

Medium Term Financial Strategy 2022/23 - 2026/27

1. The Purpose of the Medium-Term Financial Strategy (MTFS)

- 1.1 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.
- 1.2 The MTFS establishes the likely level of revenue resources available to the Council over the medium term and estimates the financial consequences of the demand for council services. It improves financial planning and strategic financial management through providing the financial context within which the Council budget will be set.
- 1.3 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.
- 1.4 The objectives are to;
 - Consider the scale of financial challenges over the medium term and take appropriate actions in order to achieve financial sustainability and a balanced budget year on year.
 - Ensure the Council has planned adequate funding to deliver against priorities.
 - Prioritise capital schemes based on deliverability of tangible outcomes whilst considering the context of the overall capital and revenue affordability.
- 1.5 The principles underlying the MTFS 2022/23 to 2026/27 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 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.
 4. 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.

5. 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.
6. The Council recognises the impact of increases in council tax levels and fees and charges in an area of relatively low income and low wealth and will therefore balance the need for increases against the delivery of the thrive framework and the need for services.
7. The Council will meet its financial obligations and maintain financial sustainability through the setting of a balanced budget and the delivery of outturn within the overall budget each year.

2. Local Policy Context

- 2.1 The Council's strategic approach **Making Gateshead a Place Where Everyone Thrives**, provides a framework to demonstrate how the Council will work and make decisions in the future which will be policy and priority-led and help resource the impact being made on delivery of the Health and Wellbeing Strategy. It is predicated on the following Council pledges:
 - **Put people and families at the heart of everything that we do**
 - **Tackle inequality so people have a fair chance**
 - **Support our communities to support themselves and each other**
 - **Invest in our economy to provide sustainable opportunities for employment, innovation, and growth across the borough**
 - **Work together and fight for a better future for Gateshead**
- 2.2 The Council's MTF sets out the financial context for the Council's resource allocation process and budget setting. The Council's new Performance Management Framework supports the aims within the Strategy by aligning performance with the overall approach to the budget to support the financial sustainability for the Council ensuring that resources are deployed on the outcomes for making Gateshead a Place Where Everyone Thrives.
- 2.3 There are huge financial pressures on not just Council resources, but those of partners, local businesses, and residents. To deliver on the 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.

3. External Context

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

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

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

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

- **Quantum of Social Care Funding**

There are acute problems nationally. The care and support system remain under enormous pressure and the quantum of funding does not meet the increasing demands of both adults and children's social care.

The 2021/2022 settlement allowed for the continuation of several previously one-off Social Care grants. This additional funding, whilst welcome, fails to provide both the longer-term stability and level of funding required to meet the continued pressures being experienced within Social Care, exacerbated by the current pandemic.

The Prime Minister recently announced (7 September) an additional £12bn per year on average for health and social care across the UK over the next three years. These reforms will be funded by a new UK-wide 1.25% Health and Social Care National Insurance Levy. This will be ringfenced and invested into health and social care across the UK. Implications for local government and Gateshead are yet to be finalised, including what this means for the future of existing grants.

- **Brexit Impacts**

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

- **Ten Years of Austerity**

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

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

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

Whilst additional funding is always welcome, short term annual funding leaves councils and partners unable to plan service delivery over the medium/long term. It hinders the ability to recruit and put long term stabilising measures into action. Furthermore, many of these specific grants are competitive, ringfenced, lower value which are then resource intensive to bid for and manage.

- **Continuing economic uncertainty of the pandemic**

The pandemic has both exacerbated and magnified the precarious state and volatility of local government funding which was already under strain. Despite receiving emergency funding, it is likely that the Council will experience longer-term impacts of the pandemic, the impacts of increasing demand for services, and potential reduced Business Rates and Council Tax income. Currently, it is not clear how long government funding support will last not only to the Council directly but support to the wider businesses and residents of the borough.

- **Pressure on Reserves**

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

4. **Council's Current Financial Position**

Revenue Outturn 2020/21

- 4.1 During 2020 the Council had to react to the challenges on the pandemic and lockdown restrictions. Cabinet agreed in July 2021 a net revenue budget of £221.286m. The overall outturn position for the Council resulted in a surplus of £7.908m. The positive year-end position is a testament to the collective approach taken by groups and services to identify pressures early in the financial year and ensuring that action was taken on a timely basis to ensure the threat to a balanced budget was addressed. The outturn position reflects the timing of covid funding received in advance by the Council.

