

TITLE OF REPORT: **Budget – Approach to Recovery 2021/22**

REPORT OF: **Darren Collins, Strategic Director, Resources and Digital**

Purpose of the Report

1. To seek Cabinet approval on the Council's budget approach 2021/22 that will support the delivery of the Council's thrive objectives alongside the increasing financial challenges of the world pandemic.

Background

2. On 23 June Gateshead Council's response to COVID-19 – Financial update, wider implications and steps towards recovery was reported to Cabinet.
3. On 20 October the updated Medium Term Financial Strategy (MTFS) was reported to Cabinet outlining an estimated financial gap of £58.4m over the five year period (2021/22 to 2025/26) with £18.6m in the first year of 2021/22.

Proposal

4. The MTFS was prepared with no confirmation from Government of future funding levels and no indication of how future funding reforms will impact on levels of funding. The spending review announcements have provided some high level intentions for 2021/22 such as the intent to push back funding reforms and a continuation of COVID support. Exact funding levels for next year will not be clear until the Local Government Finance Settlement is given in December.
5. The pandemic has had a significant impact on national finances, resulting in a heightened risk that public service funding will be restricted in future which will require the Council to identify and deliver significant additional savings on top of the gap identified in the medium to long term.
6. The financial impact to the Council of reduced income and increased costs attributed to COVID-19 is considered to be circa £50m. The pandemic has had a substantial financial impact on the Councils in year position which will also have impacts in future years.
7. As a consequence of national and local measures many of the council's income sources have been impacted. Measures taken nationally to control the pandemic will lead to economic losses and loss of output. Increased local unemployment and reduced tax revenues are likely which in turn is highly likely to affect collection rates for council tax and business rates income.

8. In addition to this the longer-term consequences of any recession, exit from the EU and impacts on the local economy from unemployment are yet to be ascertained. A delicate balance is needed between meeting the needs of the most vulnerable and strong financial management to make sure the Council can balance the books.
9. The council has taken steps to close the financial gap in year by pausing and reprofiling areas of planned investment. This is in response to the COVID-19 impact itself and the requirement to manage the impact on council finances. Activity will be reconsidered as part of budget setting.
10. The Council previously developed a set of core principles that will continue to underpin our approach, these were agreed at Cabinet and Council in November 2019, specifically the approach will be:
 - Priority driven – the Council will focus on what matters most;
 - Performance driven – a focus on measurable outcomes;
 - Council wide rather than service focus;
 - Over an extended budget time horizon of 5 years to enable effective planning;
 - Iterative to reflect a continuous approach;
 - Supported by investment to deliver improvement and efficiencies;
 - Targeted approach to those with the greatest need;
 - Community focussed to maximise local wealth; and
 - Integrated to cover all aspects of the Council’s budget including revenue, capital, schools, and housing.
11. Budget setting for 2021/22 is taking place alongside managing impacts of the pandemic. The Local Government Financial Settlement is expected in December and therefore there is no firm funding position. Council must set a balanced budget in February and look to close the £18.6m financial gap therefore this report sets out an approach to the work to be done in the next few months to get to this position. The approach to the budget will be council wide and led by senior management.
12. The proposed approach is set out below with detail provided in appendix 1.
 - 1) Budgets must continue to support the pandemic response and activity in business critical areas and continue to support recovery from the impact of COVID;
 - 2) The Budget will be driven by Thrive objectives and therefore outcomes;
 - 3) There will be a corporate targeted approach to agree budget option proposals and therefore identify transformation, savings and growth;
 - 4) There will be a fundamental review of the Capital Programme to achieve sustainability of borrowing costs;
 - 5) The Council budgets will be coordinated with a fundamental review of the HRA budgets;
 - 6) There will be a fundamental review of existing delivery partnerships and levels of risk;
 - 7) Budget planning will be fully aligned with the Council approach to Climate Change;
 - 8) A review of income generation will be undertaken (including fees and charges) that takes account of the impact of COVID on residents and businesses within the Borough.

Next Steps

Priorities / Revenue Savings Options

13. On 19 January 2021, a report will provide an update following the approach outlined and propose areas for prioritised investment resourced by areas for budget savings. The report will also consider any engagement with stakeholders and, subject to confirmation of the 2021/22 local government finance settlement, this report will also consider the funding envelope that is available to the Council.

