Gateshead Council

Medium Term Financial Strategy 2024/25 - 2028/29

1.Summary

This Medium-Term Financial Strategy (MTFS) sets out the estimated financial resources that are needed and available for the Council to deliver its key priorities of the Thrive agenda and the new Corporate Plan. Since the last MTFS was agreed by Council in October 2022, a number of factors continue to affect the financial outlook for the Council. Following on from over a decade defined by the Government's austerity measures and underfunding, the war in Ukraine and the global pandemic has led to inflation increasing beyond the provisions in the previous MTFS, with the cost-of-living crisis notably around food, fuel and utility prices across the country impacting on residents and Council budgets. Although the rate is on a slow downward trend, the forecast for inflation remains stubbornly high and still well above the Bank of England target. As such, the assumptions on both cost pressures and assumed funding have been completely refreshed since the last MTFS in October 2022.

Work is continuing to identify and address the cost pressures that the Council is facing and to progress the final year of the three-year budget approach agreed by Cabinet in December 2021. This approach was in line with the agreed approach for the planned use of reserves of £20m to allow time to identify cuts and efficiencies required over a three-year planning period. Following the 2022/23 Revenue Outturn reported to Cabinet on 20 June 2023 which included a review of reserves, this updated MTFS assumes that the use of reserves is extended for a further two years to allow more time for transformational change. This strategy also includes a plan to replenish reserves in years 3 to 5 of the MTFS, which is considered good financial management.

The medium-term financial outlook remains uncertain and is subject to a high level of volatility characterised by the triple impact of historic underfunding, increasing demand and more recently high inflation. Based on estimates outlined in this report, the Council estimates that overall, it will need to close a cumulative financial gap of £49.7m by year 4 of the MTFS. The MTFS assumes positive interventions to manage demand and cost pressures in social care totalling £11.5m by year 4 and proposed use of reserves of £22m over years 2024/25 to 2026/27 to allow smoothing of transformation work to deliver these interventions. Alongside proposed corporate interventions totalling £6m, this leaves unidentified savings of £32m to deliver sustainability within the MTFS, summarised as follows:

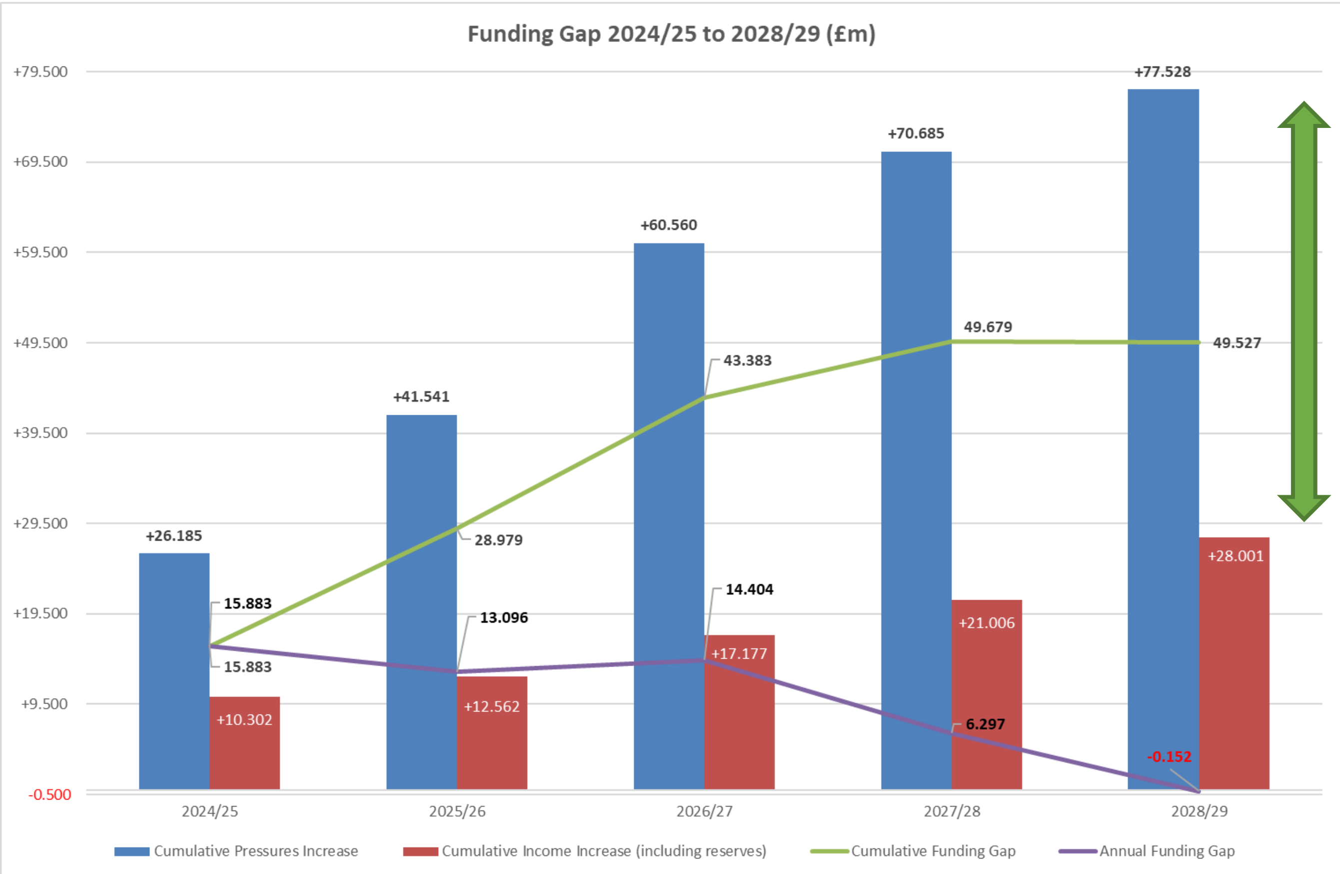
2023/24 £m	Indicative Budget Forecasts	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
281.885	**Estimated Base Budget**	308.070	323.426	342.445	352.570	359.413
(264.998)	**Estimated Funding Resources**	(281.012)	(287.447)	(295.062)	(302.890)	(309.885)
16.887	**Funding Gap (before Reserves)**	27.058	35.979	47.383	49.680	49.528
(4.524)	Pandemic Reserves	(2.000)	(2.000)	(2.000)	0.000	0.000
(10.000)	Budget Sustainability Reserve	(9.175)	(5.000)	(2.000)	0.000	0.000
(2.363)	Reserves - Other	0.000	0.000	0.000	0.000	0.000
(16.887)	**Total Reserves**	(11.175)	(7.000)	(4.000)	0.000	0.000
0.00	**Minimum Cumulative Funding Gap**	15.883	28.979	43.383	49.680	49.528
0.00	**Minimum Annual Funding Gap**	15.883	13.096	14.404	6.297	(0.152)
	Options to close gap:					
	Adults Social Care Interventions	(2.189)	(1.728)	(2.201)	(2.224)	(2.227)
	Children's Social Care Interventions	(0.394)	(1.105)	(1.244)	(0.392)	(0.392)
	Corporate Interventions	(5.666)	(0.292)	0.000	0.000	0.000
	Unidentified to Balance Budget	(7.634)	(9.971)	(10.959)	(3.681)	0.000
	Provisional Balanced Budget	0.000	0.000	0.000	0.000	(2.771)
					(32.245)	

