

**TITLE OF REPORT:** Multi Year Settlement and Efficiency Plan

**REPORT OF:** Mike Barker, Acting Chief Executive  
Darren Collins, Strategic Director, Corporate Resources

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### **Purpose of the Report**

1. To request Cabinet to recommend to Council the acceptance of the Government offer of a multi-year financial settlement to 2019/20 and the approval of the proposed efficiency plan submission to Government.

### **Background**

2. The need for effective medium term financial planning in local government has never been more important. The Government's response to concerns from the sector has been to make an offer of a guaranteed minimum grant envelope, paid to councils for a 4-year period from April 2016 covering Revenue Support Grant (RSG), Transitional Funding and Rural Services Delivery Grant. The Secretary of State has said that this should increase local authority certainty and confidence and would be a step towards supporting councils to strengthen financial management and work collaboratively with local partners when considering the way local services are provided in future.
3. The expectation is that if Council's do not accept the offer they will participate in an annual process with CLG / Treasury and may shoulder a disproportionate share of unforeseen costs.
4. To take advantage of this offer each authority has until 14 October 2016 to accept the offer and publish an efficiency plan which is to be locally owned and driven. This report sets out Gateshead Council's proposed efficiency plan for submission to government in support of a recommendation to accept the 4 year financial settlement to 2019/20.

### **Proposal**

5. Cabinet is asked to recommend to Council the acceptance of the Government's offer to Gateshead of a multi-year settlement to 2019/20 to support financial planning over the period and also to approve the submission of the Council's proposed efficiency plan as outlined at appendix 2.

### **Recommendations**

6. Cabinet is asked to recommend to Council the acceptance of the multi-year settlement offer from Government to Gateshead and also the approval of the proposed efficiency plan.

For the following reasons:

- i) To contribute to the good financial management practice of the Council.
- ii) To assist the financial sustainability and planning of the Council over the medium term.

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## APPENDIX 1

### Policy Context

1. The Medium Term Financial Strategy (MTFS) is the mechanism for supporting the redirection of resources to deliver Vision 2030 and the Council Plan. It also ensures a sustainable Gateshead through best use of resources to deliver value for money services and long term financial stability in a challenging financial environment.

### Background

2. The Council's current MTFS for the period 2017/18 to 2021/22 was approved by Council in July 2016. The MTFS covers a five year period and is reviewed at least annually, although due to changes in Government policies, as well as the UK's decision to leave the European Union, more frequent reviews may be required in the short term.
3. Medium term financial planning is taking place against the background of significant funding cuts for local government. In addition, the Council, in common with other local authorities, continues to be at risk from financial pressures, including workforce management, waste management, demand for social care and from welfare reform. This environment will challenge the ability of the Council to respond to the needs of Gateshead residents and the wider community.
4. The current MTFS was reviewed to include the impact of the above issues and updated accordingly. It outlined a strategy to deal with a funding gap of around £71.9m for the three year period 2017/18 to 2019/20. The overall five year funding gap over the life of the MTFS was estimated at around £92.3m.

### Multi Year Settlement

5. Acceptance of the settlement refers to Revenue Support Grant, Transitional Funding (for first two years) and Rural Services Delivery Grant. Note that acceptance of the offer does not include any other grant allocations. Gateshead allocations over the period are shown in the table below for information;

<b>MULTI YEAR SETTLEMENT</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
	<b><u>2016-17</u></b>	<b><u>2017-18</u></b>	<b><u>2018-19</u></b>	<b><u>2019-20</u></b>
Revenue Support Grant	37.258	27.783	21.423	15.012
Rural Services Grant	0.000	0.000	0.000	0.000
Transition Grant	0.000	0.000	N/A	N/A

6. The acceptance of the four year settlement from 2016/17 to 2019/20 of Revenue Support Grant (RSG) provides some clarity and certainty around one of the main sources of government funding to the Council over these years. Albeit this clarity confirms a continued significant reduction year on year in Government financial support whilst at the same time leaving the Council unclear as to other significant funding streams outside of the three specific grant areas. The figures outlined in the settlement for RSG have been used within the current MTFS projections.

