent expenditure in this way in the medium to long term. 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.

10.Conclusion

The factors and assumptions outlined above result in a forecast gap of £55m driven mainly by Social Care demand pressures and additional inflationary costs.

Achieving sustainable finances represents a formidable challenge for the reasons outlined in this report and some tough choices will need to be taken to achieve long term sustainability. It is essential that the delivery of Council priorities and achievement of priority outcomes is linked to resource allocation in a sustainable way.

The Council has a strong track record of financial performance and will continue to use resources in the best possible way to help residents of the borough thrive.
The medium-term financial plan of the Council will be kept under review to ensure that the financial context within which the Council operates is understood and informs decision making.

Supporting Information

Sensitivity Analysis

= current assumptions built into MTFS

Pay Inflation

The base assumption is pay inflation of 1.75%. Each percentage costs £1.4m

Pay Inflation	1%	1.50%	1.75%	2%	2.5%	3%	4%	5%	6%
Cost (£m)	1.390	2.084	**2.474**	2.779	3.474	4.169	5.559	6.948	8.338
Additional/ (reduced) cost from MTFS	-1.085	-0.390	**0.000**	0.305	1.000	1.695	3.084	4.474	5.864

Council Tax

The base assumption is a Council Tax increase of 1.99%. Each 1% of Council Tax generates £1m of income.

Council Tax	0%	1%	1.99%	2%	3%	3%	4%	5%
Income Generated (£m)		-1.044	**-2.077**	-2.087	-2.609	-3.131	-4.174	-5.218
Additional/ (reduced) cost from MTFS	2.077	1.033	**0.000**	-0.010	-0.532	-1.054	-2.098	-3.141

Noted anything over 2% the Council must hold a local referendum before implementing any increase.

Energy

Using an estimated base as forecasted, each 5% of Increase would be an additional £0.6m

Energy	2%	5%	8.0%	10%	15%	20%	25%	30%
Cost (£m)	**0.241**	0.602	0.962	1.203	1.805	2.406	3.008	3.609
Additional/ (reduced) cost from MTFS	**0.000**	0.361	0.722	0.962	1.564	2.166	2.767	3.369

Funding

The base assumes CPI increase on Revenue Support Grant. For each percentage lower than assumed is £0.158m less Funding.

Government Funding	0%	1%	2%	4%	6%	8%	9%	10%	11%
Income Generated (£m)	0.000	-0.158	-0.316	-0.632	-0.948	-1.264	-1.422	-1.580	-1.738
Additional/ (reduced) cost from MTFS	1.580	1.422	1.264	0.948	0.632	0.316	0.158	0.000	-0.158

Borrowing

Based on average borrowing costs over the medium term, the average annual impact for each 0.25% increase/decrease is £0.290m/(-£0.290m)

Borrowing Rates	2.75%	3.25%	3.50%	3.75%	4%	4.25%	4.50%	4.75%	5.75%
Cost (£m)	15.856	16.436	16.725	**17.015**	17.305	17.595	17.885	18.175	19.334
Additional/(reduced) costs	-1.159	-0.580	-0.290	**0.000**	0.290	0.580	0.869	1.159	2.319

Risk Assessment of Key Threats

A series of potential changes in the inflationary outlook, the Spending Review, Local Government Settlement, Business Rate reform and the results of the fair funding review inevitably means there are many uncertainties and sources of risk attached to the forecast.

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 are less than assumed.	Possible	High	Annual review of reserves and reserves policy to identify future resources. Assumptions on funding for 2023/24 and beyond are based on best estimates at this time. A prudent approach has been adopted based on previous years' experience as well as using regional network contacts to inform modelling. Savings plans and areas are identified early.
2. Volatility of Business Rates funding including uncertainty around impact of appeals	Likely	High/Medium	Volatility of funding stream outside of council control but impact mitigated by the financial monitoring framework. Modelling of potential impacts is used to inform internal financial planning. Dependency on government funding in this area.
3. Public Health funding is insufficient to meet responsibilities	Possible	Medium	Funding confirmed for 2022/23 but not in future years. The lack of certainty of continuation of grant going forward is a significant risk of circa £17m. Public Health responsibilities will be rolled into the new system under the move to 75% rate retention. Networks and regional lobbying to ensure a sustainable transition of funding is agreed.
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. Where pay awards have been agreed these are factored into the estimates where affordable. With current high inflation and cost of living crisis the potential impacts can be seen within the sensitivity analysis.
5. Future spending plans are 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 are not achieved	Possible	High	Regular monitoring and reporting take place but the size of the funding cuts increase the likelihood of this risk. Non-achievement of savings requires compensating reductions in planned spending within services. Greater scrutiny of savings will take place with senior management oversight.