Budget and Council Tax

14. On 23 February 2021, a report will propose a Budget and Council Tax for 2021/22 to reflect the statutory requirement to produce a balanced budget by 11 March each year and recommend this to Council on 27 February 2021.
15. On 23 February 2021 Cabinet will receive a proposed capital programme and Housing Revenue Account budget for 2021/2022 aligned to the budget approach and will recommend these to Council on 27 February 2021.

Recommendations

16. It is recommended that;

Cabinet approve the approach to 2021/2022 budgets contained within this report and the timeline for future reporting to support the delivery of thrive objectives and achieve financial sustainability.

for the following reason(s)

- i) to contribute to the good financial management practice of the Council;
- ii) to assist the financial sustainability of the Council over the medium to long term.

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Policy Context

1. The Medium-Term Financial Strategy (MTFS) includes medium term financial estimates and context that supports the Council's policy approach 'Making Gateshead a Place Where Everyone Thrives'. The Council recognises there are huge financial pressures on not just Council resources, but those of partners, local businesses and residents. To deliver on the approach the Council will need to be resolute in its determination to make Gateshead a place where everyone thrives. This means the Council's decision-making including resource allocation through the budget will be policy and priority led and driven.

Background

2. Financial sustainability requires all stakeholders in the Borough to understand that resources available to the Council are scarce. As a Council we can no longer afford to do everything for all residents, and there is a need to focus the limited resources at our disposal on priority areas which will help us realise the biggest impact and achieve the best possible outcomes for residents in Gateshead. Important decisions need to be made about both the relative priority of different services and the balance between what we can afford to deliver against the income raised through local taxation. Investment in these priorities will need to be funded by redirecting resources currently directed at areas of lower priority. The Council needs to challenge not only how services are delivered but also what is being delivered. Critically, these decisions need to be taken in the context of ensuring that they meet our strategic approach, ***making Gateshead a place where everyone thrives***, but also with a clear understanding of the statutory requirements of local government.
3. Local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Therefore, to legally balance the budget the council must make spending plans affordable by matching it to the estimated funding available over that time.
4. The council will ensure that reducing resources are used to maximum effect and allow the council to continue to deliver new and better ways of working and invest to improve the efficiency of services provided. It is evident however the continuing reductions in funding and increases in demand alongside the financial challenges arising from a world pandemic will have an inevitable impact on both the nature and scope of services that the council is able to deliver. The council will aim to manage the process of change to its services effectively.
5. The UK Government's COVID-19 Winter Plan published in November presents a programme for suppressing the virus, protecting the NHS and the vulnerable, keeping education and the economy going and providing a route back to normality. From December, the Government will be ready for a UK-wide vaccination programme to begin, provided regulators approve the vaccines. Scientific advances in vaccination and treatments should reduce the need for economic and social restrictions from the spring.

6. The Government spending review announcements on 25 November gave more detail than usual in relation to direction of travel of local government finance. Exact figures for Gateshead will not be known until late December, however MTFS assumptions can be revisited in light of some of the announcements which were unknown at the time the MTFS was prepared. Key announcements which impact on funding include;
- All social care grants will continue into 2021 including BCF and IBCF
 - Council tax uplift limit confirmed as 2%
 - New Homes Bonus to continue, no new legacy payments
 - £300m national additional social care grant un-ringfenced
 - Confirmed an Adult Social Care Precept of 3% (phasing possible over 2 years)
 - £1.55bn un-ringfenced COVID-19 grant for 2021
 - £165m Troubled Families Grant to continue
 - Public sector pay freeze 2021/22
 - Increases in NLW from April 2021
 - RSG to increase by inflation
 - Business Rate multiplier frozen
 - Public Health grant to be maintained along with ringfence
 - Collection Fund deficit 75% of irrecoverable losses will be met by Government

Proposal

7. The proposed approach to budget 2021/22 is set out below for information

Pandemic Response

- 7.1 Budgets must continue to support the activity in business critical areas and continue to support recovery from the impact of COVID.
- 7.2 In light of subsequent national and local lockdown officers across the council have been considering the capacity and resilience needed for the pandemic response. Activity sits alongside existing pressures such as winter flu, winter weather and EU transition. Council services have been considering their business continuity plans to reflect the new operating environment for pressures, priorities and risks. This work allows for confirmation of business critical activities and options for redeployment to respond to the pandemic.
- 7.3 As a result of the pandemic councils are taking on additional responsibilities such as support to those shielding, rough sleepers, and test, trace and control activity. This has highlighted the exceptional commitment of council staff and care workers who have been amongst those on the frontline in the battle against COVID-19. There are also the wider economic effects of the pandemic as households and businesses face lost income and struggle to pay bills. The pandemic has resulted in the need for council services to adapt quickly to the situation and in order to ensure recovery in Gateshead a number of emerging priorities for key interventions must now be considered in the approach to budget.

