

Medium Term Financial Strategy 2021/22 to 2025/26

1 Annual Review Outcome

- 1.1 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 2021/22 to 2025/26 which will help ensure resources are aligned to the outcomes in the council's strategic approach "Making Gateshead a Place Where Everyone Thrives".
- 1.2 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. Financial forecasts determine the likely level of revenue resources available to the Council over the medium term and estimates the financial consequences of the demand for council services. It improves financial planning and strategic financial management through providing the financial context within which the council budget will be set.
- 1.3 The MTFS sets the financial context for the council's resource allocation process and budget setting. The council has responded to the financial challenges in a planned way through an approach based around four inter-related areas: economic growth, priority investment, cost prevention and identifying savings/efficiencies. The world pandemic brings new challenges to be considered.
- 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 faced being forced to make very difficult choices in the years ahead about which services to prioritise investment.
- 1.5 During 2020 the council and its residents have been impacted by the COVID-19 Public Health crisis. The lives and livelihoods of all residents have been severely affected by the impact of the Coronavirus pandemic and the measures that have been put in place to control the infection. From a financial perspective some of the cost pressures and loss of income will have both an immediate and longer-term impact on the council finances. As a result, it is likely that the Council will accelerate current work on a priority driven approach to the Budget that will deliver outcomes consistent with Thrive principles.
- 1.6 The UK's vote to leave the European Union (EU) and the current uncertainty is likely to herald a degree of continued instability in the short to medium-term and the consequences are still to be understood over the MTFS period.
- 1.7 Alongside this the Council still has no further clarity on the changes being proposed to local government funding. On 6 February the council received a one-year financial settlement for 2020/21. On 28 April 2020, the government announced that the Review of Relative Needs and Resources (Fair Funding Review) and the move to 75% business rates retention will no longer be implemented in 2021/22. A spending review is expected in the Autumn setting out Government spending plans for revenue for 2021/22 until 2023/24 and capital budgets to 2024/25. As part of their preparations for the CSR departments have been asked to identify opportunities to reprioritise and deliver savings.

- 1.8 HM Treasury have announced that the next Budget will not take place this autumn due to the continued impact of COVID-19. This means that there is a possibility that the current plan for a 3-year Spending Review might be replaced by a 1-year rollover exercise similar to last year's settlement.
- 1.9 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.
- 1.10 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 remain under enormous pressure.
- 1.11 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 added to this the impacts of the world pandemic.
- 1.12 Based on local estimates outlined in this report, this council estimates that overall, it will need to close a financial gap of £58.4m to 2025/26. This gap can be summarised as follows (there may be slight differences due to rounding's):

Indicative Budget Forecasts	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Estimated Base Budget	238.394	253.782	266.417	278.411	289.901
Estimated Funding Resources	(219.773)	(218.244)	(221.588)	(226.438)	(231.438)
Cumulative Funding Gap	18.621	35.538	44.828	51.973	58.463
Annual Funding Gap	18.621	16.917	9.290	7.145	6.490

- 1.13 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.
- 1.14 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 The Principles of the MTFS

2.1 Following a review the proposed principles underlying the MTFS 2021/22 to 2025/26 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 5% 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 The Council's Current Financial Position and Outlook

Revenue Outturn 2019/20

- 3.1 Council agreed the original revenue budget for 2019/20 on 21 February 2019. This was set at £206.999m. This was subsequently revised to £207.262m on 20 November 2019 following the receipt of additional funding of £0.263m. The overall service revenue outturn for 2019/20, including transfers to and from reserves and financing, results in an under spend of £0.237m (0.1%). As previously reported the Council has received a refund of VAT in relation to Leisure Services of £3.893m. The Council's stated intention in relation to this one-off benefit has been to transfer this into the General Reserves to support the MTFS. When added to the monitoring position outturn this results in an overall council revenue position for 2019/20 of a surplus of £4.130m.

Revenue Budget 2020/21

- 3.2 Council agreed the revenue budget for 2020/21 at its meeting on 27 February 2020. This was set at £220.761m (excluding schools) and included £0.451m in savings. The report proposed to move forward a priority driven approach to revenue resource allocation. Unlike previous years, 2020/21 was to mark a change from the annual budget proposal cycle to a continuous approach with budget developments brought for consideration to Cabinet throughout the year within a five-year budget planning framework. During 2020 the Council has had to react to the challenges on the pandemic and lockdown restrictions. The quarter one monitoring reports for capital and revenue which included amendments to budget were reported to Cabinet on 15 September 2020.

