Medium Term Financial Strategy

2020/21 - 2024/25

Gateshead Council

Contents

1. Executive Summary

1.1 Local government is facing unprecedented financial and demand pressures following a decade of austerity. Achieving financial sustainability is critical to protect outcomes for the community and local economy.

1.2 This is the annual review of the council's Medium Term Financial Strategy (MTFS). It is based on a financial forecast over a rolling five-year timeframe from 2020/21 to 2024/25 which will help ensure resources are aligned to the outcomes in the council's strategic approach "Making Gateshead a Place Where Everyone Thrives". The MTFS sets the financial context for the council's resource allocation process and budget setting.

1.3 Reviewing the MTFS remains essential to ensuring the council's medium term financial sustainability. The council has responded to the financial challenges in a planned way through an approach based around four inter-related areas: economic growth, income generation, managing demand, and identifying savings/efficiencies.

1.4 Gateshead's strategic approach of Making Gateshead a Place Where Everyone Thrives was agreed with the council's purpose and beliefs in mind, along with what matters most to the people of Gateshead. Due to insufficient funding the council will be forced to make very difficult choices in the years ahead about which services to prioritise investment.

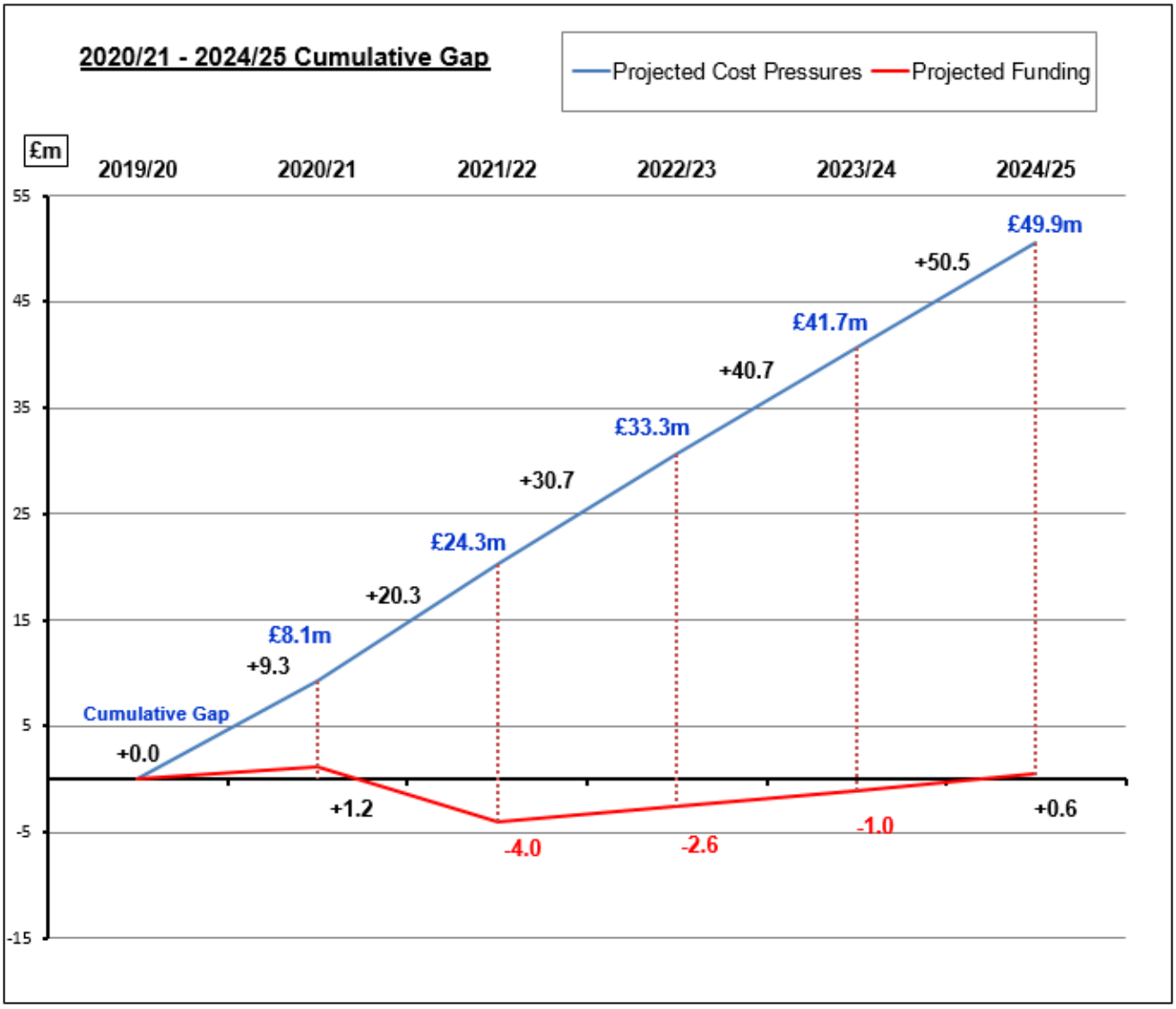
1.5 Significant changes are being proposed to local government funding. However recent announcements in the spending review confirm that longer term reforms regarding business rate retention and fair funding have been delayed at least until 2021/22. There will be a one year local government settlement expected early December.