- 7.4 On the 23 March, the Council with some of its community partners including Citizens Advice Gateshead, Age UK Gateshead, Mutual Aid, Birtley Community Partnership, Chopwell Community Association, Dunston Family Church, Edberts House and Winlaton Centre established a network of 8 community hubs to respond to the needs of residents affected by the pandemic. The network is supported by a variety of community and voluntary organisations as well as faith groups and local volunteers whom by working together have helped over 7,500 households.
- 7.5 The establishment and operation of community hubs across Gateshead has been at the heart of the Council's support for residents during the pandemic, providing a range of help in partnership with some key community anchor organisations. The impact of this model in tackling a crisis can now provide a community based foundation upon which the borough can move towards post pandemic recovery, helping our communities thrive. Moving towards place based or locality working principles can provide early help and support for individuals who might normally present themselves to hard pressed frontline services, supported by close collaboration with community organisations who have demonstrated their impact and value during the pandemic. By supporting the further development of the community hub approach in partnership with some key anchor organisations will help embed locality working in the Borough, build a foundation for recovery, and support the development of community wealth building.
- 7.6 The Council have supported thousands of residents who have requested emergency food parcels, assistance with routine shopping arrangements, collection of prescriptions and befriending shopping. As the pandemic has continued to impact on Gateshead residents, requests for help have required advice about money, welfare benefits, housing and employment issues. Supporting people in local communities has proven successful and an approach to longer term, locality working, based on the learning from the community hubs is being developed. This will help support our most vulnerable households and ensure the service and support they require is tailored to the local needs, the community hubs model is seen as a key driver to unlocking future service deliver in a person-centred way.
- 7.7 The investment required to run the locality hubs permanently is circa £1m however it is thought that many of the skills and resources sit within existing resources across the council. Roles such as, housing officers, all of neighbourhood management, crisis team, elements of council tax and benefits, private sector housing, supporting independence, early help, PRIME (People Regaining Independence by Means of Enablement) Service, independent living, rent and income/advice and support in TGHC, housing options/homelessness and the MAART (Multi-Agency Adult Referral Team) will all need to influence how the Council can work locally and centrally to help people thrive. To provide adequate levels of service an additional 16 caseworkers and additional analyst is proposed.
- 7.8 The community and voluntary third sector have a key role to play in developing localities but needs to be more present in those localities, helping at a very local level to drive the work and developing community assets. Plans are being developed for increased locality working, focussing on people, place and property. A multi-disciplinary placed based approach, focussing on the assets and unique characteristics of an area, enabling VCSE activity, developing civic engagement and participation are key strands of this work which the CVS could contribute to, An additional investment in the sector estimated to circa £0.250m is proposed.

- 7.9 The response to the pandemic continues to support residents and businesses with a range of financial support, benefits advice and grants including Local Restrictions Support Grants, Additional Restrictions Grants and Winter Grants.
- 7.10 The digital response to the pandemic has meant the reactive and quick development of new systems, processes and solutions and has also seen the increase in the use of digital services. The digital programme will help to redesign services and ensure as many transactions as possible are designed to be delivered online. Customer contact and support is also an area of change with a shift to digital solutions where possible and the increase in more support where needed. Investment in this area is estimated to be circa £0.300m.
- 7.11 One of the early and ongoing impacts of Covid-19 has been the forced shift to working from home for large proportions of the workforce. The Council's asset strategy must be revisited and clarified in light of the new ways of working and what that means for future service delivery.