## **The Efficiency Plan**

7. There is no prescribed format or content of the plan from Government however the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Government Association (LGA) have published best practice tips of what should be included. This guidance has been followed in drafting a plan for Gateshead.
8. The plan is wider than just the MTFS and requires other documents and narrative to fully understand a Council's current plans and aspirations over the period to 2019. Links to supporting documentation have been included in the plan.

### **Consultation**

9. The Leader of the Council has been consulted on this report.

### **Alternative Options**

10. There are no alternative options identified. The Council could choose to not accept the offer of a 4 year financial settlement but there is no information or evidence available to indicate that this would provide a viable alternative approach.

### **Implications of Recommended Option**

#### **11. Resources**

- a. **Financial Implications** - the Strategic Director, Corporate Resources confirms that acceptance of the multi-year financial offer will provide some clarity over the revenue support grant to be made available over the period, leading to improved financial planning. The proposed multi-year settlement identifies a significant reduction in funding from Government for this Council and the wider financial context over the medium term remains uncertain.
- b. **Human Resource Implications** – No direct HR implications arise from submission of the plan
- c. **Property Implications** – No direct property implications.

12. **Risk Management Implication** – No direct implications

13. **Equality and Diversity Implications** – No direct equality and diversity implications.

14. **Crime and Disorder Implications** – No direct crime and disorder implications.

15. **Health Implications** – No direct health implications.

16. **Sustainability Implications** – The MTFS provides a framework for ensuring a sustainable financial position over the medium term.

17. **Human Rights Implications** – No direct human rights implications.

18. **Area and Ward Implications** – No direct implications

## Efficiency Plan 2016 to 2019 For Gateshead Council

### Cllr Martin Gannon – Leader of Gateshead Council

As leader of Gateshead Council I am proud of what has been achieved in a very challenging financial context. Gateshead is an ambitious council and we intend for this to continue, working alongside our partners and local communities to achieve our planned outcomes to benefit the people of Gateshead. We believe that Gateshead is a resilient place with many strengths, that we will continue to build on into the future and this plan sets out the key actions that we intend to take over the next few years to ensure that the Council supports the well-being of individuals, communities and businesses within the borough.

### Mike Barker – Acting Chief Executive Gateshead Council

Public service funding pressures over the past five years and more have meant we have had to make significant changes, including reductions in services and staffing. We have already made steps towards working differently and over the coming years this will need to continue. We intend to hold fast to our core values of working with integrity, whilst being inclusive and inspirational. Although the financial context continues to be increasingly challenging the Council has a track record of identifying and achieving significant savings and of delivering budget outturn within agreed budgets. The work of the Council will continue to be supported by a framework of effective financial planning which will be aided by clarity of future Revenue Support Grant allocations over the period to 2019/20. The clarity in the specific grant areas covered by the proposed multi-year settlement does confirm the significant and continuing year on year reductions in funding from Government to this Council.

## 1. Background

The need for effective medium term financial planning in local government has never been more important. The government's response to concerns from the sector has been to make an offer of a guaranteed minimum grant envelope, paid to councils for a 4-year period from April 2016 covering Revenue Support Grant, transitional funding and Rural Services Delivery Grant. The aim is to support councils to strengthen financial management and work collaboratively with local partners when considering the way local services are provided in future. We intend to take advantage of this offer through submission of this efficiency plan to government in support of acceptance of the settlement to 2019/20. This will aid our financial planning and sustainability over the period and give a degree of clarity on the continuing Government funding reductions to this Council.

## 2. Links to Corporate Plans

The Council's efficiency planning over the period is underpinned by several key enabling strategies which ensure all our resources are targeted and managed in the most efficient way possible and these have been outlined briefly below;

- **Vision 2030** developed and agreed by the Gateshead Strategic Partnership (GSP) and is the overarching strategy setting out the long term vision and priorities for the future of Gateshead.
- **Council Plan** sets out the collective five year ambitions for the Council and how Vision 2030 will be achieved. It sets out clear policy directions which will help the Council make choices about where limited resources should be focused and what changing roles and responsibilities will mean for employees, buildings, and relationships with partners. Our collective strategy will be based on **Maximising growth** by generating income for the Council through more Council tax, more business rates, external funding and trading. **Reducing costs** both by managing demand in areas where there is significant cost pressure but also by increasing efficiency for example through technology and changes to the way the Council works, such as

consolidation of buildings and reducing costly processes. **Increasing collective responsibility** by encouraging and supporting local people, partner organisations, businesses and local communities to play a more active role in achieving the outcomes for Gateshead.