1.6 In future it is expected that there will be greater reliance on income streams the council raises itself such as council tax, business rates, fees and charges and investments. This funding is highly unlikely to meet the rising cost of demand and cost of essential services. Local authorities are legally obliged to set a balanced budget each year and to ensure they have enough reserves to cover any unexpected events. Therefore, to legally balance the budget the council must make spending plans affordable by matching it to the estimated funding available over that time. The gap between the two amounts is referred to as the "funding gap". Thus, the funding gap is a combination of the council's best estimate of the future budget needed to cover rising cost pressures and demands for services alongside a reduced amount of income. Action is required now to enable the council to satisfy the legal requirement to balance the budget both next year and in future years.

1.7 Based on local estimates outlined in this report, this council estimates that overall it will need to close a financial gap of £49.9m to 2024/25. This gap can be summarised as follows (there may be slight differences due to rounding's):

2019/20 £m	Indicative Budget Forecasts	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
220.112	Estimated Base Budget	216.264	227.338	237.727	247.700	257.532
(206.999)	Estimated Funding Resources	(208.195)	(203.008)	(204.435)	(205.983)	(207.607)
13.113	Cumulative Funding Gap	**8.069**	**24.330**	**33.292**	**41.717**	**49.925**
13.113	Annual Funding Gap	8.069	16.260	8.962	8.425	8.208

1.8 The financial gap over the medium term can be further analysed to identify separately increasing cost pressures at the same time as the impact of reductions in funding on income This can be presented graphically as follows:



1.9 The funding gap comes on top of £170m of budget savings since 2010. The council aims to ensure that reducing resources are used to maximum effect and allows the council to continue to deliver new and better ways of working and invest to improve the efficiency of services provided. It is evident however the continuing reductions in funding and increases in demand will have an inevitable impact on both the nature and scope of services that the council is able to deliver. The council will aim to manage the process of change to its services effectively.

1.10 The council will continue to have significant revenue and capital budgets to invest and deliver priority services consistent with achieving the outcomes of “Making Gateshead a Place where Everyone Thrives”.

2. Introduction

The Purpose of the Medium Term Financial Strategy (MTFS)

2.1 The MTFS is a key part of the council's Budget and Policy Framework which aims to ensure that all financial resources are directed towards delivery of 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.

2.2 The MTFS establishes the likely level of revenue resources available to the Council over the medium term and also 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.

2.3 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.

The Principles of the MTFS

2.4 Following a review the proposed principles underlying the MTFS 2020/21 to 2024/25 are as follows:

1. 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.
2. 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 taken into account when investment decisions are taken.
3. The council will aim to promote and stimulate strong and sustainable economic growth leading to wellbeing and prosperity for residents and communities and this will be supported by a planned approach to strategic investment managed through the council's capital programme.
4. 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.
5. 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.
6. 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.
7. 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 demand for services.

3. Financial Context

3.1 The financial outlook for local government and public services as a whole remains challenging. Local government have faced significant funding reductions, and these are highly likely to continue into the future. The government had previously stated its intention to hold a new Spending Review in 2019 covering the period 2020/21 to 2022/23. However, it has been confirmed that the longer term reforms have been delayed at least until 2021/22 due to recent political events including Brexit preparations.

3.2 There are acute problems nationally in funding the increasing demands of both adults and children's social care. Adult social care is a vital public service that promotes wellbeing and independence and helps support some of our most vulnerable people. There also continues to be a huge strain on children's social care budgets the impact of which is growing both nationally and locally. Early intervention can help limit the need for children to enter the social care system, lay the groundwork for improved performance at school and even help to ease future pressure on adult social care by reducing the pressure on services for vulnerable adults. Councils are struggling to invest in this vital early help and support, as a result of the severe funding reductions. Nationally the care and support system remains under enormous pressure.

3.3 Budget cuts across other areas of the public sector have a negative impact on local government. Councils often act as a safety net when people hit crisis point, and more people are reaching this point due to cuts to other sector budgets alongside welfare reform and the introduction of universal credit. Residents are being passed around the public sector without having issues resolved, while issues that could be prevented or caught early escalate into more complex crisis cases.

3.4 Each area faces different challenges regarding service demands, demographics and cost pressures as much depends on levels of deprivation, local demographics, local economy and risk appetite. While all councils are facing challenges, regional and local factors will impact on ability to find solutions such as ability to significantly raise local income.

3.5 Lack of clarity over the value and future of social care funding continues to hinder the ability to plan effectively. In the March 2017 Budget, the government said that it would publish a Green Paper on social care during the summer of 2017 to allow a public consultation to be held. It was then stated it would be published before the 2018 Parliamentary summer recess setting out proposals to ensure that the care and support system is sustainable in the long term. More recently the paper has been delayed again. There will also be a review of the current functioning and structure of the Better Care Fund to make sure that it supports the plan.