The budget gap is predominantly driven by the significant ongoing impact from demand pressure for social care and inflation on the Council's cost base. This is forecast to increase core costs by £77.5m over the period of the MTFS with £26.2m in 2024/25. Funding is forecast to increase by £28m over the 5-year period leaving a cumulative gap of £49.5m with £15.9m in 2024/25. After the social care demand interventions, and the corporate interventions, there is a requirement to identify further budget savings of £32.2m by year 4 of the MTFS to achieve financial sustainability. Securing savings to support closure of a gap at this level is a significant challenge but will be assisted by the emerging work on the delivery of the budget approach and through the delivery of change to align resources to priorities to enable residents of Gateshead to thrive.

Despite the 2023/24 finance settlement awarding some areas of funding for 2024/25 in relation to social care, and confirmation of council tax referendum principles, it remains the case that there is significant uncertainty about funding beyond the current year. Many government funding sources are short term or come with additional burdens. The MTFS makes some assumptions about inflationary increases in grants and assumes that the grants continue (except for New Homes Bonus), but until the Local Government Finance Settlement expected late December, these cannot be clarified with any certainty.

Economic conditions remain turbulent impacting on cost pressures and funding sources such as business rates.

The cumulative funding gap represents the shortfall between the estimated increase in costs less the estimated increase in funding. This can be presented graphically as follows:



Since the start of the Government's austerity measures in 2010, the Council has made substantial cuts and responded to demand pressures to deliver £190m budget savings. Despite ongoing financial challenges, the Council has delivered against its revenue budget since 2012/13 showing strong and stable financial management with an outstanding record of budget delivery.

The budget gap as estimated within this MTFS will continue to present a significant financial challenge that will be met by a Council wide approach driven by the delivery of the Thrive agenda and underpinned by transformation and prioritisation to maximise the efficient and effective use of our resources.

2.The Purpose, Priorities and Principles of the Medium Term Financial Strategy (MTFS)

What is the Medium Term Financial Strategy?

The Medium-Term Financial Strategy outlines the approach to setting out the Council's financial future over the next five years (2024/25 to 2028/29). It estimates the additional costs and pressures that the Council is facing due to inflation, demand, and policy changes, alongside the estimated change in funding. The difference is the funding gap which must be closed to achieve a legally balanced budget.

Purpose and priorities

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 the 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 and continuing uncertainty of local government funding.

The MTFS establishes the estimated 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.

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.

In the current financial climate, the Council's principal financial aim is to continue to effectively align scarce resources to support Council priorities.

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:

The Council's MTFS sets out the financial context for the Council's resource allocation process and budget setting. The Councils 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.

There are huge financial pressures on not just Council resources, but those of partners, local businesses, and residents. The Council will continue to work with partners, other organisations, residents and communities to deliver positive outcomes within a reduced budget envelope.

To remain affordable and deliver sustainable public services, the MTFS has three main objectives: -

- Consider the scale of financial challenges over the medium term and take appropriate actions and interventions to achieve financial sustainability and a balanced budget year on year.
- Ensure the Council aligns its limited 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.

Approach and principles

The MTFS is consistent with the priorities the Council is pursuing. The principles underlying the MTFS 2024/25 to 2028/29 are as follows:

- 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, demand management interventions, reducing costs and more efficient ways of working. The Council's MTFS will be reviewed on at least an annual basis.

- 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 considered when investment decisions are taken.

- 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 at least annually.

- Overall Council spending should be contained within original estimates. If, following monthly revenue monitoring, service budgets are projected to exceed original estimates, accountability plans should be prepared setting out the actions required to ensure spending at the end of the year does not exceed original estimates.

- 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.

- 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.

3.External (Cost) Pressures

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).

The Local Government Association (LGA) estimates that[1]:

- Local authorities face £1.4 billion in additional costs and demand pressures, such as inflation and demographic growth, in 2023/24, and a further £2.4 billion in 2024/25.
- The cost to local authorities of delivering their services at current levels will exceed their core funding by £2 billion in 2023/24 and £900 million in 2024/25.
- If inflation fails to fall in line with the March 2023 budget, and instead is in line with the more recent inflation projections from the Bank of England, this would add £740 million in cost pressures in 2023/24 and £1.5 billion in 2024/25.

The MTFS assumes CPI to fall to 2% in 2025/26. If it remained at anticipated Q3 levels of 5.4%, this would add a further £2m to the MTFS funding gap in 2025/26.