- **Medium Term Financial Strategy** sets out the Council's current financial position and outlook and overall financial strategy over a five year period to 2021/22
- **Workforce Strategy** proposes an overarching approach to the management of the council's employees and reflects the way in which the council values its employees.
- **Digital Strategy** sets out a five year strategy to develop and implement digital public services
- **Corporate Asset Strategy and Management Plan** aims to ensure that the Council's property resources are maximised to be used as effectively and efficiently as possible and aligned to achievement of strategic priorities

### 3. What We Are Doing

#### 3.1 Growing Our Local Economy

A significant amount of activity is already being delivered by the Council and its partners, to promote sustainability and growth across the borough and evidence of this is readily visible through the recent regeneration of the town centres in Blaydon, Birtley, Felling and Central Gateshead.

The Gateshead **Economic Growth Acceleration Plan 2013-18** provides a broad framework to direct the investment of our resources, including the Capital Programme and creation of an Economic Growth Reserve, to ensure economic growth and job creation opportunities are maximised.

In the future the urban core will be the focal point for economic growth and transformation, becoming the main contributor to Gateshead's economic prosperity. As well as being the cultural, retail, tourism and leisure hub, it will be a regionally significant office location for professional, financial and business services; particularly within the Accelerated Development Zone. The growing creative and ICT/media industries are already well represented and demonstrate strong growth potential. Investment will also be encouraged within the key employment areas of Team Valley and Follingsby, the primary centres for manufacturing industries and distribution services.

In addition the Council's Rural Economic Strategy (2015-2020) supports economic growth in the borough's rural communities, whilst contributing to growth across Gateshead and the region. Working with a range of public, private and voluntary sector partners it supports business development in sectors such as tourism and food and drink, whilst seeking to maximise the use of land and property assets for business purposes, thereby increasing business rates income to the Council. Helping residents develop the skills to access these jobs is a key aspect of the work as is helping to co-ordinate the economic objectives arising from for example the development of new housing, the growth in rural services and improvements to the natural environment.

Our strategic ambitions for economic growth will be supported by the Local Plan for Gateshead which includes the Planning for the Future Core Strategy and Urban Core Plan for Gateshead and Newcastle upon Tyne. This framework will help to create and sustain thriving communities and a more prosperous economy through developments, including the provision of new homes, jobs growth and a portfolio of employment land.

A three year approach including government grant allocations to 2019/20 has allowed for improved financial strategies linked closely to the outcomes of the Council plan and resilient reserve management. Indicative future budgets are linked to planned achievement of local growth of rates, council tax and trading activities.

## 3.2 Planned and Ongoing Transformation Programmes

In response to cuts in public funding Cabinet agreed to a major programme of change at its meeting in February 2016 to guide budget decisions and the shape of the Council in the future. Given the unprecedented scale and pace of change required a co-ordinated programme was determined to provide the best opportunity to review activities at the right time and minimise the effect on what residents may need and expect. This approach will ensure that opportunities are explored to increase income as well as closing or reducing current provision. The Council's approach within the programme is aligned with the Council Plan and is thus focused on four inter-related areas: **economic growth, managing demand, collective responsibility and efficiency** by:

- Doing all we can to support economic growth and revenue generation – given reductions in Central Government funding, success in this area will enable the Council to redirect resource to activities which protect the most vulnerable.
- Focusing on managing demand (particularly in social care) with a targeted approach, emphasising early intervention and prevention.
- Increasing collective responsibility – encouraging and supporting local people, partner organisations, businesses and local communities to play a more active role in achieving the outcomes for Gateshead.
- Continuing to drive efficiencies through changes to the way the Council works, for example, through exploiting new technology, consolidation of buildings and services, reducing complex processes and increased trading.