3.6 The UK's date to leave the EU is expected to be 31 October 2019, all assumptions will be revisited regularly and the financial impacts to the Council's MTFS will be reconsidered in light of any changes to the general economy.

3.7 Medium term financial planning is taking place against a background of unprecedented levels of change and pressure on local authority budgets and follows significant continued funding cuts for local government. This environment impacts on the ability of the council to respond to the needs of Gateshead residents and the wider community.

4. Local Policy Context

4.1 The council has launched a strategic approach **Making Gateshead a Place Where Everyone Thrives**, developed with the council's purpose and beliefs in mind, along with what matters most to the people of Gateshead. This approach provides a framework to demonstrate how the Council will work and make decisions in the future which will be policy and priority-led.

4.2 Making Gateshead a Place Where Everyone Thrives is aligned to the timeframe of the council's Medium Term Financial Strategy (MTFS) and 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**

4.3 The MTFS is central to identifying the council's resource capacity to deliver its priority outcomes it reflects:

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

4.4 There are huge financial pressures on not just council resources, but those of partners, local businesses and residents. To deliver on the new strategic approach over the next five years, the council will need a radical rethink about how it works and key priorities, how resources are spent, how the council works with partners, organisations, businesses, trade unions, employees and the local people and communities of Gateshead.

5 The Council's Current Financial Position and Outlook

5.1 **Revenue Outturn 2018/19** The agreed net revenue budget was £203.466m. The final outturn reported to Cabinet on 25 June 2019 stating an overall under spend of £1.139m after proposed movement of reserves. Whilst the outturn position is positive, it should be noted that a number of one off areas of under spend in capital financing costs as well as additional traded and investment income have contributed to this position.

5.2 **Revenue Budget 2019/20** Council agreed the revenue budget in February 2019. This was set at £206.999m and included £13.113m savings. The budget includes a number of risk areas which, if not closely monitored and controlled throughout the year, could add further pressure to the funding gap in future years. These include the delivery of agreed savings and achievement of income targets. It is assumed within future sections that all past savings are fully achieved before entering 2020/21 otherwise the financial gap would increase. As part of the budget accountability framework these will be closely monitored throughout the year and issues owned by the whole organisation.

5.3 **Future Outlook Beyond 2019** Medium term financial planning remains extremely difficult due to external economic factors the financial impacts of which are impossible to predict accurately, coupled with the timing of a new finance system that is still in the design process. The level of funding beyond 2020 is unknown due to the changes in the finance system 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 these forecasts will need to be closely monitored and potentially refreshed more frequently than usual as consequences become clear. Staying the same is not an option. The council is required to change to deliver its priority outcomes within the limited funding available.

5.4 To achieve a long term, sustainable financial position the medium term strategy and focus for service plan development over the next three to five years will be centred around;

Maximising Economic Growth - Doing all we can to support economic growth and revenue generation through increased council tax and business rates. Success in this area will enable the council to reinvest resources into activities which protect the most vulnerable.

Drive **Investment in Key Priorities** to ensure achievement of outcomes for Gateshead residents within desired timescales.

Focusing on **Longer Term Cost Prevention** with a targeted approach, emphasising early intervention to mitigate demand pressures.

Continuing to **Make Cuts and Drive efficiencies** through changes to the way the council works, for example, through exploiting new technology and cutting lower priority activities to realign resources towards high priorities.

Economic Growth

5.5 Local economies are linked to national economic growth. Ongoing negotiations and uncertainty around the UK's withdrawal from the European Union make future growth more difficult to predict than usual. Whatever form of Brexit is agreed, it will likely have a negative impact on predicted economic growth. This impact is skewed across regions, with the North East forecast to experience the biggest downturn.

5.6 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.

5.7 From a financial perspective the council will look to invest resources to generate economic growth that will result in increased business rates and council tax income to the Council. This will enable the council to become more financially self-sufficient and help close the financial gap. A significant amount of activity is already being delivered by the council and its partners, to promote sustainability and growth across the borough and evidence of this is readily visible through the regeneration of the town centres.

Investing in Key Priorities

5.8 The council aims to strengthen the long-term financial position through investing in key priorities to secure the policy outcomes of the Council in a timely manner in areas such as housing, economy, health, climate change and transport. The council will seek to maximise investment opportunities whilst continuing to seek out and secure other sources of funding such as external grants.

Long Term Cost Prevention

5.9 Like many other local authorities a significant challenge facing the council is increasing demands and expectations for services at a time when funding sources are significantly reducing. In order to manage cost pressures over the medium term it is vital that plans are made to manage future demand and either reduce or stop it.

5.10 A particular area facing this pressure is in both children's and adult's social care where costs are increasing and vastly outstrip available budgets. This requires a targeted approach with early intervention and prevention strategies and working close collaboration with partners.