Inflationary Pressures (Unavoidable)

Since February 2022, the war in Ukraine has led to inflationary increases, notably around food, fuel and utility prices, which are affecting the economy generally. Annual headline CPI inflation eased to 8.7% in April, down from 10.1% in March and a peak of 11.1% in October 2022. Inflation has been on a slow downward trend after is peak of 11.1%. The rate dropped again on 20 September to 6.7% in the year to August, down from 6.8% in the year to July and from 7.9% in the year to June. The reductions are predominantly driven by last year's rise in energy costs falling out of the comparison but remains higher than the Bank of England's expectations of 2%. Whilst remaining at a high level in 2023/24, CPI is forecast to fall to approximately 5% by the end of the year and is expected to fall further still in future years as the position stabilises.

Pay Award / National Living Wage (NLW)

This cost pressure relates to the cost of pay awards agreed for employees of the Council as well as social care fees. Local Authority pay awards are determined through the national bargaining process rather than being mandated by Government. Pay award 2023/24, (offer status) made by the National Employers is in line with the previous year and has been factored into contingency estimates. Any pay award or NLW increases is unfunded from Government and must be met from settlement funding which puts additional pressure on the Council's budget.

Cost of Borrowing

On 3 August 2023, the Bank of England (BoE) increased its rate from 5% in June 2023 to 5.25% in response to rising inflation and this rate was maintained in September's review. This was the fourteenth consecutive increase, and is the highest rate since March 2008, as part of the BoE's monitory policy which looks to reduce inflation to 2% and provide certainty in the financial markets. Any increase in the base rate or further uncertainty in the economy could translate into increased cost of borrowing.

[1] Make It Local | Local Government Association
Make It Local | Local Government Association

Gateshead Context

Over the years all local authorities have faced significant cuts to their funding from central government because of the Government's austerity measures, at a time when pressure on core service delivery has increased, particularly in Children's Services and Adult Social Care. Many Councils have been forced to abandon spend on preventative measures to fulfil their statutory duties.

- **Cost of living Crisis**

  Current financial outlook in terms of high inflation and interest rates as well as cost of living risks, notable around food, fuel and utility prices that our residents and businesses are facing.

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

  Longer-term reform of local government funding has been delayed until the next Parliament 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. The link between need and funding has been eroded. The Council will continue to lobby the Government for a fairer and sustainable system for local government funding.

- **Social Care Funding**

  Adult Social Care is the Council's largest budget with significant demand and cost pressures supporting some of the most vulnerable residents in the borough. Whilst the Council has welcomed additional funding for Adult Social Care in 2023/24 and 2024/25, including new grants such as the Market Sustainability and Improvement Fund and the Discharge Fund, the duration and level of this funding is unknown as it is re-purposed funding intended for social care reforms which have been delayed. This lack of clarity around the future funding for social care beyond 2024/25 makes it difficult to plan strategically and resource effectively without risk to the Council.

- **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.

- **Thirteen Years of Austerity**

  An early consequence of over a decade of funding cuts has been cuts to preventative spend. As funding reduced and demand for services increased, many councils have been forced to abandon spend on preventative measures to fulfil their statutory duties. The cumulative impact of years of cuts has a significant impact on communities. The 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**

  Councils' ability to mitigate the funding uncertainty and demand pressures has been hampered by a financial framework characterised by one-year and late funding settlements, the proliferation of one-off funding pots, and continuing delays to funding reforms.

  One-year local government settlements hinders councils' ability to strategically 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.

  The changing landscape to accessing funding has recently seen Local Authorities having to bid for additional funding. Furthermore, many of these specific grants are competitive, ringfenced, lower value which are then resource intensive to bid for and manage. Gateshead has been successful in the bid to the UK Shared Prosperity Fund; however, there is an expectation costs will offset the funding therefore not included in the MTFS forecast.

  Overall, the increasingly fragmented approach to local government funding challenges the Council's ability to plan effectively over the medium to long term.

- **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 through transformation. A plan to replenish reserves forms part of this MTFS.

- **Devolution**

  The leaders of County Durham, Gateshead, Newcastle, Northumberland, North Tyneside, South Tyneside and Sunderland councils have agreed in principle to a devolution deal which the Government has confirmed it is 'minded to' approve. A devolution deal for the region means unlocking £4.2 billion of investment, over 30 years, and seeing additional powers transferred from Whitehall to local people with better knowledge and experience of our communities. It is expected to create 24,000 extra jobs, generate 70,000 courses to give people the skills to get good jobs and leverage £5.0 billion of private sector investment. The new authority, which would cover an area which is home to around 2 million people, will have the power to make decisions on areas such as transport, skills, housing, finance, and economic development. The deal includes:

  - An investment fund of £1.4bn, or £48m a year, to support inclusive economic growth and support our regeneration priorities.

  - An indicative budget of around £1.8bn, or £60m a year, for adult education and skills to meet local skills priorities and improve opportunities for residents.

  - A £900m package of investment to transform our transport system, with £563m from the City Regional Sustainable Transport Fund, on top of funding already announced for our buses and metro system.

- £69m of investment in housing and regeneration, unlocking sites to bring forward new housing and commercial development.

The impact of the new arrangements will continue to be reviewed throughout the period of the MTFS.

4.Council’s Current Financial Position

Revenue Outturn 2022/23

Council agreed the £254.3m revenue budget for 2022/23 on 24 February 2022. The overall provisional 2022/23 revenue outturn position results in an overall Council positive balance of £3.4m, after the application of agreed reserves funding to support financing of the budget and is the net addition to the Council’s general fund reserves. Further information is available in the Provisional Revenue Outturn 2022/23 reported to Cabinet on 20 June 2023. The report included a review of strategic reserves and included a proposal to merge the two Earmarked Pandemic Reserves into the Budget Sustainability Reserve to support the budget over the MTFS period. The active management of reserves will enable the continuation of planned use of reserves to allow time to find significant permanent budget savings to achieve financial sustainability.

The positive year-end position is a testament to the collective approach taken by groups and services to keep pressures under review within the financial year and ensuring that action was taken in a timely manner to ensure outturn within budget. Effective financial management has ensured that all covid funding resources and time limited funds have been maximised alongside consideration of setting aside funding for future pressures and lost income.