Revenue Budget 2021/22

- 4.2 On 23 February 2021 Cabinet agreed a net revenue budget of £238.758m which included £8.117m of budget savings. The annual budget savings cycle is a continuous approach with budget developments brought to Cabinet for consideration throughout the year to allocate resources to Services and consider consultation outcomes. Complex pandemic impacts remain and therefore effective financial management will be essential.

5. Outlook Beyond 2021

- 5.1 Medium term financial planning remains extremely difficult due to external economic factors coupled with the delays to finance reforms. The level of funding beyond 2021 is unknown 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.
- 5.2 The financial impacts of the pandemic are expected to continue this year and beyond. The Council has set aside funding from reserves to cover cost pressures and lost income and therefore these impacts are neutral early in the MTFS estimates. This will need to be kept under review. Impact on council tax and business rates funding has been included as these are being managed over three years. Impacts are kept under regular review within the revenue budget monitoring framework.
- 5.3 As part of the Spending Review the Chancellor announced a public sector pay freeze in 2021/2022, except for NHS workers and workers earning less than £24,000 per annum. For planning purposes provision is included for the impact of pay awards and estimated impacts of the National Living Wage which are unfunded by government.
- 5.4 Savings proposals will have staffing implications. These will be managed through the Council's Redundancy Policy and Procedure as necessary. At this stage it is proposed that any cost of redundancy payments and the release of pensions (if applicable) as required by the LGPS Regulations will be met from within the overall corporate resource position at outturn each year, should the position allow. This position will be kept under review and updated as part of the Budget proposals to Cabinet.

Significant Challenges in Social Care

- 5.5 Adult social care experience pressures year on year in relation to increasing demand for services due to the increase in population of older people and pressures due to fee increases in the commissioned sector in order to meet the fair cost of care criteria. These pressures are expected to continue for the medium to long term. In addition to these recurring pressures Adult Social Care is experiencing new and significant pressures. It is anticipated that there will be a financial impact of Covid in relation to areas such as increased demand on mental health services, increased demand due to delayed health interventions such as operations, increased requests for packages due to family being unable to support relatives, earlier admissions to care as a result of increased frailty combined with the lack of access to community support and workforce pressures.
- 5.6 Cost pressures are also being felt in relation to the discharge to assess model that is currently operating and how this will be funded in the longer term.

- 5.7 With regards children's social care, The End Child Poverty coalition reports the North East as having the second highest rate of child poverty at 37% and this has seen the steepest rise in the last 5 years. All 12 North East local authorities feature in the top 20 local authorities nationally that have seen the sharpest increase in child poverty between 2014/15 and 2019/20.
- 5.8 Around 16% of Gateshead residents live within the most deprived 10% of neighbourhoods in England and many of the families open to Children's Social Care and Early Help live in the most deprived areas of the borough. The research of Bywater, Featherstone and others leaves little doubt of the clear evidence linking the impact of deprivation to risk for children, and subsequently higher levels of demand for statutory social care and early help services.
- 5.9 Locally in Gateshead some significant activity pressures are emerging. Over the course of the pandemic since March 2020 to present there have been substantial increases in referrals and demands and for services. For too many of our families, life with a range of issues such as domestic abuse, poor mental health, the impact of trauma, coupled with significant poverty creates a complex and unequal system which leaves many families ill equipped to provide the safe nurturing environment for their children that they crave, and their children need.
- 5.10 More recently Gateshead Council had circa 433 looked after children (end July 21) costing on average £39,000 per child annually. This compares to 379 children on 31 March 2019. The national and local increase in safeguarding pressures is the result of a complex myriad of factors, including longer term pandemic impacts are still to be recognised. The internal residential estate in Gateshead has grown in recent years, however this has not been able to meet the increased demand seen in the system because of overall numbers of children. As of July 2021, the number of children in residential care reached 42 compared to 33 in March 2019, a 27% increase.
- 5.11 The outsourcing of placements comes at a higher cost, the most expensive of which costing £9,800 per week currently. This is not only occurring due to increased complexities of need for the children in the system but also due to the increased numbers of children requiring placements. Increased activity set out above has resulted in a significant impact on the social care workforce with caseloads per social worker increasing which will also need to be kept under review.