5.11 Other areas of demand include demands for online services, welfare and hardship support, access to public health services. This will involve implementing digital strategies, increasing capacity and skills within communities, close working with partners and volunteers to align priorities and increasing collective responsibility by encouraging and supporting local people, partner organisations, businesses and local communities to play a more active role in achieving priority outcomes for Gateshead.

Cuts and Efficiencies

5.12 The scale of the budget challenge means that the council will still face further significant cost reductions through efficiencies and different methods of service provision and cuts in service provision. This will require redirection of budgets to council spending priorities which in turn may result in ceasing existing activities, scaling down activities or services, renegotiation of contracts or Service Level Agreements. Despite already delivering considerable budget savings to date through cuts to services and efficiencies the council will continue to seek to achieve efficiencies through changes to the way the council works, for example, through exploiting new technology, consolidation of buildings and services, reducing complex processes.

5.13 The council will also actively look to streamline its processes in order to support effective decision making and make the best use of available capacity. Opportunities for working in collaboration and partnership and different ways of working will be identified and developed where this will support the delivery of the council's outcomes and improve service efficiency and delivery. This will include working collaboratively with key partners to share costs or transfer responsibilities.

6 Looking Ahead

6.1 Future budget forecasts have been projected over the medium term. Forecasts and assumptions are outline below for information.

2019/20 £m	Indicative Budget Forecasts	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
203.466	Net Revenue Budget	206.999	216.264	227.338	237.727	247.700
	Cost Pressures:					
5.817	Base Adjustments	-0.943	0.000	0.000	0.000	0.000
0.531	Inflation (General)	0.700	0.718	0.736	0.755	0.775
0.546	Inflation (Contractural inc Social Care Fees)	2.715	2.547	2.643	2.943	2.846
3.174	Corporate Council Wide (inc pay)	1.862	3.902	3.968	4.036	4.104
5.578	Service Demand	3.609	1.854	2.287	2.239	2.107
1.000	Strategic Investment (Capital)	1.322	2.052	0.754	0.000	0.000
220.112	**Total Cost Pressures**	216.264	227.338	237.727	247.700	257.532
	Funding Resources:					
(15.012)	SFA - Revenue Support Grant	(15.312)	0.000	0.000	0.000	0.000
(41.705)	SFA - Retained Business Rates	(42.539)	(65.939)	(67.258)	(68.603)	(69.975)
(15.109)	SFA -Top Up Grant/Equalisation	(15.109)	(41.031)	(38.708)	(36.431)	(34.154)
(91.319)	Council Tax	(93.655)	(96.038)	(98.469)	(100.949)	(103.478)
(40.943)	Other Grants (inc Public Health)	(40.580)	0.000	0.000	0.000	0.000
(1.968)	Collection Fund	(1.000)	0.000	0.000	0.000	0.000
(0.943)	Reserves	0.000	0.000	0.000	0.000	0.000
(206.999)	**Total Funding Resources**	(208.195)	(203.008)	(204.435)	(205.983)	(207.607)
13.113	**Cumulative Funding Gap**	8.069	24.330	33.292	41.717	49.925
13.113	**Annual Funding Gap**	8.069	16.260	8.962	8.425	8.208

6.2 The indicative budget forecasts show an estimated funding gap of around **£49.9m** for the five-year period 2020/21 to 2024/25. Indicative figures have been included for the following cost pressures;

- **General and Contractual inflation** the cost pressures arising from rising costs in utilities and existing contracts;
- **Council Wide Cost Pressures** such as pension costs, pay awards, costs relating to changes in policy and loss of grant in year;
- **Service Demand Pressures** such as children's and adults existing and estimates of future demand cost pressures;

  Like many other councils, this council comes under increasing pressure to provide or enable essential statutory services without adequate funding. There are particular pressures within children's and adult's social care services where demand for the provision of care and support for looked after children and the elderly continues to grow. This adds significantly to the budgetary pressures faced by the Council. The Council has set aside recurrent funding within this financial plan.

  Adult's social care cost pressures are continuing due to the increasing numbers of older people in Gateshead with associated problems such as frailty leading to falls and dementia or having one or more of the common long-term conditions such as diabetes, epilepsy, heart disease, chronic pain, arthritis, asthma and chronic obstructive pulmonary disease. In addition, providing care and support for people under 65 with disabilities accounts for a large portion of budget.

  Children's social care face increasing cost pressures relating to looked after children, high needs supported accommodation for up to 25 years olds, special guardianship orders, children with disabilities and home to school transport.

  Social care is a vital public service that promotes wellbeing and independence and helps support some of our most vulnerable people and children. Early intervention can help limit the demand pressures however councils are struggling to invest in vital early help and support, as a result of the severe funding reductions. Nationally the care and support system remains under enormous pressure and a long term sustainable solution must be found.

- **Revenue Costs of Capital Investment** the revenue cost arising from capital investment

6.3 The funding projections in this strategy are based on local assumptions, these are set out below for information;

6.4 **Revenue Support Grant (RSG)** The central government core grant. The MTFS assumes RSG continues in 2020 in line with recent government announcements then removed for future years in the move towards full business rate retention.