Beyond 2020

- 3.3 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 the following themes. Because of the pandemic It may be that decisions on priority areas are brought forward and addressed now or postponed and more budget savings are required early.
- **Increasing /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.
 - **Investment in Key Priorities** to ensure achievement of outcomes for Gateshead residents within desired timescales.
 - **Longer Term Cost Prevention** with a targeted approach, emphasising early intervention to mitigate demand pressures.
 - **Making 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

- 3.4 Local economies are linked to national economic growth. 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. Supporting residents with sustained employment and skills during the pandemic will be crucial. 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.

Investing in Key Priorities

- 3.5 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

- 3.6 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.
- 3.7 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.
- 3.8 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

- 3.9 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.
- 3.10 Due the pandemic emerging priorities are providing support into communities, moving services to digital and supporting the voluntary and community sector. It may be that decisions on priority areas are brought forward and addressed now.
- 3.11 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.

3.12 Indicative budget forecasts show an estimated funding gap of around £58.4m for the five-year period 2021/22 to 2025/26. 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 and include financial pressures relating to the pandemic such as PPE and lost income due to the absence of any assurance from government about long term COVID-19 support;
- **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. Cost pressures continue in relation to home to school transport, housing and waste services. 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 remain under enormous pressure and a long-term sustainable solution must be found.

- **Capital and Prudential Borrowing**

The council's capital investment plans are set out in the capital programme, with the latest approved programme covering the period between the 2020/21 and 2024/25 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.

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.

The council continues to explore external funding possibilities when developing capital projects to minimise the borrowing requirement as far as possible. Generation of capital receipts can also 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.

Considering the ongoing and uncertain economic conditions the Council will be reviewing current programme affordability and project risk to help achieve a sustainable financial position, which may require a reconsideration of project commitments.

3.13 Key assumptions regarding funding are outlined below;

- It is assumed no continuation of COVID-19 government funding support into future financial years
- Due to the ongoing delays to reforms it is extremely difficult to forecast finances over the medium term. With that in mind the MTFS will now be prepared on the current funding model of revenue support grant (RSG) and top up grant rather than estimating a rates retention model until such time that proposed reforms are clearer. Therefore, all grant continues at 2020/21 cash levels. No uplift for inflation has been assumed.
- 1.99% increase per annum for council tax uplifts (£1.9m) has been included in projections without prejudice, along with projections relating to growth in the council tax base. Unlike the previous MTFS position anticipated reductions due to council tax deficits and impacts of increased local council tax support have been included.
- No Adult Social Care precept is assumed (previously 2%)
- From 2024/25 increased rates from the Quays development have been included estimated at £2m per annum. Potential surplus generated by the scheme has also been included in estimates.

4 Reserves

- 4.1 The 2019/20 Revenue Outturn position was reported to Cabinet on 23 June 2020. A full review of strategic reserves was conducted to ensure balances are fit for purpose, contributing to long term financial sustainability and the purpose for being held is fully transparent. Several changes were made to strategic reserves. The outcome on the Council element of the general fund reserve was a remaining balance of £11.059m. This equates to 5% of 2020/21 net revenue budget. At outturn total useable reserves are £59.9m (£19m ring fenced) An explanation of each reserve and balances as at 31 March 2020 can be found in the council's audited statement of accounts for 2019/20. The Strategic Director, Corporate Resources reviewed the level of the general reserve and considers levels to be appropriate given the current level of risk and uncertainty.
- 4.2 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. This will be reported into Cabinet in February as part of the budget and council tax setting report.
- 4.3 The council's policy on reserves is contained within the MTFS principles, is as follows:
- The council will **maintain its general reserve at a minimum of 5%** 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**.

5 Conclusion

- 5.1 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 as well a world health crisis. 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.
- 5.2 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.
- 5.3 The MTFS identifies a potential financial gap of £18.6m in 2021/22 and £58.4m in the next five years to 2025/26. 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.

- 5.4 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.
- 5.5 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.