Pandemic Recovery

- 7.12 The economy in Gateshead, and the wider NE, had a range of long-standing economic challenges prior to Covid-19 - the restrictions introduced to tackle Covid-19 has compounded these and amplified the need to ensure the council is in the right shape to help build back an economy that is more productive, inclusive and sustainable.
- 7.13 In terms of scale of impact, the structure of the Gateshead economy, with its relatively high share of jobs in non-food retail and hospitality for example (c20%), places it at a higher risk of business failures and job losses. Whilst the full impact of CV19 is yet to be felt, there are already an additional 3,945 residents claiming benefits since March, an increase of 67% (the rate in Gateshead stands at 7.7% compared to 7.5 % for the NE and 6.5% for GB). The young person claimant rate has nearly doubled from 6.8% to 12.2%. Place-based disadvantage is also evident e.g. the male claimant count in Felling is 15.2%.
- 7.14 Government job schemes have provided some protection from unemployment, however to highlight the potential surge in unemployment, Gateshead had the joint highest number of jobs furloughed at 29,700, a take-up rate of 34% compared to a rate of 31% for the NE and 32% for England
- 7.15 To respond to the employment impact,
- Nationally; the Govt has developed a national 'Plan for Jobs' which is an extensive but complicated package of investment when the already complex and fragmented national employment and skills system is considered. As the investment is short-term it be will particularly difficult to navigate and ensure it works locally.

- Regionally, a NE Recovery & Renewal Deal has been developed which is asking Govt for £140m over three years to fund a Jobs Recovery Programme for 20,000 people. This aims to maximise the impact of national schemes through local delivery and integration with NE programmes and will seek to help people transition into jobs of the future arising from the growth in new industries e.g. in the green economy.
- Locally, the council has designed and mobilised a new locality based 'Working Gateshead' employment support service to ensure no resident is turned away; this will complement existing provision across the council and its partners and, further to a soft launch in July, is now being scaled up to respond to the demand arising once the Job Retention Scheme closes.

7.16 The likely scale of impact – with unemployment forecast to reach 10% nationally - and the diverse and extensive response to this nationally, regionally and locally, means that the council needs to have the appropriate level of management capacity, authority and stability in this critical area to strategically influence and deliver at pace. The changing landscape around devolution and Brexit are also significant in terms of labour market responses.

7.17 Posts to support the above work are currently funded from reserves and represent a total investment of £0.405m pa to deliver growth in start-ups, the safeguarding and growth of existing enterprises, to help more residents return to work and protect household incomes and to attract more external funding. In order to make a sustained impact it is recommended that these posts are extended for a minimum of two years. This will ensure the activity spans the pandemic response period and persists into the initial recovery phase.

Council transformation

7.18 In a reduced budget envelope and facing tough financial challenges ahead, it is vital that all resources are targeted to achieving priority outcomes. It is likely that following the effects of the pandemic aspirations and strategies previously agreed will need to be reconsidered as it will no longer be possible to fund all activity.

7.19 There will be a corporate, targeted approach to the agreement of budget option proposals and consideration of existing areas council operations that need to transform or change.

7.20 The pandemic has brought sharply into focus that as an organisation what we do is about people and their lives, and not about how the Council organises itself into services and silos. It is important to make best use of the resources available to us and adapt and change the delivery of our services accordingly.

Climate Emergency

- 7.21 Budget planning will be fully aligned with the Council's response to the emergency
- 7.22 In November the Prime Minister outlined a 10-point plan for a "green industrial revolution". Plans are backed by £12 billion in Government investment covering a variety of areas of interest to councils including clean energy, transport, nature and innovative technologies. Councils will play a leading role in working with Government, businesses and communities to address the climate emergency.
- 7.23 Work is needed to clarify the financial impact of addressing the climate change audit. This should inform the ability to deliver within existing resources or frame an affordable budget envelope.

Budget and Stakeholder Management

- 7.24 The approach to identify budget savings will be cross council and targeted. This will include all budgets and proposals being subject to a budget challenge process with the intention to add to an options list.
- 7.25 In support of the work outlined within this report, which is aligned to the budget setting process, thematic groups have been established by officers. The primary purpose of these groups is to arrive, at pace, at the key interventions needed over the next 12 months for key areas and to look at how the council can deliver these with available resources financial and non financial.
- 7.26 It is proposed that Cabinet receive a further report in January setting out the areas will be targeted and reviewed in the coming months to ensure effectiveness and to unlock significant budget savings.
- 7.27 Work will resume work on the two areas of 2020/21 budget savings already agreed by Cabinet namely the asset strategy and corporate landlord model and the commissioning and contract review.

There will be a fundamental review of the Capital Programme.

- 7.28 There is a significant cost to revenue arising from capital investment and this charge contributes to the financial gap. Capital investment is vital to stimulating local economy and maintaining assets. In order to ensure charges to revenue are minimised and to ensure financial sustainability a full review of project aspirations and risks will be undertaken and this may result in some previously agreed projects pausing, being reprofiled or stopped.