Although the overall outturn is positive, the position includes several one-off transactions and masks overspends in some services. The positive outturn remains a significant achievement given the financial pressures faced by the services and enables the Council’s sound financial position to be maintained within an extremely challenging economic and financial context. The Council has a strong and stable financial base with an outstanding record of budget delivery. Since the start of austerity, the council has made significant cuts and responded to demand pressures to deliver £190m of budget savings.

Revenue Budget 2023/24

On 21 February 2023 the Council agreed a revenue budget of £289.903m which was balanced through planned use of £25.883m of reserves. This approach was in line with the agreed three-year approach for planned use of reserves to allow time to identify cuts and efficiencies.

Funding announcements made after the budget was set in February have resulted in increased funding available in relation to Better Care Fund (£0.416m) and Public Health Grant (£0.562m). To reflect this additional funding the expenditure budgets and financing have both been increased in the 2023/24 base budget. Within the current financial year, the expenditure base budget of £8.996m in relation to pandemic costs has been removed along with the use of budgeted funding in relation to the pandemic reserve (£8.996m) to reflect the approach to use Budget Sustainability to support the budget in the future. This results in a net reduction to the 2023/24 base budget of £8.018m to £281.885m.

Given high inflation and demand there is an expectation that delivery of the budget will be under significant pressure. Notwithstanding the positive outturn in 2022/23, the challenge that the Council faces should not be underestimated.

5.Financial Challenge Beyond 2023/24

Medium term financial planning remains extremely difficult due to significant uncertainty amidst international issues, the national economy and cost of living crisis, coupled with the continuing delays to finance reforms, which are not anticipated until 2025/26 at the earliest.

As part of the 2023/24 finance settlement, the Government confirmed that reforms to the local government funding regime will not be implemented in the current Spending Review period. This exacerbates the short-term approach to funding which is a hindrance to longer-term strategic planning. While the Council will continue to lobby the Government in relation to delays to funding reform, unfairness of the current regime which has no correlation to need, and the short-term nature of settlements, it's likely that the Council will be operating in this environment for the foreseeable future.

Other than some national indications of social care funding for 2024/25, the level of funding beyond 2023/24 has not been specified by Government resulting in greater risks in relation to the localisation of business rates and the local council tax scheme. The delays to the reform of local government funding means that it is unlikely that the 2024/25 finance settlement will provide any sort of multi-year allocation which would enable the Council to develop the MTFS with greater certainty. The unknown impacts alongside the level of risk to finances mean that all forecasts will need to be closely monitored and potentially refreshed more frequently than usual as consequences become clear. Staying the same will not be an option for the Council. The Council will be required to change to deliver its priority outcomes within the estimated funding assumptions. The budget setting for 2024/25 and beyond is set to remain highly challenging.

In response to the impact on the economy that the inflationary pressure is causing, the Bank of England has increased its base rate from 5% in June 2023 to the current rate of 5.25% on 3 August 2023.

Any increase in the base rate or further uncertainty in the economy could translate into increasing the cost of borrowing should the Council need to borrow for the Capital Programme. This will have a corresponding impact on the revenue budget and business cases for projects included in the Capital Programme.

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.

Savings proposals may 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 Local Government Pension Scheme 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.

Economic Growth

Local economies are linked to national economic growth. Our vision for Gateshead is of a fairer, greener and more resilient economy that enables everyone to thrive and delivers good jobs, growing businesses and great places to live and work. The Council aims to promote a strong and sustainable local economy leading to wellbeing and prosperity for residents, communities and businesses. This will be supported by a planned approach to investment to boost local economic growth such as improving local infrastructure and wider transport links. Success in this area will enable the Council to have a stronger medium- and long-term financial position and allow redirection of resource to activities which protect the most vulnerable.

The Council faces challenges with additional burdens relating to Planning and Building Control due to the changes in legislation with the new Building Safety Act 2022 coming into effect early 2023.

From a financial perspective the Council will look to invest resources to generate economic growth that may result in increased business rates and council tax income to the Council. This may contribute to closing the financial gap.

Significant Challenges in Social Care

The social care demand and cost pressures estimated at £28.5m (excluding expenditure matching ring-fenced grant funding) over the period of the MTFS represents the biggest cost of the estimated funding gap. Part of the strategy to deliver a sustainable financial position will be to manage this demand through interventions and service transformation.

Adult Social Care	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**
External fees	5.121	2.294	2.392	2.511	2.631
Demands	1.065	1.134	1.806	1.762	1.681
Total Pressures	**6.186**	**3.429**	**4.198**	**4.273**	**4.313**
BCF additional funding	0.440	0.164	0.168	0.171	0.174
MSIF additional funding	1.336	-	-	-	-
Discharge Fund additional funding	1.054	-	-	-	-
Total	**9.016**	**3.593**	**4.366**	**4.443**	**4.487**
Demand Interventions	**(2.189)**	**(1.728)**	**(2.201)**	**(2.224)**	**(2.227)**

Childrens Social Care	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**
External fees	1.545	0.646	0.662	0.678	0.694
Demands	-	-	-	-	-
Home to School Transport	1.889	-	-	-	-
Total Pressures	**3.434**	**0.646**	**0.662**	**0.678**	**0.694**
Demand Interventions	**(0.394)**	**(1.105)**	**(1.244)**	**(0.392)**	**(0.392)**

Adult's Social Care

An ageing population means that a greater number of people in Gateshead are likely to be living with long term conditions and becoming frail in the years ahead, this will increase demand on both health and social care services.

It is difficult to predict future needs of vulnerable groups. However, the Joint Strategic Needs Assessment (JSNA) forms the evidence base for strategic planning which predicts that the number of people aged 65+ with selected conditions/needs which may impact on their physical and mental wellbeing both now and in the future will increase significantly by 2040.