Risk	Likelihood	Impact	Risk Management
7. Revenue implications of capital programmes are 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 the MTFS projections.
8. Income targets are not achieved	Possible	Medium	Current economic climate likely to impact. This forms part of the regular monitoring and reporting that takes place. Full review of fees and charges is undertaken on an annual basis. Reduced income requires compensatory reduction in spending plans.
9. Budget monitoring not effective	Possible	High	Regular monitoring and reporting in line with corporate framework. Action plans developed to address problem areas. Regular reports to CMT and Cabinet. Track record of delivering budget.
10. Exit strategies for external funding leasing/tapering not met	Unlikely	Medium	Regular monitoring and reporting.
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. 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. Monitoring of Collection Fund is formally incorporated into the revenue monitoring process and key performance indicators.
13. Changes to Government policy including Health and Social Care changes	Likely	Medium/ 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/ICB Better Care Fund Programme Board. The impacts of welfare reform continue to be planned for and monitored through the Council Scrutiny Framework. Charging reform implementation of 18 (3) of the Care Act is managed by an operational working group.
14.Financial budget impacts of potential Brexit	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.
15. 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 provide ability to assess and compare strategies to ensure assumptions are comprehensive.

PESTEL analysis

This is a strategic tool to evaluate the external environment of an organisation by breaking down opportunities and threats into several factors. The table below highlights some considerations impacting on the Councils medium term strategy and plans

Political • Change in Government policy direction and regulation including social care and NHS can impact on social care models and shared funding arrangements and without adequate funding can be an added pressure • Labour laws /National Living Wage can impact on legal views and costs • Environmental laws impact on planning, council buildings and costs • Stability of political parties will ensure policies do not change regularly • National infrastructure and transport links decisions can impact on local economy • PWLB rates can have a significant impact on capital projects and affordability • Brexit - Uncertainty of European Grants and unknown impacts on the economy • Welfare reform/Housing demands /Universal Credit- Governments changes are likely to have an impact in relation to potential bad debt of council tax income and housing rents and the services needed by residents • Local Government Funding Reform – the aim to making councils more self-sufficient and less reliance on grants.
Economic • National and local economic growth rates • Energy prices increasing or decreasing • Price pressures/ supply chain pressures • Labour market availability and shifts • Exchange rates • Inflation rates both CPI and RPI - Levels of inflation and medium-term trajectories of it have an impact on capital and revenue investment projects on rising costs and contractual commitments. • Interest rates on investments, borrowing and debt • National and local Unemployment rates • The Council plays a strong role in ensuring a strong and vibrant local economy which can in turn lead to better jobs and skilled local people. • Levels of employment influence the need for resident welfare support as well as other type of local government support.
Socio-cultural • Local health indices • Deprivation levels **-** Gateshead is currently ranked 47th out of 317 local authorities in England in the overall IMD 2019, where one is the most deprived (rank of average score). • Local population demographics – having a young, healthy workforce or aging population with complex needs changes service needs • Child poverty can influence the levels of looked after children and family support • Health of local workforce
Technological

- Pace of change impacts on upgrades to systems and customer expectations for accessing services
- Level of digital skills locally will determine who can access online services and who need more support such as telephone or face to face service provision.
- Appetite for innovation can influence service adaptation to customer needs
- New technology improves ability to introduce/improve agile working – making workforce more flexible.

Environmental

- Weather and impacts
- Local Climate Change Agendas
- Government Climate Change Aspirations
- Local Pollution
- Aspirations to be Environmentally Friendly
- Environmental impacts ripple through everything the Council does and as such all reports to Cabinet must consider these implications

Legal

- Discrimination law
- Consumer law
- Employment law
- Health & Safety laws
- Changes in regulation and legislation in relation to local government
- Licenses and permits