6.5 **Locally Retained Business Rates** As part of the Devolution agenda, the government initially planned for councils to begin keeping 100% of local business rates to replace the Revenue Support Grant. The rollout of this new system has been delayed and scaled back to 75%. It was announced within the provisional Local Government Finance Settlement

2018/19 that the government aimed to introduce at least 75% business rates retention in 2020. This has now been delayed at least until 2021/22.

6.6 The MTFS assumes that the move to 75% business rate retention is implemented in 2021/22. This change in funding system for local government is still being consulted on. There is to be a system of redistribution through tariffs, top-ups and baseline resets, but the government are yet to announce the details. This makes modelling projected income from business rates extremely difficult adding significant uncertainty into the medium term position. At this point it is known that the intention is for Revenue Support Grant to disappear and the council will receive business rates calculated on a revised baseline. Business rate funding levels in future are highly indicative and are based on 75% of total rates plus an element of equalisation. This will need to be revisited as more information on the proposed new system comes to light.

6.7 The level of business rates, the frequency of property valuations, exemptions and reliefs, and the collection and appeals processes are all currently controlled by central government. Business rates income can be volatile and therefore not a stable and reliant source of funding, the system does not currently capture online digital business whilst high street businesses are struggling.

6.8 **Council Tax** Increases would need to take into consideration the Government's referendum principles which are set out every year within the settlement. A 1% increase in council tax yields approximately £0.900m. MTFS projections include 2% council uplifts over the period. This is in line with recent announcements within the spending review. An estimated amount to reflect growth in the council tax base has also been included.

Within the Spending Review the government announced an intention to consult on a further 2% Adult Social care precept for 2020. This method places the burden of funding a national funding shortage for social care onto local council tax payers. At this stage the potential funding from this has not been included in MTFS projections. Actual council tax increases will be decided on an annual basis taking into account financial circumstances of the council at the time and the level of resources available. Annual increases remain subject to the decision of both Cabinet and Council.

6.9 **Other Grants** include government grants that are used to finance general council budgets. These include New Homes Bonus, Improved Better Care Fund and Section 31 grant related to refunded costs by government for the business rate system. The MTFS assumes that from 2021/22 all other grants will taper off to nil to be replaced under the new funding regime under rates retention and fair funding including the current ring fenced Public Health grant. In 2020/21 in line with recent announcements it is estimated that the Public Health Grant will increase in line with inflation along with the Better Care Fund allocations via health.

6.10 **Borrowing and Investments** The council invests money with a number of financial institutions acting in accordance with the framework outlined in the Treasury Policy Statement and Treasury Strategy 2019/20 to 2023/24. The investment interest earned is used to support the Council's new strategic approach 'Making Gateshead a Place Where Everyone Thrives'.

6.11 **Fees and Charges** The council currently raises in the region of £22.7m from fees and charges, of which around £3.4m relate to statutory charges and £19.3m relate to non-

statutory charges. For some charges like parking, councils can set the charges they like. For others, like planning, the amount councils can charge is capped. It is normal practice for the council to review fees and charges annually and propose revised and new charges from 1 April each year. This will include the development of any policies in respect of discounts and concessions. As part of the annual review, all fees and charges are considered. Where inflationary increases have been proposed, these have been uplifted using the September Consumer Price Index (CPI) rate. Any impact on income budgets arising from these areas are either adjusted at the annual budget setting stage or will be consulted on as part of the budget proposal process.

7 Housing

7.1 The council has a housing strategy that focuses on ensuring that people who live, or would like to live in Gateshead can access, sustain and remain in a home that meets their needs and is safe, secure and affordable, in a thriving neighbourhood, at whatever stage of life they are. This provides a framework for the Council's housing-related strategic functions and activity and includes its homelessness and rough sleeping strategy.

7.2 The strategy is structured around three linked objectives:

- **Supply -** to ensure use of existing stock and supply of new housing best meets current and future needs and aspirations to create thriving, mixed communities. We want to encourage the building of sufficient new homes using land sustainably and prioritising the use of brownfield land. We also want to increase the number of empty homes brought back into use.
- **Standards** - to improve the quality, condition and management of housing so that all residents benefit from safe, healthy, energy efficient and well-managed homes and neighbourhoods.
- **Support -** to help residents' access and sustain a home which promotes their wellbeing and supports them to thrive. Tackling homelessness and its root causes is a key objective.

7.3 It also sets out the key priorities relating to these objectives and how the council and partners will work together to address them within current and future available resources.

7.4 To facilitate decision making and strategically plan for social housing in the future the Council continually updates its 30-year Housing Revenue Account Business plan considering the long-term future of the housing stock alongside the short-term plans. The plan includes all known income and expenditure information alongside several key assumptions in relation to the anticipated levels of voids, right to buy sales and inflation. It also includes plans for borrowing and repaying debt in the future.