The change programme has four workstreams as follows:

- **People**- Adult Social Care and Children's Services – reviewing proposals for change within each of the services and consider options for earlier intervention and different ways of working with partners and other agencies.
- **Place** – increasing community and individual resilience such as enabling communities to do more themselves by actively improving the environment and promoting positive behaviours. Exploring opportunities and positive actions to achieve economic growth of the borough, maximising assets and considering the Council's approach to Housing and leisure strategy.
- **Trading and Commercialisation**—finding new opportunities to increase our income from trading activities such as establishing an energy company, bereavement service, housebuilding and trade waste.
- **Ways of Working** – considering how we can maximise the use of buildings and technology to help everyone work smarter and more efficiently, and helping the Council to get the most out of its most valuable resource, its employees. This includes delivery of Digital Gateshead 2015-2020, our five year strategy to develop and implement digital public services will help to transform how, where and when services are delivered and it will provide new opportunities for our residents, service users and customers to help themselves and others, and contribute to better outcomes for Gateshead.

### 3.3 Managing Current and Future Demand

Demand management is a clear focus of our overarching policy directions which are set out in our five year council plan these being;

- ✓ **Increasing community, individual and council resilience**
  - Redirecting resources to protect those most in need whilst supporting people to help themselves and seeking economic growth for local prosperity
  - Delivery of a digital strategy to provide convenient online services, improving access to information, signposting and improved opportunities to self-serve
  - Promoting health and wellbeing in communities
  - Promoting and encouraging positive behaviours like recycling and robustly tackling negative behaviours like fly tipping
- ✓ **Promoting early help and prevention**
  - Supporting people earlier so they can help themselves
  - Developing a whole system approach to preventative and assertive early intervention services alongside our partners to reduce further demand and target resources.
  - Aiming to prevent long term escalation of issues which lead to more costly outcomes in areas such as environmental issues and holistic decisions on children on the edge of care to identify more permanent better opportunities.
  - Working with partners to promote environments that contribute to health and wellbeing alongside targeted prevention programmes in communities of greatest need.
- ✓ **Targeting our effort, with partners to those greatest in need and in areas where greatest impact can be achieved**
  - Working with partners to develop person-centred service models that address multiple and complex issues. Sharing data and systems to increase targeted integrated programmes for individuals and communities most in need
  - Build on existing partnership models used by FamiliesGateshead which could see services being organised in a different way.
- ✓ **Working differently**
  - We will seek to reduce and/or change the range or level of services provided by the Council or transfer responsibilities to other providers meaning that local people can still access services which the Council is no longer able to fund.
  - Implement new delivery models within the Council or with a partner on a best value basis
  - Deliver our five year digital strategy to optimise the use of technology and deliver services more efficiently and reducing unnecessary costs through reduced duplication of effort and increased self-service.

### 3.4 Working in Collaboration and Partnership

Our proactive financial planning over the period will allow us to continue to work closely in collaboration and partnership with our neighbouring authorities and across public and private sector partners as well as the voluntary and community sector. In particular work continues to be progressed towards greater alignment and integration of health and social care to meet our aspirations for the health and wellbeing of local people, working with health partners e.g. through work to progress new models of care for our local health and care economy and through initiatives such as our Better Care Fund Plan for Gateshead which will see the transition of its core schemes to new models of care. More broadly, the Council has and will continue to work with health partners to develop and implement a Sustainability and Transformation Plan for Northumberland and Tyne & Wear, which will also have a specific focus on the Newcastle Gateshead local health economy.

We will continue to build on the strong foundations we have already built to date with others such as;

- **Gateshead Regeneration Partnership** - a joint venture commenced 2012 with Galliford Try, Home Group and the Council. To build 2,400 homes across 19 sites in Gateshead over 15 to 20 years.
- **Gateshead Quays** – a collaborative partnership with Patrizia UK and Ask Real Estate (appointed 2015).
- **PFI - South Tyne & Wear Waste Management Partnership** established in 2007 between Gateshead, Sunderland and South Tyneside Councils. Service commenced 2014 and will run to March 2039.
- **PFI – Pinnacle Schools Gateshead Limited (PSG)** to design, build, finance and operate seven new schools in 2007 and 2008. PSG will manage and maintain these until 2033.
- **Energy Services Company (ESCO)** agreed 2015. Since 2011, the Council, with support from WSP/Parsons Brinckerhoff, has been developing a district energy network. Construction of the energy centre began in 2015.
- **Collaboration partnerships with other LAs** e.g. Scape System Build Ltd (2006) – acts as a contracting authority and central purchasing body, joint arrangements regarding traffic lighting in Tyne and Wear, River Tyne Debris Clearance Service, Tyne and Wear Archives & Museums, Tyne and Wear Specialist Conservation Team.
- **Collaborative partnership with public service organisations** – North East Public Service Academy and Northumbria University Trinity Square Accommodation