The Integrated Adults and Social Care Services Living Thriving Lives Plan 2023-2028 sets out a five-year strategy for the service outlining areas of focus, direction and ambitions. The Strategy is underpinned by an action plan and will support the delivery of the Medium Term Financial Strategy by managing the demand for services. The Strategy has 5 main areas of focus:

- Prevent, reduce, and delay the need for support;
  - ➢ Information and Advice – good and accessible information and advice, supporting people to make good decisions about their care and support and what is available to them.
  - ➢ Promoting Independence through Enablement – enablement gives people the opportunity to live their most independent life. The ambition is to strengthen services and seek opportunities to expand and diversify and embedding an enablement approach in all areas of practice.
  - ➢ Promoting Independence through Technology – creating a Technology Enabled Care strategy, working with the market and developer for solutions and working with partners to co-design solutions.

- Strength Based Practice – Gateshead has a wealth of community assets that can support people at all stages of their life. These community services may help to prevent the need for formal care, or improve the wellbeing offer for people with support needs.

- Home First – continue to explore the existing and future needs of our population and develop housing options including extra care and other alternatives and embedding technology solutions. Ensure a vibrant domiciliary care market focusing on enablement, making direct payments more accessible and working with partners to ensure caregivers needs are embedded in discharge processes.

- Caregivers
  Commitment to improving and developing services to better support unpaid caregivers to help them to continue caring and support their health and wellbeing.

- Workforce
  Continue to be a good employer to retain our existing colleagues but to also attract new colleagues into the service, and we strive to create a culture of continuous learning and create opportunities for development amongst our teams.

- Commissioning
  Effective commissioning will be driven by a data led, evidence-based approach which also promotes collaboration, integration, and innovation across the Gateshead System to meet identified current and future needs, as well as any gaps in provision. The ambition is to provide a high quality, high performing market through support and collaborative service design with people, providers, and communities.

- The Voice of People and Communities
  The ambition is to be a learning organisation that views people and communities as experts in their care and how they can be best supported to improve and maintain their wellbeing.

To deliver the aims of this Strategy will require a review of how people access adult social care, domiciliary care market transformation and investment, a review of and improved access and infrastructure for direct payments, a review of the approach to hospital discharge, a partnership approach to service delivery, development of alternative provision such as expansion of extra care and a refocus of in-house services.

Through Gateshead Cares, a multi-agency alliance of health and social care organisations in Gateshead, there are strong joint working arrangements across system partners which are well embedded to deliver an integrated approach to health and care in Gateshead.

The Better Care Fund (BCF) is part of a wider programme of work to integrate health and care across Gateshead Place for the benefit of local people and their communities. The programmes and services funded through the BCF are focused on shifting the balance of services towards community support with a focus on prevention, early help and self-help to avoid hospital admissions; developing integrated care and treatment for people with health and care needs; minimising the length of stay in acute settings and supporting home first discharge arrangements where feasible.

In addition, the Service intends to adopt the locality working principles to support the Thrive agenda and develop accessible services that support people at place. In delivering all of the outcomes described it will be necessary to create a new social care delivery pathway that puts localities, prevention and people at the heart of what we do and is built on the foundation of strengths based practice and person centred delivery.

Children's Social Care

In Gateshead the numbers of children in care have increased significantly over the last two years from 439 at March 2021 to 529 at March 2023. This is exacerbated by an increase in the complexity of need and a market which is unable to meet the demand. The current cost of living crisis on the back of a global pandemic has had significant and long-lasting impacts on child poverty which is critical to the local context.

There is a lack of placement sufficiency locally, regionally, and nationally resulting in increased cost pressures from children living in higher cost placements.

The frequency of cases of children with complex behaviors is having an impact on the capacity and availability of mental health services. There is a very limited market to accommodate these children and therefore the cost of doing so is significant.

A combined strategy that addresses a reduction in the overall number of children in the looked after system alongside a focus on ensuring that children can live within family units wherever possible and as locally as possible, either within extended family units or with Gateshead's foster carers is in place.

There is a focus on reducing the need for children to come into the care system with a range of strategies and approaches focused on children on the edge of care.

The Pre-birth service was set up in 2022 to work with families who are expecting a baby where there are known safeguarding risks to provide intensive support to prevent the child coming into the care system. As a result of this strategic approach there has been a reduction in children under the age of 1 in the system in the 12 months from 51 in March 2022 to 39 in March 2023.

The edge of care service focused on preventing teenagers coming into care is being refreshed alongside the new contextualised safeguarding team. They are working in collaboration with the new Trusting Hands Team with investment from the Integrated Care Board (ICB) to support older children to remain living at home with support.

Where children do need to come into the care of the Council, a refreshed sufficiency strategy has been developed which is focused on ensuring children can live with extended family on kinship care arrangements where possible, or with our own foster carers.

There has been a significant growth in the use of Independent Fostering Association (IFA's) places in the last year which has risen by 60%, from 57 to 91 placements, due to a lack of in house availability. IFA placements cost twice as much as in house foster placements.

As a result, a refreshed marketing and communication strategy is in place to ensure that the Council recruits as many foster carers into Gateshead as possible as this is better for children and a more cost effective way to care for children. During 2022/23, 20 additional fostering households have been recruited and there is an annual target of a further 30 fostering households each year for the next three years. A regional pathfinder project was launched in early 2023 with funding from the Department for Education (DfE) to support a collaborative approach to recruitment across the North-East.

Two new children's homes have opened in Gateshead in the last five years and a further two are scheduled to open in 2023. The two most recent homes will provide four more places for children. There is a strategy in place to move children in external residential homes back to live locally in Gateshead within our own provision or within externally commissioned provision within Gateshead. Whilst the average cost of a commissioned home is approximately £4,781 per week, this can include costs of over £20,000 per week for children with the most complex needs.

A new commissioning and tendering exercise for supported living provision will go live in October 2023 which will increase the sufficiency of places for older young people which will support independence and provide cost effective living options for young people who do not require care.

The commissioning service have a refreshed approach to market shaping and supporting the market. This will include supporting private providers in Gateshead to care for Gateshead's children; ensuring that relationships with the Local Authority are strong and that wrap around support incentivises private providers to care for local children.

Home to School Transport is also an area of significant financial pressure and one which has seen significant growth in recent years and this is expected to continue. There are a number of reasons for the increase in costs including, complexity of need, location of provision, availability of drivers and appropriately accessible vehicles and fuel prices. Further growth of £1.80m has been factored into the MTFS in 2024/25 in recognition of the overspend last financial year and forecast overspend in the current financial year.