Looking Ahead Threats

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

Looking Ahead Opportunities

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

6. MTFFS Estimates

- 6.1 The MTFFS has been prepared on best estimates using the current funding methods as a guide. Key risks are included in the supporting information. Following a new approach to MTFFS and budget planning the table shows the financial gap expected over five years but also a proposed use of reserves. These are shown in more detail within the review of reserves section.
- 6.2 The budget approach will be over a three-year period 2022/23 to 2024/25. The scale of the challenge requires a radically different approach to the budget. With reducing resources, the Council cannot keep doing everything, so the approach needs to be more clearly linked to the hierarchy of delivering on thrive priorities through the Health and Wellbeing Strategy, the emerging Economic, Housing and Investment Strategies.
- 6.3 A review of reserves will result in the need to reconsider existing reserve commitments. Some commitments may need to reduce or not proceed. The outcome of the reserves review is to propose formation of a £20m Budget Sustainability Reserve from realigning existing reserves that it is proposed be used to support the budget approach over the next three years. Consequently, the Council's general reserve will be at 3% minimum levels.
- 6.4 Based on local estimates outlined in this report, this Council estimates that overall, it will need to close a financial gap of £63m in the next five years (including covid impacts). This impact will be mitigated temporarily through the proposed planned application of £20m budget sustainability reserve over the next three financial years. Efficiencies and savings of £45m will be required over the medium term.

6.5 This financial gap can be summarised as follows (there may be slight differences due to rounding's):

Indicative Budget Forecasts	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Net Revenue Budget	238.758	230.262	237.176	245.987	249.935
Base Adjustments					
Removal of Reserve Funded Budgets	(2.542)	0.000	0.000	0.000	0.000
Removal of Temporary Budgets	(11.627)	0.000	(0.250)	0.000	(0.440)
Inflation - General	0.900	0.202	0.206	0.210	0.214
Inflation - Contractural	0.720	0.537	0.394	0.406	0.418
Corporate Pay pressures	2.279	4.057	7.457	2.423	2.953
Strategic Economic Investment (Capital)	1.774	2.118	1.004	0.908	(1.474)
Total Revenue Budget	230.262	237.176	245.987	249.935	251.607
Revenue Support Grant	(15.647)	(15.960)	(16.280)	(16.605)	(16.937)
Retained Business Rates	(43.374)	(44.231)	(46.127)	(48.061)	(49.021)
Top Up Grant/Equalisation	(15.355)	(15.355)	(15.355)	(15.355)	(15.355)
Council Tax Base	(100.675)	(103.513)	(106.073)	(108.683)	(111.346)
Council Tax Council Uplift	(2.010)	(2.060)	(2.111)	(2.163)	(2.216)
Other Grants (inc Public Health)	(49.806)	(50.368)	(50.950)	(51.565)	(52.193)
Total Funding Resources	(226.867)	(231.487)	(236.896)	(242.432)	(247.069)
Annual Minimum Funding Gap	3.394	2.295	3.403	(1.589)	(2.965)
Adult Social Care Growth	5.950	6.221	6.503	6.799	7.109
Childrens Social Care- Growth	2.660	1.309	1.409	1.518	1.636
Unfunded Council Wide growth Contingency	2.000	2.000	2.000	2.000	2.000
Possible Funding - ASC Precept (If allowable)	(2.020)	(2.070)	(2.121)	(2.174)	(2.227)
Growth Budget Required	8.590	7.459	7.791	8.144	8.518
Adult Social Care - COVID impact	2.000	2.000			
Childrens's Social Care - COVID Impact	1.000	1.000			
Other Council Wide Pressures - COVID impact	5.996	5.995			
Growth Budget Covid	8.996	8.995			
Total Cumulative Growth Funding Gap	20.981	39.730	50.923	57.478	63.031
Use of Reserves - Budget Sustainability	(10.000)	(6.000)	(4.000)		
Use of Reserves - Pandemic Service Impact	(8.996)	(8.995)			
Efficiencies & Savings	1.985	13.754	13.194	10.555	5.553
Total Efficiencies and Savings					45.040

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

6.7 Capital investment must also be kept under review and clearly aligned to priorities and financial sustainability to ensure affordability and to manage risks. All budget growth (excluding social care demand or fees) must be funded through planned savings.