Under our key policy direction of “Working Differently” we will actively seek to further collaborate and integrate with partners within the borough, regionally, nationally and internationally to ensure we achieve the best solution both in finances and outcomes. Over the period we plan to continue to work with others including other local authorities, North East Combined Authority, public service providers, businesses and the voluntary sector.



## **Collaborative Working in Social Care**

The Council is looking at its commissioning strategy and market position statement with a view to improving relationships with providers and reshaping the market in Gateshead. Given the savings challenge the Council needs to re-evaluate how services are provided including developing the voluntary and community sector.

A new delivery model for social care is currently being implemented with a single point of access, an enablement service and specialist teams (for those who cannot go through enablement or be signposted). The enablement service will be developed from a reshaped in-house domiciliary care service, which requires current packages to be transferred to the independent sector. This market has had some issues but this has been rectified through contracting of spot providers.

Gateshead has a high level of spend per head of population despite some of the lowest commissioned service rates, it has an aging population, high deprivation and poor health including high levels of obesity. The level of savings required to be made by the Council will have a significant impact upon the way in which social care will be provided in the future. There needs to be more collaborative working and integration with health partners and others. There needs to be focus on early intervention and prevention but the savings to be realised from shifting resources will be over the longer term.

The Commissioning and Quality Assurance service has been created which brings together children's and adults commissioning under one service director.

There is an integrated commissioning group with Newcastle Gateshead CCG which meets monthly. The group has oversight of the joint funding arrangements and joint reviews. There is currently a joint review of carers services with a view to jointly commissioning services in the future. Another area being looked at is intermediate care and the future need in Gateshead.

The Better Care Fund (BCF) board oversees the delivery of the BCF plan on a quarterly basis. Whilst joint working is taking place there is considerable progress required before we could say the systems are integrated.

The Sustainability and Transformation Plan (STP) has highlighted a Northumberland Tyne Wear health funding gap of £634m by 2021 if there are no interventions or planned solutions. This figure could be as high as £970m if the local authority social care gaps are included. There are plans in place to close the health gap which amount to £300m. The plans require scaling up prevention, health and wellbeing, increased out of hospital collaboration and optimal use of the acute sector. The scale of the challenge requires all organisations within the health and social care economy to work together to ensure services provide optimum outcomes for the population.

## **3.5 Engaging with Local Residents**

As part of our approach to engagement we will initiate a conversation with local people and alongside our partner's co-ordinate major engagement programmes around themes such as health and environment. We undertake an annual residents survey which allows the opportunity for feedback and consultation on key matters.

Public consultations will run annually alongside our budget process with specific consultations ran as and when required. Where impacts are identified, draft equality impact assessments (EIAs) are completed and made available on the Council's website. The EIAs are updated throughout the budget process taking into account the outcome of the consultation and any other factors.

### 3.6 Effective Budget Planning

Medium term financial planning remains challenging and the Council's financial plan to 2019/20 has been prepared against a backdrop of unknown financial impacts arising from the devolution agenda, the UK's referendum outcome alongside a move towards a new funding system for local government. This means that forecasts will be closely monitored and potentially refreshed as consequences become clear.

The Council intends to manage financial sustainability through careful and effective budget planning, strict budget management and targeted use of resources. This can be supported through the change programme led by the Chief Executive to ensure that the right things are delivered efficiently at pace.