8 Schools

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

8.2 The Government introduced a national funding formula (NFF) for mainstream schools from 2018/19, with some local discretion available within formula.

8.3 The DSG is required to be spent directly on the education of children, with the vast majority of funding going into schools, based on an allocation mechanism agreed by Schools Forum, which has minority representation from the Council. Some schools funding is de-delegated from maintained schools and is centrally retained by the Local Authority with the approval of Schools Forum to fund services for schools, such as the Ethnic Minority and Traveller Achievement Service, and the Behaviour Support Service.

8.4 At 31 March 2019 the overall reserves balances for all maintained schools in Gateshead totalled £6.249m, an increase of £1.044m from March 2018. This increase was due to additional in year funding received from the DfE in December 2018.Six maintained schools had a deficit balance at 31 March 2019 totalling £0.456m. Due to the financial pressures facing schools over the coming years it is projected that school reserves will fall further, and more schools will be in a deficit position if there is no additional funding for schools.

8.5 At 31 March 2019 the DSG reserves in Gateshead totalled £0.816m, a decrease of £0.340m from March 2018. The decrease in reserves would have been higher but it was mitigated by £0.420m in year additional funding for the high needs block from the DfE. It is anticipated that the pressure on the high needs block will continue due to the increase in special school places, children with special educational needs (SEN) and permanently excluded pupils. DSG reserves were used to fund an in-year shortfall in the high needs block 2018/19 and it is anticipated that this will be required again to meet in year funding shortfalls despite additional

funding of £0.420m for 2019/20 and school's forum agreeing to top slice the schools block by 0.05% (£0.551m) to fund pressures.

8.6 The Spending Review announced a further High Needs schools funding increase of over £700m to support children and young people with special educational needs. Other announcements include ensuring in 2020/21 that that per pupil funding for all schools can rise in line with inflation and the minimum per pupil amount for 2020/21 will increase to £5,000 for secondary schools and £3,750 for primary schools. It was also announced that pupil related factors in the national funding formula will increase by 4% and that all mainstream schools will receive at least a 1.8% increase in line with inflation. The outcome for Gateshead schools is still to be determined, but the highest proportion of the additional mainstream funding will be allocated to the South East and South West of England.

9. Capital and Prudential Borrowing

9.1 The council's capital investment plans are set out in the capital programme, with the latest approved programme covering the period between the 2019/20 and 2023/24 financial years. The effective use of capital resources, including asset management, is fundamental to the Council achieving its medium and long term strategic objectives. Capital investment has a significant impact upon the local economy and helps to ensure that the council can continue to provide the best possible services and outcomes within Gateshead.

9.2 Any capital investment decision will have implications for the revenue budget. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within the council's financial plans and to demonstrate that the capital investment is affordable. Revenue implications may include the costs associated with supporting additional borrowing as well as any changes to the running costs associated with the asset or wider benefits to the council such as the delivery of ongoing revenue budget savings or additional income through the generation of business rates, council tax or energy revenues.

9.3 The approved five-year capital programme for the period 2019/20 to 2023/24 includes a number of ambitious projects and estimates £262m of planned capital investment (excluding Housing). Total capital investment is estimated to be £368m including investment in the HRA. It is envisaged that additional projects and investment opportunities and pressures will emerge over the period as major projects, such as investment in Gateshead Quays, continue to progress towards the delivery phase. Indicative allowances have been included within the MTFS projections to support an additional £45m of borrowing in excess of the allocations within the existing approved programme over the period and this position will be reviewed as the capital programme is developed.

9.4 The council continues to explore external funding possibilities when developing capital projects to minimise the borrowing requirement as far as possible. Within the MTFS, assumptions have been made around the level of external funding in the future, but detailed work programmes will not be committed to until the allocations have been confirmed. Projects and investment plans may therefore be re-prioritised depending on the availability of external funding.

9.5 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 availability of capital receipts has also reduced in recent years as a result of the property market. Capital receipts totalling £5m have been included within the MTFS projections. If additional capital receipts are generated during the year this provides the council with the flexibility to consider the introduction of additional projects to the capital programme or the ability to reduce the borrowing requirement.

9.6 Following the adoption of the Council's Core Strategy and Urban Core Plan, the council is likely to secure additional capital receipts for sites as developments come forward. The council is also likely to secure contributions from developers (including the potential introduction of Community Infrastructure Levy) to help fund the provision of strategic infrastructure that is necessary to support future developments and growth which may be used to support future capital investment, either as an addition to the capital programme or to displace the use of planned borrowing helping to reduce the revenue cost of supporting the capital programme.

Capital Investment Pressures

9.7 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.

- 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 assets to enable the Council to meet its key objective of Making Gateshead a Place where everyone thrives; and

- Investing in the provision of energy infrastructure to support the expansion of the Town Centre District Energy network to provide lower cost, lower carbon energy to support regeneration and economic development, generate income and provide long term resilience against rising energy prices.

- Meeting essential health and safety and mandatory obligations, such as Equality Act improvements, to improve the accessibility and sustainability of council owned assets;

9.8 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.