7. Housing

- 7.1 The Council's Housing Strategy recognises that the future success of Gateshead is dependent on ensuring that all its different neighbourhoods thrive and are great places to live and visit. This requires the right mix of safe and secure housing that people can afford, together with good schools, parks, sports and cultural facilities, roads and transport links, and streets and public spaces free of litter and anti-social behaviour. This will be brought together in the development of the next Gateshead Local Plan which is currently underway
- 7.2 The housing pipeline is continuing to deliver new homes across Gateshead, with 333 new homes completed in 2020/21. The Council recognises that the scale of new housing development needs to increase. A new Residential Growth Strategy is currently being developed that will confirm the priority actions to be undertaken over the next 5 years to maximise additional housing supply on existing and new sites, and to bring long term empty homes back into use. This strategy will also align with the Council's medium-term position and investment plan.
- 7.3 The recently completed Housing Review of all its housing functions and responsibilities has resulted in the re-integration of the management and maintenance of its 18,500 homes back into the Council, and the closure of its housing ALMO (The Gateshead Housing Company). A major review of the HRA Business Plan and associated Asset Management Strategy has ensured 5 and 30 year financial and investment plans moving forward. Known income and expenditure has been considered alongside key assumptions in relation to borrowing and debt repayment, right to buy receipts, operational performance, and efficiencies. The revised HRA Business Plan confirms the priority given to ensuring the Council's homes are safe and fully compliant with building legislation and regulation. It will also make a significant contribution to the Residential Growth Strategy, with a planned HRA funded development programme of 400 new homes over the next 10 years.

8. Schools

- 8.1 Schools are funded through ring-fenced resources (Dedicated Schools Grant DSG and several 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. Government have recently sought views on the approach to completing further reforms to the NFF and how to transition away most effectively from local formulae to all schools' funding allocations being determined directly by the NFF in the years ahead.
- 8.3 At 31 March 2021 the overall reserves balances for all maintained schools in Gateshead totalled £8.91m, an increase of £3.43m from March 2020. This increase was due to several factors many Covid related. This position masks that overall, the number of schools with projected deficits is increasing, but with the current turbulent times and the additional Covid related grants the position is difficult to estimate.

- 8.4 To support with the pandemic demands schools are currently getting additional grants such as Recovery Premium and National Tutoring Programme aimed at helping children recover lost income as a result of the pandemic. It is uncertain how long this funding will continue as allocations are usually single year allocations. The National Tutoring Programme funding risks claw back if schools do not spend it in line with the very specific conditions of grant.
- 8.5 The impact of future wage inflation and the impact of the increase in national insurance contributions is also not known. The DfE are considering that the 1.25% in national insurance contributions might be funded, however in the past the DfE have funded teachers pay and pension costs, but not those relating to non-teaching staff.
- 8.6 It is also thought that the full impact of the pandemic on both pupils and school employee's health has not yet reached a peak and this will have financial implications, manifesting itself in terms of increased staff absence, increased pupil absences and an increase in children being permanently excluded from school.
- 8.7 The number of education health and care plan (EHCP) requests continues to increase, and even with the creation of additional special school places at the new Gibside Special School, the waiting list of special school places and specialist provision continues to increase with demand outstripping supply.

9. Investment Plan

- 9.1 The Council's capital investment plans are set out in the capital strategy and programme, with the latest approved programme covering the period between the 2021/22 and 2025/26 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 All capital investment decisions will have implications for the revenue budget. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within the council's financial plans and to demonstrate that the capital investment is affordable. Revenue implications may include the costs associated with supporting additional borrowing as well as any changes to the running costs associated with the asset or wider benefits to the council such as the delivery of ongoing revenue budget savings or additional income through the generation of business rates, council tax or energy revenues.
- 9.3 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.