The Council budgets will be coordinated with a fundamental review of the HRA budgets.

- 7.29 The review of housing services provides an excellent opportunity to include and align 2021/22 council budgets with HRA activity to ensure homes are fit for the future.

There will be a fundamental review of existing delivery partnerships and levels of risk

- 7.30 The impact of the pandemic on council finances requires a review of current partnerships and any changes to scope or risk profile needs attention and review.

A review of income generation will be undertaken (including fees and charges) that takes account of the impact of COVID on residents and businesses within the Borough.

- 7.31 As a consequence of national and local measures many of the council's income sources have been impacted. Measures taken nationally to control the pandemic will lead to economic losses and loss of output. Increased local unemployment and reduced tax revenues are likely which in turn is highly likely to affect collection rates for council tax and business rates income.

Use of Reserves

8. A history of austerity means that there are limited reserves available to support the medium term. The challenges associated with COVID-19 are unprecedented and has increased demand in areas already under budget pressure such as adult social care, children's social care, services for the homeless and public health.
9. As at 31 March 2020 the council held £41m in non-ringfenced reserves (£11.1m general council reserve and £29.9m in strategic earmarked reserves)
10. It is essential that these limited one-off sources of funding are used in the best way possible to support thrive outcomes or unlock potential future budget savings. Priorities need to be kept under review and strategies will possibly need revising to ensure funds are used efficiently and effectively. In a period of economic uncertainty good financial management would be to seek financial resilience by adding to reserves if this is possible.

Consultation

11. As the longer-term budget approach is developed, the Council will ensure that there is appropriate engagement at the right time and in the right way, where proposals may have an impact on residents, businesses, the voluntary sector or other stakeholders such as employees. Engagement activities will vary and may be broad in their focus or primarily targeted at a specific group of service users. Further engagement will be necessary throughout 2021 to reflect the continuous and longer-term approach to reach a financially sustainable position based on the Council's priorities.
12. The Council's budget planning framework is supported by the development of integrated impact assessments (IIA) for draft budget proposals. These assessments include identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010 and identify potential mitigation where applicable.

Alternative Options

13. Local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Continuing to balance the budget in the same way as in previous years by reducing service areas to reflect reduced funding availability is no longer sustainable.

Implications of Recommended Option

14. Resources:

- a) **Financial Implications** – the Strategic Director, Resources and Digital confirms that:
- i. The Council will deliver a balanced budget consistent with legislation that is driven by council policy and which achieves priority outcomes. To achieve this, the Council must close an estimated financial gap of £18.6m for 2021/22 that is identified within the Medium Term Financial Strategy. Alongside the savings position the Council will seek to close the financial gap through consideration of other funding options. These other funding options include growth in council tax and business rates funding and consideration of a council tax increase as well as a full review of the cost pressures within MTFS assumptions and the optimum deployment of available reserves.
 - ii. The Council's financial settlement will not be known until the final settlement is announced. Final confirmation is expected in January 2021 at which point assumptions around Council funding levels for 2021/22 will be clarified.
- b) **Human Resources Implications** – there are no direct HR implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.
- c) **Property Implications** - there are no direct property implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.
- d) **Risk Management Implication** - there are no direct risk implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.
- e) **Equality and Diversity Implications** - an integrated impact assessment will be used to assess the equality and diversity and wider implications of the budget approach and will be the subject of future reports.
- f) **Crime and Disorder Implications** – there are no direct crime and disorder implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.
- g) **Health Implications** - there are no direct health implications arising from this report. Any implications arising from the budget approach will be the subject of future reports.

- h) Climate Emergency and Sustainability Implications** -The proposed approach seeks to ensure climate change plans are considered when setting a budget. The MTFS provides a framework with the express objective of achieving a sustainable financial position over the medium term.
- i) Human Rights Implications** - No direct human rights implications.
- j) Area and Ward Implications** – All areas of the Borough are covered by the approach set out in this strategy.

Background Information

- Budget Approach 2020/21 - 19 November 2019
- Budget and Council Tax Level 2020/21 – 25 February 2020
- Gateshead Council's response to COVID-19 – Financial update, wider implications and steps towards recovery – 23 June 2020
- Gateshead Council's response to COVID-19 – steps towards recovery – 14 July 2020
- Medium Term Financial Context 2021/22 – 2025/26 – 20 October 2020