10. Reserves

10.1 Local authorities must consider the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. The Strategic Director, Corporate Resources 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.

10.2 The Council keeps a level of reserves to protect against the risk of any uncertainties or unforeseen expenditure. 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 sort out issues. Therefore, reserves are mainly used to;

- Manage the impact of cuts over a longer period of time
- Invest in schemes that allow services to be delivered cheaper
- Take "one-off hits" for the council as a whole without the need to further reduce service budgets (e.g. changes to national insurance contributions or local tax regimes)
- Provide capacity to absorb any non-achievement of planned budget reductions in each year
- To temporarily roll over unused portions of grants that can legally be used at a later date
- To insure against major unexpected events (such as flooding)

- To guard against general risk (i.e. saving up for unexpected events)
- To guard against emergent specific risks, such as business rate appeals, council tax support funding cuts and welfare reform. These risks are predicted to continue to increase.

Reserves Policy

10.3 The council's policy on reserves is outlined within the MTFS principles as follows:

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

Review of Reserves

10.4 A review of reserves is undertaken twice a year 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.

10.5 The 2018/19 Revenue Outturn position was reported to Cabinet on 25 June 2019, showing the balance of usable reserves of £52.9m (including ring fenced reserves of £12m) An explanation of each reserve and balances as at 31 March 2019 can be found in the council's audited statement of accounts for 2018/19.

10.6 General reserves total £21.056m, split £14.807m Council general reserve and £6.249m schools reserves.

- General Fund- £14.807m- The minimum balance on the reserve is 3% of the net revenue budget which equates to £6.210m, therefore £8.597m is available for reallocation to earmarked reserves.

- Schools Reserves- £6.249m- The schools collectively have a balance of £6.249m, although it should be noted that this includes both surplus and deficit balances. It is currently estimated that all balances will be utilised by the end of 2021/22.

10.7 The Council's earmarked reserves for specific purposes total £31.848m (£26.019m strategic and £5.829m ring fenced).

Earmarked Reserves

10.8 The Strategic Director, Corporate Resources has reviewed the level of the general reserve and it is considered that a 5% minimum level should be retained given the current level of risk and uncertainty. It is proposed that £3.986m is transferred from the general reserve to earmarked reserves, leaving a balance of £10.821m which is circa 5% of the net revenue budget.

10.9 As part of the MTFS refresh, the earmarked reserves have been reviewed and it is proposed that the current reserves are realigned into four strategic reserves as follows:

Financial Risk and Resilience- It is proposed that the insurance, grant clawback, business rates and budget flexibility reserves are merged to create a new Financial Risk and Resilience Reserve.

Budget Sustainability- It is proposed that the strategic revenue investment and the workforce development reserves are merged to create a new Budget Sustainability Reserve.

Economic, Housing and Environmental Investment- It is proposed that the economic growth, culture and place shaping reserve is renamed to create a new Economic, Housing and Environmental Investment Reserve.

Poverty, Health and Equality Investment- It is proposed that the discretionary social fund, voluntary sector and anti-poverty reserves are merged to create a new Poverty, Health and Equality Investment Reserve.

10.10 The revised reserves balances following the realignment outlined in this report are shown in the table below for information.

	Revised Balance Sept-19 £000s
General Fund	
General Reserve	(10,821)
LMS Budget Share Reserve*	(6,249)
Total General Fund Reserve	**(17,070)**
Earmarked Reserves	
Strategic Reserves	
Financial Risk and Resilience	(11,290)
Budget Sustainability	(10,215)
Economic, Housing and Environmental Investment	(5,000)
Poverty, Health and Equality Investment	(3,500)
Ring Fenced Reserves	
Developers' Contributions*	(1,706)
DSG Reserve*	(816)
Unapplied revenue grants*	(1,115)
Public Health Reserve*	(2,192)
Total Earmarked Reserves	**(35,834)**
Total Reserves	**(52,904)**

**ringfenced for a specific purpose*

Reserves Summary 2019/20 to 2024/25

10.11 The following table illustrates the changes to balances following review and estimated use of all revenue reserves over the period to March 2025;