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

9.5 Significant challenges and priorities for the Council's capital investment over the medium term that are set out in the Council's key strategies include:

- Investing in assets to enable the Council to meet its key objective of Making Gateshead a Place Where Everyone Thrives.
- Investment in housing to ensure the supply of housing best meets current and future needs and aspirations to create thriving, mixed communities throughout Gateshead.
- Investment to achieve the Council's climate change aspirations.
- Continuing to regenerate the Gateshead Quays and Baltic Business Quarter area as part of the Council's Accelerated Development Zone, working with our development partner to build upon the successful delivery of iconic projects such as the Sage Gateshead and Baltic to create a significant new mixed-use development to help unlock economic growth and generate additional business rates and raise the profile of Gateshead.
- Continuing to support the regeneration of Gateshead Urban Core to deliver a centre with the stature and vibrancy of a city and continuing to invest in improvements to local centres across Gateshead.
- Improving the council's corporate ICT infrastructure, equipment and systems to improve connectivity, security and resilience and ensure that the council remains fit for the future and can provide services as efficiently and effectively as possible.
- Investing in strategic infrastructure to support growth within Gateshead. This includes investment in areas such as transport infrastructure to provide an integrated transport system which meets demand and improves connectivity and accessibility as well as investment in the Council's schools to help increase capacity.
- Investing in the provision of energy infrastructure to support the expansion of the 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.

9.6 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, Resources and Digital is required, as part of the budget setting process each year, to provide a statement on the adequacy of reserves that is subject to an external audit review to assess value for money and a going concern opinion.
- 10.2 The Council keeps a level of reserves to protect against the risk of any uncertainties or unforeseen major one-off events. This is considered best practice and demonstrates sound financial planning. The use of financial reserves will not in itself resolve a budget problem, but it can allow for smoothing of impacts or allow the Council time to address issues.
- 10.3 The audited statement of accounts shows all the reserves balances held by the Council, but it should be noted that not all of these can be used to support the budget. Reserves can be;
- Held for accounting purposes. These are not true cash balances and are unable to be used to support the budget and are classed as unusable in the Council's statement of accounts and therefore will not be detailed in the sections below.
 - The General Fund is split between a General Reserve and reserves attributable to schools (LMS Budget Share Reserve).
 - Strategic earmarked reserves the Council has chosen to hold for a specific purpose
 - Ring fenced reserves which can only be used for a specific purpose and are not available to support council tax or budget setting of general Council services.

Reserves Policy

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

Review of Reserves

10.5 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.

10.6 The balances as at 31 March 2021 remain subject to audit. As part of the MTFS refresh, a review of reserves has been undertaken and it is proposed that current reserves are realigned to supplement the Budget Sustainability Reserve creating £20m in funds to support a planned approach to achieve a balanced financial position over the next three years. The realignment is shown in the table below.

Review of Reserves

	Closing Balance Mar-21 £000s	Review MTFS October 2021		Proposed
		£000s	£000s	£000s
GENERAL RESERVES				
General Reserve	(13,967)	5,929		(8,038)
School Budget Share Reserve	(8,912)			(8,912)
TOTAL GENERAL RESERVE	(22,879)	5,929	0	(16,950)
STRATEGIC EARMARKED RESERVES				
Financial Risk and Resilience	(14,329)	4,356	0	(9,973)
<i>Business Rates Reserve</i>	(5,000)	5,000		0
<i>Insurance Reserve</i>	(3,000)	1,000		(2,000)
<i>Grant Clawback</i>	(1,000)	(2,000)		(3,000)
<i>Workforce Development</i>	(4,856)	1,856		(3,000)
<i>Commercial Risk "NEW"</i>	0	(1,500)		(1,500)
<i>Budget Flexibility</i>	(473)			(473)
Economic, Housing and Environmental Investment	(7,823)	7,823		(0)
Poverty, Health and Equality Investment	(6,892)	6,892		0
Thrive "New"		(10,000)		(10,000)
<i>Economic, Housing and Environmental Investment</i>		(5,000)		(5,000)
<i>Poverty, Health and Equality Investment</i>		(5,000)		(5,000)
<i>MTFS reallocation to Thrive Priorities</i>		(1,873)		(1,873)
<i>Voluntary Sector Reserve</i>		(231)		(231)
<i>Anti Poverty Reserve</i>		(148)		(148)
<i>Discretionary Social Fund</i>		(436)		(436)
<i>Strategic Revenue Investment</i>		(2,312)		(2,312)
Budget Sustainability	(5,000)		(15,000)	(20,000)
Pandemic Services Impact	(17,991)			(17,991)
Pandemic Collection Fund Impact	(28,239)			(28,239)
RINGFENCED RESERVES				
Developers' Contributions	(2,131)			(2,131)
Unapplied revenue grants	(1,311)			(1,311)
Public Health Reserve	(1,872)			(1,872)
DSG Reserve	(2,241)			(2,241)
TOTAL EARMARKED RESERVES	(87,829)	9,071	(15,000)	(93,758)
TOTAL RESERVES	(110,708)	15,000	(15,000)	(110,708)