We will continue to look at opportunities to improve efficiency and reduce costs associated with service delivery so that any impact on our ability to ensure delivery of frontline services is limited. Last year we made efficiency and effectiveness savings of approximately £8.7m, achieved by reducing the Council's property portfolio, reductions in senior management posts, implementing service reviews, deleting vacant posts from the Council's employee establishment, as well as reducing the cost of supplies and services. These formed part of a total savings package of £18.796m in respect of the 2016/17 budget. Total budget savings identified by this Council from 2010/11 financial year now stand in excess of £130m.

The Council's MTFS 2017 to 2022 estimates that the Council will need to close a further funding gap of £92.3m over the five financial years 2017/18 to 2021/22. The Council's approach to financial planning over the medium term will include a focus on investment in growth and income generation. The Council recognises that economic growth benefits the residents of Gateshead and the businesses within Gateshead. It also strengthens the position of the Council by developing financial resilience through less exposure to reductions in government funding. The Council will retain its vision for the future of the Borough through promoting development and economic growth and this will assist in maintaining the medium term financial sustainability of the Council.

The Council is working across the organisation to identify potential savings or income opportunities to enable the delivery of £71.9m in the three years to 2019/20 ready for consultation in the autumn. A financial gap of this scale cannot be delivered through efficiencies alone given the magnitude of efficiencies already delivered. The gap will need to be closed through a combination of budget savings arising from different delivery methods, joint working, reducing or closing services, more efficient working practices supported through transformational change across the organisation. Opportunities around trading income, fees and charges and local growth will also be key in increasing the funding available on a local level.

Strong governance arrangements will ensure that monitoring and measurement of outcomes is robust. The Council has a strong performance management framework so that underperformance is tackled swiftly and proportionately and this will remain under review to ensure further improvements in accountability, effectiveness and efficiency.

Contingency budgets will be utilised where plans need more time for delivery or unforeseen circumstances occur. In addition use of reserves will be carefully planned to allow for funding of transition costs as services change to new sustainable models of delivery. The Council also holds a number of strategic earmarked reserves that are held for insurance against certain unforeseen events.

We also aim to fully maximise any flexibilities granted by Government such as the capital receipts flexibility. However given the current market and constraints associated with many of the potential development sites within Gateshead (such as contamination/topography) we are struggling to achieve the £3m capital receipts target that is required to fund existing capital projects. This means in practice that flexibility is unlikely to be available or at best

severely limited in scale. Any available flexibility will be utilised to support the implementation of the Council's Digital Strategy to help digitise service delivery and generate future revenue savings. The procurement process for the digital platform is currently ongoing but it is envisaged that we may utilise the flexibility to fund the revenue costs associated with the implementation, which could be in the region of £0.25m. Further transformational schemes may also emerge as part of the budget process and this will be kept under constant review.

## **4. Maintaining An Effective Balance Sheet**

### **4.1 Asset Management**

The Council has a Corporate Asset Strategy and Management Plan covering the period to 2020 which enables us to demonstrate how we make best use of our land and property portfolio in support of the Council plan and policies.

As a result of our plan we have been able to reduce the number of buildings from which we operate, and continue to progress a programme of rationalisation of our portfolio to enable revenue savings and work more efficiently. During 2014/15 a further 23 buildings were declared surplus to requirements. This builds on the 159 properties which were removed from the portfolio between October 2010 and March 2015 generating some £2m of savings. Rationalisation of the portfolio continues to be a priority and throughout 2015/16 further opportunities for consolidation and rationalisation of the portfolio have been progressed as a result of which the Council has been able to declare a number of additional buildings surplus to requirements and so now operates out of 243 buildings for the purpose of service delivery, of which five are leased from private providers.

The Council has created a Land Development Group with representatives from key services across the Council. The group consider how we can make best use of our surplus land and buildings taking into account such matters including market requirements and Council's Core Strategy. The group is in the process of developing a Land Development and Disposal Plan, which will bring forward suitable Council land and property assets for potential development. It is proposed that the Plan will be published later this year, with sites which are anticipated to be released to the open market within the next 3 years.

The Council is also engaged in discussions with HCA around mechanisms to accelerate the delivery of several key housing sites and is seeking a supportive and flexible response.