Looking Ahead Threats

- Cost of living crisis and high inflation rates if these continue to rise or do not reduce to BoE estimates;
- 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 and interventions are insufficient to address this;
- Unfunded pay pressures such as public sector pay award and the Government's 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;
- Continuing uncertainties on the pandemic impact on income from business rates and council tax and fees and charges;
- Challenges in recruitment and reductions/shift in work force from working in social care, linked to competing industries such as retail and 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

- Fundamentally 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;
- Continue to embrace and embed 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 locality 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 through the Corporate Asset Management Strategy;
- 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.MTFS Estimates

Stubbornly high inflation continues to exacerbate the uncertainties of accurate modelling, adding pressure to the current year as well as forecasting for the future years impact, substantial pay awards and increased uncertainty around funding.

The MTFS has been prepared on best estimates using the current information we have to date amidst significant uncertainty about international issues, the national economy and cost of living crisis. Given the high uncertainty the impact of any changes to some of these assumptions and key risks are included in the supporting information. The table below shows the estimated financial gap over five years with the proposed use of reserves. These are shown in more detail within the review of reserves section.

2024/25 is the final year of the 3-year agreed budget approach which includes planned use of reserves agreed by Cabinet in December 2021. However, following the 2022/23 Revenue Outturn reported to Cabinet in June 2023, alongside active management of reserves agreed at Q1 Revenue Monitoring reported to Cabinet in July, an updated and reprofiled use of reserves is proposed in this MTFS. It is proposed that the use of reserves is extended for a further two years into 2026/27, with £11.175m in 2024/25, £7m in 2025/26, and £4m in 2026/27 to smooth the impact of cuts over the next 4 years. Significant use of reserves can only be justified on the following two fundamental outcomes:

- ➢ **Permanent savings must be delivered to close the estimated funding gap without further reliance on reserves beyond the MTFS period; and**
- ➢ **There must be a plan to replenish reserves to a prudent level over the MTFS period.**

The extension on the planned use of reserves from 3 to 5 years is predicated on the following:

- The impact that high inflation is having on the MTFS since the original strategy on use of reserves was agreed in December 2021;
- The active management of reserves that allows this flexibility;
- The current Capacity Fund and a further £2m proposed in 2024/25 to drive through to sustainability;
- A budget approach to identify and deliver a pipeline of budget cuts of £32m over the next 4 years; and
- A proposed plan to replenish reserves from 2026/27.

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

The financial gap can be summarised as follows:

2023/24 £m	Indicative Budget Forecasts	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
289.903	**Net Revenue Budget**	281.885	308.070	323.426	342.445	352.570
(8.996)	Base Adjustments	(1.563)	0.000	0.000	0.000	0.000
	General Inflation	0.209	1.600	0.599	0.543	0.326
	Contractual Inflation	0.286	0.292	0.298	0.304	0.310
	Corporate Pay Pressures	8.193	4.998	5.058	3.619	3.681
	Corporate Pressures - Capacity Fund	2.000	0.000	0.000	0.000	0.000
	Corporate Pressures - Replenish Reserves	0.000	0.000	5.000	0.000	0.000
0.416	Adults Social Care pressures	9.016	3.593	4.366	4.443	4.487
	Children's Social Care Pressures	3.434	0.646	0.662	0.678	0.694
0.562	Public Health	0.239	0.361	0.368	0.375	0.383
	Strategic Economic Investment (Capital)	4.371	3.867	2.669	0.162	(3.038)
281.885	**Revised Base Budget**	**308.070**	**323.426**	**342.445**	**352.570**	**359.413**
	Revenue Support Grant	(18.733)	(19.107)	(19.489)	(19.879)	(20.277)
	Retained Business Rates	(34.796)	(35.492)	(37.213)	(38.989)	(39.768)
	Top Up Grant/Equalisation	(23.196)	(23.660)	(24.134)	(24.616)	(25.109)
	Council Tax Base & Growth	(116.826)	(120.834)	(124.962)	(129.213)	(133.592)
	Other Grants (inc Public Health)	(87.460)	(88.353)	(89.264)	(90.192)	(91.140)
(264.998)	**Total Funding Resources**	**(281.012)**	**(287.447)**	**(295.062)**	**(302.890)**	**(309.885)**
16.887	**Funding Gap (before Reserves)**	**27.058**	**35.979**	**47.383**	**49.680**	**49.528**
(4.524)	Pandemic Reserves	(2.000)	(2.000)	(2.000)	0.000	0.000
(2.363)	Other Reserves					
(10.000)	Budget Sustainability Reserve	(9.175)	(5.000)	(2.000)	0.000	0.000
0.000	**Total Reserves**	**(11.175)**	**(7.000)**	**(4.000)**	**0.000**	**0.000**
	Minimum Cumulative Funding Gap	**15.883**	**28.979**	**43.383**	**49.680**	**49.528**
	Minimum Annual Funding Gap	**15.883**	**13.096**	**14.404**	**6.297**	**(0.152)**
	Options to close gap:					
	Adults Social Care Interventions	(2.189)	(1.728)	(2.201)	(2.224)	(2.227)
	Children's Social Care Interventions	(0.394)	(1.105)	(1.244)	(0.392)	(0.392)
	Corporate Interventions	(5.666)	(0.292)	0.000	0.000	0.000
	Unidentified to Balance Budget	**(7.634)**	**(9.971)**	**(10.959)**	**(3.681)**	**0.000**
	Provisional Balanced Budget	**0.000**	**0.000**	**0.000**	**0.000**	**(2.771)**
					(32.245)	

Rates used within the MTFS 2024/25 to 2028/29 assumptions

Assumptions	2024/25	2025/26	2026/27	2027/28	2028/29
CPI	5.41%	2.00%	2.00%	2.00%	2.00%
Pay Inflation	5.41%	2.00%	2.00%	2.00%	2.00%
Council Tax Increase (core)	2.99%	1.99%	1.99%	1.99%	1.99%
Council Tax Increase (ASC Precept)	2.00%	1.00%	1.00%	1.00%	1.00%

Council tax assumptions for planning purposes and not agreed until February 2024

Capital investment must also be kept under review and clearly aligned to priorities and financial sustainability to ensure affordability and to manage risks. This will include a strategic investment plan to underpin the prioritisation of capital investment.