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

Reserve	Why Needed	Available to support council budget	Balance as at 31 March 2021
Council General Reserve	This is a statutory fund that acts as a contingency and allows the Council to meet any unforeseen costs. If the council overspends in a year this fund will meet that liability. The minimum balance on the reserve is 3% of the net revenue budget	Yes (subject to minimum levels being maintained)	£8.038m
Schools Balances	Use of this reserve is ring-fenced to schools and there is a duty to report planned use to Schools Forum. The balance is for schools collectively, but this includes both surplus and deficit balances of individual schools	No – ringfenced for to schools	£8.912m

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

Reserve	Why Needed	Available to support council budget	Balance as at 31 March 2021
Financial Risk and Resilience	This reserve was created to set aside funds in respect of key financial risks identified through the risk management process and the savings required as part of the Council MTFs. Risks have been assessed and realigned as part of the review and now include Insurance (£2m), grant clawback (£3m), workforce development costs (£3m), commercial risk (£1.5m) and budget flexibility (£0.5m)	Yes	£9.973m
Thrive (New)	This reserve will replace the two reserves to continue support to council thrive priorities of Economic, Housing and Environmental Investment (£5m) and Poverty, Health and Equality Investment (£5m)	Yes	£10.000m
Budget Sustainability	This reserve was created in 2021 to help support the timings of achieving significant budget savings and Thrive outcomes whilst still dealing with pandemic impacts. Following review this reserve will increase by £15m.	Yes	£20.000m
COVID			
Pandemic Services Impact	This reserve is held to mitigate the budget impacts of the pandemic across all council services for the next two years	Yes	£17.991m
Pandemic Collection Fund Impact	Specific grants provided by government to replace lost funding to council tax and business rates	Specific support only	£28.239m

10.9 It is important to note that the position above includes significant temporary funding held to mitigate pandemic impacts. The impacts are expected to continue into this year and beyond, so the Council set aside £17.991m covid grant funding within reserves to cover cost pressures and lost income over the next two years. Grant funding of £28.239m were provided by government to specifically replace lost funding to council tax and business rates. This funding was included in financing of the 2021/22 budget to help achieve a balanced budget.

Ringfenced Reserves

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

Reserve	Why Needed	Available to support council budget	Balance as at 31 March 2021
Developer Contributions	This reserve consists of developer contributions in respect of agreed regeneration schemes following Section 38 and 106 agreements. The movement on the reserve will fluctuate depending on the use of the contributions to support regeneration schemes such as play areas in new housing developments.	No	£2.131m
Unapplied Revenue Grants	This reserve was created to comply with accounting rules where unspent grants and contributions, without grant conditions are to be used in the following years.	No	£1.311m
Public Health Reserve	The responsibility for Public Health transferred to local authorities on the 1 April 2013. The funding is for future Public Health use.	No	£1.872m
Dedicated Schools Grant Reserve	This is for schools use and cannot be used for other priorities within the Council. Use of this reserve will be agreed by Schools Forum.	No	£2.241m
Housing Revenue Account	This fund is statutory to maintain a revenue account for local authority Council housing provision. It contains the balance of income and expenditure as defined by the Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.	No	£30.786m
Capital Receipts Reserve	This reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end use and may be earmarked for use in the Council's capital programme.	No unless approved by government for transformation	£11.370m
Capital Grants Unapplied	This reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the funds, but which have yet to be applied to meet expenditure. The balance is restricted by grant terms.	No	£5.037m

- 10.11 Following review and realignment of earmarked reserves existing commitments will need to be reviewed and possibly reduced or removed.
- 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 in the medium to long term. The Council recognises that usage of reserves is one-off in nature and must be linked with expenditure and income plans to support financial sustainability in the medium term.

11. Conclusion

- 11.1 The medium term presents an extremely challenging position for the Council and the vital services it provides. The external and local context outlined in the report show that it is vital these challenges are kept under review and managed over the period to ensure financial sustainability. The Council has a strong track record of financial performance and will continue to use resources available in the best possible way to help residents of the borough thrive.