### **4.2 Capital Expenditure Plans**

The Council's capital investment plans are set out in the approved capital programme that covers the period between the 2016/17 and 2020/21 financial years. The efficient and effective use of capital resources, including asset management, is fundamental to the Council achieving its medium and long term objectives. It is also critical to achieving the delivery of the required savings across the Council and providing the best possible services within Gateshead.

The availability of resources to support capital investment has had an impact upon the level of capital programme that the Council can continue to support and in recent years the General Fund capital programme has fallen dramatically but it remains significant.

In 2015/16, the Council spent £54m on capital projects, of which £36m related to the General Fund and the remaining £18m was spent on improving the Council's housing stock. Capital investment in 2015/16 included projects aimed at encouraging economic growth and housing growth within Gateshead in addition to investment in low carbon energy infrastructure such as the District Energy Network and investment in the Council's schools, technology and highway network.

The planned capital investment from 2016/17 onwards continues to be set at a reduced level, given the limitations and pressures on the available capital and revenue resources. The

approved five year Capital Programme for the period 2016/17 to 2020/21 had estimated £155m of planned capital investment (excluding Housing) and it is envisaged that additional projects will emerge over the period as major projects, such as investment in Gateshead Quays, continue to progress towards the delivery phase.

The Council continues to explore external funding possibilities when developing capital projects to minimise the borrowing requirement as far as possible. 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 availability of capital receipts has also reduced in recent years as a result of the property market. The Council has identified a programme of potential asset disposals and the progress is reviewed by the Council's Land Development Group throughout the year. In general, capital receipts from the sale of assets are treated corporately to allow the Council to target resources towards the highest priority projects, although there may be circumstances where a capital receipt must be used to fund a specific scheme.

### 4.3 Reserves Management

Current balances and planned usage of our reserves are shown below;

<b>Gateshead Reserves</b>	Closing Balance March 2016 £000s	Estimated Use 2016/17 £000s	Estimated Use 2017/18 £000s	Estimated Use 2018/19 £000s	Estimated Use 2019/20 £000s	Estimated Use 2020/21 £000s	Estimated Use 2021/22 £000s	Estimated Balance As at March £000s
<b>General Fund</b>								
General Reserve	(16,341)	3,971	3,000	3,000				(6,370)
LMS Budget Share Reserve*	(7,046)	750	750	750	750	750	750	(2,546)
<b>Total General Fund Reserve</b>	<b>(23,387)</b>	<b>4,721</b>	<b>3,750</b>	<b>3,750</b>	<b>750</b>	<b>750</b>	<b>750</b>	<b>(8,916)</b>
<b>Earmarked Fund Reserves</b>								
<b>Strategic Reserves</b>								
Business Rates	(5,000)	1,000	1,000	1,000	1,000	1,000		0
Insurance	(3,000)							(3,000)
Grant Clawback	(1,314)							(1,314)
Gateshead Development Pool	(6,009)	1,000	2,000	3,009				0
Economic Growth Reserve	(3,456)	1,100	1,100	1,256				0
Discretionary Social Fund Reserve	(957)	250	250	250	207			0
Strategic Change Reserve	(2,500)	1,600	900					0
Budget Flexibility Reserve	(2,996)	2,563	433					0
<b>Ring Fenced Reserves</b>								
Developers' Contributions*	(2,036)	446	446	351	100	100	100	(493)
DSG Reserve*	(3,357)	0	250	250	250	250	250	(2,107)
Unapplied Revenue Grants*	(4,259)	1,199	761	536	812	226	226	(498)
Public Health Reserve*	(1,772)	849	923					0
<b>Total Earmarked Fund Reserves</b>	<b>(36,656)</b>	<b>10,008</b>	<b>8,063</b>	<b>6,652</b>	<b>2,369</b>	<b>1,576</b>	<b>576</b>	<b>(7,411)</b>
<b>Total Reserves</b>	<b>(60,043)</b>	<b>14,729</b>	<b>11,813</b>	<b>10,402</b>	<b>3,119</b>	<b>2,326</b>	<b>1,326</b>	<b>(16,327)</b>
Total Ring fenced*	(18,470)	3,244	3,130	1,887	1,912	1,326	1,326	(5,644)
No Ring-fence	(41,573)	11,484	8,683	8,515	1,207	1,000	0	(10,684)
	<b>(60,043)</b>	<b>14,729</b>	<b>11,813</b>	<b>10,402</b>	<b>3,119</b>	<b>2,326</b>	<b>1,326</b>	<b>(16,327)</b>