The starting point for the MTFS forecast is the 2023/24 net budget of £289.903m approved by Council in February 2023, adjusted to reflect amendments agreed by Cabinet as part of Q1 Revenue Monitoring, resulting in a revised 2023/24 starting base of £281.885m. The MTFS forecast assume delivery of this budget and ongoing costs are incorporated into the projections.

Inflation

Inflationary Pressures – The inflationary pressures identified in 2023/24 will have a cumulative effect across the MTFS period. It is anticipated that levels of inflation will not reduce significantly by the end of 2023/24 and therefore there is likely to be ongoing pressures during 2024/25.

CPI assumption is based on current Office for Budget Responsibility (OBR) forecasts for 2024/25 and is thereafter based on the Government target of maintaining inflation at 2%. CPI impacts on both costs and funding.

Energy Costs – Energy costs are set within a North-East Procurement Organisation (NEPO) framework. 2022 was an unprecedented year in relation to energy costs with +100% increase in both Gas and Electricity costs. Early estimates indicate that this will rise further in 2023/24 by c.15% for gas and 20% for electricity, before falling by c.20% in 2024/25. Fluctuations in the volatility of energy costs are managed through Contingency.

Fuel Costs – Fuel cost rose significantly in 2022, although recently costs have started to reduce. This is however still high cost compared to 2021 with uncertainty as to future years.

Pay Pressures – the current pay award offer for 2023/24 made by the National Employers is in line with 2022/23 at an increase of £1,925 per employee. This has yet to be confirmed. Assumed 5.41% pay award for 2024/25 and 2% thereafter in line with CPI. 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.

Contractual Inflation – Rising costs to existing contracts.

Inflation	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Utilities Increase	0.000	0.000	0.100	0.100	0.100
Other Costs (NNDR & insurance)	0.209	0.213	0.217	0.221	0.226
Pay Award	7.693	2.998	3.058	3.119	3.181
Investment interest tapering	0.000	1.387	0.282	0.222	0.000
Contractual Inflation	0.286	0.292	0.298	0.304	0.310
Total	**8.188**	**4.890**	**3.955**	**3.966**	**3.817**

Corporate Pressures

Job evaluation review has commenced in 2023/24 and it is expected to be finalised in 2025/26. It requires a fundamental review of the whole pay and grading structure to tackle recruitment and retention issues and market pressures facing the Council.

Strategic Economic Investment

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 2023/24 to 2027/28 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.

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.

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.

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 £0.75m 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.

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 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.

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.

Resources - Other Grants

Regarding funding changes, for the Public Health Grant an indicative allocation for 2024/25 was published in March 2023 with an increase of 1.3% on 2023/24 levels. From 2025/26 inflationary increases in grant are anticipated. It should be noted if any funding formula are changed this could result in significant changes and potential reduction to grant. However, Government Departments may seek to mitigate the extent of any reductions to Councils that are adversely affected by formula changes by providing transitional arrangements.

For the Better Care Fund, the Council has received inflationary increases in previous years and expects this to continue.

There are well documented national pressures on Social Care and additional funding has recently been granted to support Social Care reforms, most notably the Market Sustainability and Improvement Fund and the Discharge Fund. Although the increase in funding is significant, it is coupled with new burdens, and therefore this funding does not help to reduce the Council's funding gap. Furthermore, the duration of this funding is uncertain, with Government announcements referring to 2023/24 and 2024/25 only, making the ability to efficiently plan and implement long term strategies extremely difficult.

The Council also received an increase for the Social Care grant in 2023/24 and assumed increases in 2024/25 based on the announcement about the national allocation. Beyond 2024/25, this has been assumed cash flat for future years.

The New Homes Bonus scheme was a key funding source for the Council and was due to be phased out by now. The Council received a small allocation for 2023/24 but no further funding has been included in the MTFS on the assumption that this grant will cease.

In 2023/24 the Council received a Services Grant which is anticipated will continue in some form of distribution to the Council.

The MTFS projections assume all grants will continue beyond 2023/24, with the exception of New Homes Bonus.

2023/24 £m	Funding / Grants	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
(17.787)	Public Health	(18.026)	(18.386)	(18.754)	(19.129)	(19.511)
(7.771)	Better Care Fund	(8.211)	(8.375)	(8.543)	(8.714)	(8.888)
(11.387)	Improved Better Care Fund	(11.387)	(11.387)	(11.387)	(11.387)	(11.387)
(19.543)	Social Care Grant	(22.433)	(22.433)	(22.433)	(22.433)	(22.433)
(2.654)	ASC MSIF	(3.990)	(3.990)	(3.990)	(3.990)	(3.990)
(1.596)	ASC Discharge Fund	(2.650)	(2.650)	(2.650)	(2.650)	(2.650)
(17.455)	S31 Business Rates	(18.399)	(18.767)	(19.142)	(19.525)	(19.916)
(0.094)	New Homes Bonus	0.000	0.000	0.000	0.000	0.000
(2.365)	Services Grant	(2.365)	(2.365)	(2.365)	(2.365)	(2.365)
(80.652)	**Total**	**(87.460)**	**(88.353)**	**(89.264)**	**(90.192)**	**(91.140)**

Council Resources

There is still no clarity from Government on funding beyond the current year and finance reform has been delayed until the next parliament. The Settlement will not be known until mid to late December and is likely to only be for one year.

On 12 December 2022 the Government announced changes to referendum limits for Council tax. As a result, following consultation the Council was able to increase Council tax by 2.99% and the Adult Social Care Precept by 2% for 2023/24. The Government have confirmed that the same principles will apply in 2024/25 but it's unclear how long these limits will remain in place. Each 1% increase results in approximately £1.1m of additional income. For forecast purposes, from 2025/26 onwards the MTFS assumes the rate returns to the previous levels of 1.99% maximum increase in council tax and 1% maximum increase in Adult Social care precept. These assumptions are for planning purposes only and Council Tax rates will be agreed by Council each year in February. A revised Council Tax and Business Rates base will be updated and agreed by Cabinet in January 2024, in advance of setting the Council Budget in February 2024.