Supporting Information

Risk Assessment of Key Threats

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 2022/23 and beyond are based on best estimates at this time. A prudent approach has been adopted based on previous years' experience as well as using regional network contacts to inform modelling. Savings plans and areas are identified early.
2. Volatility of Business Rates funding given uncertainty around impact of appeals	Likely	High	Volatility of funding stream outside of council control but impact mitigated by the financial monitoring framework. Modelling of potential impacts is used to inform internal financial planning.
3. Public Health funding is insufficient to meet responsibilities	Possible	Medium	Funding confirmed for 2021/22 but not in future years. The lack of certainty of continuation of grant going forward is a significant risk of circa £16m. Public Health responsibilities will be rolled into the new system under the move to 75% rate retention. Networks and regional lobbying to ensure a sustainable transition of funding is agreed.
4. Pay Awards, fee increases and price inflation higher than assumed	Possible	Medium	Impact of potential increases mitigated by central contingency budget for pay, price increases and care fees. Where pay awards have been agreed these are factored into the estimates where affordable.
5. Future spending plans are underestimated	Possible	Medium	Service planning process identifies future budget pressures, and these have informed the indicative budget forecasts. An effective budget monitoring framework is in place to identify in year and potential future cost pressures.
6. Anticipated savings/ efficiencies are not achieved	Possible	High	Regular monitoring and reporting take place but the size of the funding cuts increase the likelihood of this risk. Non-achievement of savings requires compensating reductions in planned spending within services. Greater scrutiny of savings will take place with senior management oversight.
7. Revenue implications of capital programmes are not fully anticipated	Unlikely	Low	Capital bid approval framework identifies revenue implications and links to Council priorities. Full analysis of revenue implications assessed and considered in the MTFs projections.

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. Reduced income requires compensatory reduction in spending plans.
9. Budget monitoring not effective	Possible	High	Regular monitoring and reporting in line with corporate framework. Action plans developed to address problem areas. Regular reports to CMT and Cabinet. Track record of delivering budget.
10. Exit strategies for external funding leasing/tapering not met	Unlikely	Medium	Regular monitoring and reporting.
11. Loss of principal deposit	Unlikely	Medium	Limited by the controls in the Treasury Management Strategy which prioritise security of deposit over returns. Impact limited due to the strategy of a diverse portfolio with top rated institutions.
12. Collection rates for retained business rates and council tax lower than anticipated	Possible	High	Impact mitigated by the review of bad debt provisions. Proactive approach to stimulating economic growth. Monitoring of Collection Fund is formally incorporated into the revenue monitoring process and key performance indicators.
13. Changes to Government policy including Health and Social Care 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 provide ability to assess and compare strategies to ensure assumptions are comprehensive.

PESTEL analysis

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

Political

- Change in Government policy direction and regulation including social care and NHS can impact on social care models and shared funding arrangements and without adequate funding can be an added pressure
- Labour laws /National Living Wage can impact on legal views and costs
- Environmental laws impact on planning, council buildings and costs
- Stability of political parties will ensure policies do not change regularly
- National infrastructure and transport links decisions can impact on local economy
- PWLB rates can have a significant impact on capital projects and affordability
- Brexit - Uncertainty of European Grants and unknown impacts on the economy
- Welfare reform/Housing demands /Universal Credit- Governments changes are likely to have an impact in relation to potential bad debt of council tax income and housing rents and the services needed by residents
- Local Government Funding Reform – the aim to making councils more self-sufficient and less reliance on grants.

Economic

- National and local economic growth rates
- Energy prices increasing or decreasing
- Price pressures/ supply chain pressures
- Labour market availability and shifts
- Exchange rates
- Inflation rates both CPI and RPI - Levels of inflation and medium-term trajectories of it have an impact on capital and revenue investment projects on rising costs and contractual commitments.
- Interest rates on investments, borrowing and debt
- National and local Unemployment rates
- The Council plays a strong role in ensuring a strong and vibrant local economy which can in turn lead to better jobs and skilled local people.
- Levels of employment influence the need for resident welfare support as well as other type of local government support.

Socio-cultural

- Local health indices
- Deprivation levels - Gateshead is currently ranked 47th out of 317 local authorities in England in the overall IMD 2019, where one is the most deprived (rank of average score).
- Local population demographics – having a young, healthy workforce or aging population with complex needs changes service needs
- Child poverty can influence the levels of looked after children and family support
- Health of local workforce

Technological

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

Environmental

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

Legal

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