	Opening Balance Apr-19 £000s	MTFS Reallocation £000s	Revised Balance £000s	Estimated Use 2019/20 £000s	MTFS Projections 2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	Estimated Remaining Balance Mar-25 £000s
General Fund										
General Reserve	(14,807)	3,986	(10,821)							(10,821)
LMS Budget Share Reserve*	(6,249)		(6,249)	2,585	3,270	394				0
Total General Fund Reserve	**(21,056)**	**3,986**	**(17,070)**	**2,585**	**3,270**	**394**	**0**	**0**	**0**	**(10,821)**
Earmarked Reserves										
Strategic Reserves										
Business Rates Reserve	(5,000)	5,000	0							0
Insurance Reserve	(3,000)	3,000	0							0
Grant Clawback Reserve	(1,000)	1,000	0							0
Workforce Development Reserve	(6,009)	6,009	0							0
Discretionary Social Fund Reserve	(535)	535	0							0
Budget Flexibility Reserve	(2,290)	2,290	0							0
Economic Growth, Culture and Place Shaping Reserve	(2,885)	2,885	0							0
Strategic Revenue Investment Reserve	(4,206)	4,206	0							0
Voluntary Sector Reserve	(337)	337	0							0
Anti Poverty Reserve	(757)	757	0							0
***NEW* Financial Risk and Resilience**		(11,290)	(11,290)	2,290	2,000	2,000	2,000	2,000	1,000	0
***NEW* Budget Sustainability**		(10,215)	(10,215)	1,000	2,000	2,000	2,000	2,000	1,215	0
***NEW* Economic, Housing and Environmental Investment**		(5,000)	(5,000)	1,000	1,000	1,000	1,000	1,000		0
***NEW* Poverty, Health and Equality Investment**		(3,500)	(3,500)	1,000	1,000	1,000	500			0
Ring Fenced Reserves										
Developers' Contributions*	(1,706)		(1,706)	750	350	350	256			0
DSG Reserve*	(816)		(816)	816	0					0
Unapplied revenue grants*	(1,115)		(1,115)	748	367	0	0	0	0	0
Public Health Reserve*	(2,192)		(2,192)	753	321	321	321	321	155	0
Total Earmarked Reserves	**(31,848)**	**(3,986)**	**(35,834)**	**8,357**	**7,038**	**6,671**	**6,077**	**5,321**	**2,370**	**0**
Total Reserves	**(52,904)**	**0**		**10,942**	**10,308**	**7,065**	**6,077**	**5,321**	**2,370**	**(10,821)**
Total Ring fenced*	(12,078)	0	(12,078)	5,652	4,308	1,065	577	321	155	0
No Ring-fence	(40,826)	0	(40,826)	5,290	6,000	6,000	5,500	5,000	2,215	(10,821)
	(52,904)	**0**	**(52,904)**	**10,942**	**10,308**	**7,065**	**6,077**	**5,321**	**2,370**	**(10,821)**

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

10.13 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.

10.14 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. Where this approach is adopted the council will be explicit as to how such expenditure will be funded in the medium to long term to achieve financial sustainability. The council recognises that usage of reserves is one-off in nature and must be linked with expenditure and income plans to support financial sustainability in the medium term.

11. Risk Assessment

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

Risk	Likelihood	Impact	Risk Management
1. Future available resources are less than assumed.	Possible	High	Annual review of reserves and reserves policy to identify future resources. Assumptions on funding for 2020/21 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.
2. Volatility of Business Rates funding given uncertainty around impact of appeals	Likely	High	Volatility of funding stream outside of council control but impact mitigated by establishment of specific earmarked reserve and financial monitoring framework. Modelling of potential impacts is used to inform internal financial planning.
3. Public Health funding is insufficient to meet responsibilities	Possible	Medium	Funding confirmed for 2019/20 but not in future years. The lack of certainty of continuation of grant going forward is a significant risk. Public Health responsibilities will be rolled into the new system under the move to 75% rate retention.
4. Pay Awards, fee increases and price inflation higher than assumed	Possible	Medium	Impact of potential increases mitigated by central contingency budget for pay, price increases and care fees. Where pay awards have been agreed these are factored into the estimates where affordable.
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 takes place but the size of the funding cuts increase the likelihood of this risk. Non-achievement of savings would require compensating reductions in planned spending within services. Greater scrutiny of savings has taken place since 2017 through the revenue monitoring process. 2019/20 budget will see dedicated senior officer sessions on budget issues and greater adherence to the escalation framework.
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 scenario planning.
Risk	Likelihood	Impact	Risk Management
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.

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 integration and Welfare Reform	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/CCG Better Care Fund Programme Board. The impacts of welfare reform continue to be planned for and monitored through the Council Scrutiny Framework.
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 , ANEC provide ability to assess and compare strategies to ensure assumptions are comprehensive.

12. Conclusion

12.1 The review of the MTFS has again been undertaken against a background of significant funding reductions, financial reforms and increasing costs due to service pressures. These factors could jeopardise the council's sustainable financial position unless budget savings continue to be delivered alongside the delivery of the council's priorities.

12.2 The MTFS covers five years and funding beyond 2020/21 remains highly uncertain although all indications are that austerity measures are likely to continue throughout the medium term.

12.3 The MTFS identifies a potential financial gap of £8m in 2020/21 and £49.9m in the next five years to 2024/25. This gap follows years of the council finding significant budget savings which alongside other public sector partners have a cumulative impact since austerity began in 2010.

12.4 Although the financial context continues to be challenging and uncertain the council has a track record of meeting its financial obligations and maintaining financial sustainability. A Council wide approach to the budget, which is priority driven and over a medium term planning horizon will ensure that this continues to be the case.

12.5 The council will continue to keep the MTFS under frequent review given the high degree of uncertainty surrounding the potential impact of government policy and government announcements on funding decisions.