# Subject to External Audit

\* Ring Fenced reserves are not available to support the Revenue Budget and Council Tax Requirement

The Council has agreed to maintain its general reserve at a minimum of 3% of the net revenue budget to cover any major unforeseen expenditure. As the Council's net revenue budget for 2016 is £198.883 this equates to around £6m. Currently the Council holds £16.3m in the general fund reserve (excluding schools balances) this is just 17% of the estimated financial gap to 2021. Of this amount almost £4m has already been committed as part of the 2016/17 budget.

Forecasts show that we will likely reach minimum balance on the general reserve during the period of the MTF5 and Council may need to consider replenishment. Use of reserves will be carefully planned and agreed at budget setting stage following consultation with councillors. Reserves are reviewed at least once a year and the review in 2016 considered the current level of reserves as adequate. Expected movement of reserves over the period is shown in the MTF5 document published July 2016.

Earmarked reserves are held for specific strategic purposes to help achieve key priorities over the MTF5 period, for example the economic growth reserve to achieve growth and support the local economy. Or specifically to protect against certain events such as the insurance, business rate and grant clawback reserve. In periods of financial uncertainty good financial management dictates that adequate reserves are held to protect the Council any significant financial impacts.

As per the principles set out in the MTF5 the Council does not currently plan to use reserves to fund shortfalls within the annual budget however in recent years reserve funds have been earmarked to support specific budget proposals to allow part year achievement where there are contractual obligations or consultation requirements that impact on the timing of delivery of savings. Reserves can only be used once and are therefore not a sustainable source of financing without placing the Council's financial position at risk. The Council's strategy is to find a more permanent solution to the funding gap, rather than a short-term solution by using reserves.

## **5. Strong Governance, Risk Management and Control**

### **5.1 Governance**

In April 2016, Cabinet approved a redesigned performance management framework which, along with the change programme, will continue to help deliver the Council's priorities within Vision 2030 and the Council Plan.

The Council has a clear governance structure which is regularly reviewed and where necessary adjusted to remain fit for purpose. A formal constitution is in place setting out the scheme of delegation for decisions which was last updated in July 2016 and is available on the Council's website.

The Council's Annual Governance Statement for 2015/16 within the end of year Statement of Accounts provides a clear summary of the governance and management arrangements in place to ensure informed decision-making and explains how assurance on the effectiveness of these arrangements in the year has been provided to the Audit and Standards Committee.

### **5.2 Management of Key Risks**

Some major funding streams are not covered by the multi-year offer while costs remain subject to pressures that are increasing but difficult to predict and control. Strong financial management requires that the Council provide for sufficient reserves and contingencies to allow for those risks to be managed.

Key risks over the period are logged in the Council's Strategic and operational risk register alongside an assessment of the impact and likelihood of the risk and the controls that are in place to mitigate them.

The Council will take account of the public sector equality duty as detailed in the Equality Act 2010.

We will also ensure continued compliance with all statutory duties and consider these when looking at reduction or change in service delivery. In light of a significantly reduced budget envelope the level of compliance will need to be assessed against risk appetite where appropriate.

## 6. Summary

The Council continues to face significant financial challenges that are characterised by annual deep funding reductions at the same time as very significant increasing cost pressures. The Council does however have an impressive track record of agreeing and delivering approved budgets that are set within an effective strategic and planning framework. The work of the Council will continue to be supported by this framework of effective financial planning and strong governance, collaboration and partnership. The intention remains to manage demand and grow our local economy so that individuals, communities and businesses within Gateshead can prosper. The significant continuing Government funding reductions are extremely challenging in this context but any clarity around levels of funding can assist financial planning.

**Supporting Documents to the Plan can be found on the Council website;**

- Vision 2030
- Council Plan
- Workforce Strategy
- Digital Strategy
- Medium Term Financial Strategy
- Corporate Asset Strategy and Management Plan

<http://www.gateshead.gov.uk/Home.aspx>