The Council receives Section 31 compensation from Government when they decide to freeze the business rates multiplier which is applied against the rateable value of business properties.

7.Housing

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.

The Council acknowledges that the scale of new housing development needs to increase. A new Housing Development Programme aims to build 3500 new homes over the next 5 years. This programme will be delivered by working with a range of partners, developers, and funders. The housing led regeneration of key places such as High Street South, Felling, Beacon Lough and Chopwell will continue to be a priority. Both the Housing Development Programme and housing led regeneration priorities and plans will align with the Council's medium-term position and investment plan.

The Housing Revenue Account (HRA) Business Plan and associated Asset Management Strategy ensures affordable 5 and 30 year financial and investment plans. The plan makes a significant contribution to the Housing Development Programme, with a planned HRA funded development programme of 400 new homes over the next 10 years. The HRA Business Plan has also been refreshed to ensure it continues to be financially viable and investment is affordable.

8.Schools

Schools are funded through ring-fenced resources, mainly Dedicated Schools Grant (DSG) and several other grants including the Pupil Premium. Children's services funding is included within the core council funding known as the Settlement Funding Assessment.

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 mainstream schools' funding allocations being determined directly by the NFF in the years ahead.

At 31 March 2023 the overall reserves balances for all maintained schools in Gateshead totalled £8.28m, a decrease of £0.67m from March 2022. This position demonstrates that overall position of schools is declining with the number of schools with projected deficits increasing. The current turbulent times and the additional cost pressures for utilities, food, and pay awards makes the position difficult to estimate going forward.

To support with the pandemic impacts schools are receiving additional grants such as Recovery Premium and National Tutoring Programme aimed at helping children recover lost education resulting from the pandemic. It is uncertain how long this funding will continue. The National Tutoring Programme funding is reducing and is at risk of claw back if schools do not spend it in line with the very specific conditions of grant.

The impact of future wage inflation is also not known with higher than expected pay offers for teachers and a flat rate offer for non-teaching staff. The Department of Education (DfE) provided an additional grant in 2023/24 for additional costs, but it is unclear if this will cover actual costs. The 2022/23 additional grant was mainstreamed into the DSG for 2023/24.

The impact of the Supreme Court ruling on Harpur Trust V Brazel for part time, term time only workers will also have a financial impact on schools. Whilst schools have set aside a provision for this, the full consequences are not yet fully known until the outcome of the Government consultation and further information is released.

It is also thought that the full impact of the pandemic and the current economic situation on pupil's characteristics is not fully known with increased numbers of pupils eligible for Free School Meals (FSM) which will impact on the funding to schools. The percentage of FSM pupils in state funded schools has increased each year from 15.4% January 2019 to 23.8% January 2023. The cost of the provision of school meals has been heavily impacted by inflationary increases presenting a significant financial issue.

The number of Education Health and Care Plan (EHCP) requests continues to increase, and even with the creation of additional special school and additionally resources mainstream school (ARMs) places, the waiting list for special school places and specialist provision continues to increase with demand outstripping supply.

9.Reserves

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.

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.

The Statement of Accounts 2022/23 (subject to audit) 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

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

A review of reserves was undertaken as part of the 2022/23 Revenue Outturn and covered:

- 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.

The balances at 31 March 2023 remain subject to audit.

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

Reserve	**Why Needed**	**Available to support Council budget**	**Balance as at 31 March 2023**
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)	£11.9m
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 to schools	£8.3m

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 2023
Financial Risk and Resilience	This reserve is held in respect of key financial risks identified through the risk management process and the savings required as part of the Council MTFS. This includes Insurance (£4m), grant clawback (£3m), workforce development costs (£3.5m), commercial risk (£2.6m), Schools PFI (£3.8m), ASC Direct payments (£0.8m), Highways maintenance (0.6m), Volunteering and Community Capacity (£0.4m) and budget flexibility (£0.5m)	Yes	£19.2m
Thrive	This reserve is held support to Council thrive priorities of Economic, Housing and Environmental Investment (£3.3m) Poverty, Health and Equality Investment (£3.7m), and Discretionary Social Fund (£0.5m)	Yes	£7.5m
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. As part of the 2022/23 Revenue Outturn, the Pandemic Reserve was consolidated into this reserve. £14.5m of this is committed within the 2023/24 budget with a further £22m proposed in this MTFS meaning this reserve will be fully utilised by March 2027. A plan to replenish this reserve forms part of the MTFS.	Yes	£36.7m

Ringfenced Reserves

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

Reserve	Why Needed	Available to support Council budget	Balance as at 31 March 2023
Developers' 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	£2.2m
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	£1.4m
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	£3.8m
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	£4.0m
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	£19.6m
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	£19.0m
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	£12.7m

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

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 and includes a plan to replenish reserves in years 3 to 5 of this MTFS.

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.

10.Community Wealth Building / Social Value

The Council has agreed to implement a Community Wealth Building (CWB) model as one of the tools to support the Thrive agenda. Through community wealth building, Gateshead is advancing its Thrive agenda aspirations to be an inclusive economy where the wealth is not extracted but broadly held and generative, with local roots, so that income is recirculated, communities are put first, and people are provided with opportunity, dignity and well-being. The Council's Corporate Commissioning and Procurement service work to ensure that Council priorities, community wealth building and social value are incorporated into all commissioning and procurement activity. In November 2021, Cabinet agreed all contracts with a value over £100,000 would have a weighting of 20% against Social Value. To date the Council has received £4.1m in Social Values offers including apprenticeships, work placements, donations in kind including donations to the Mayor's charities and awards schemes.

11.Conclusion

The factors and assumptions outlined above result in a forecast cumulative gap of £49.7m within the MTFS driven mainly by Social Care demand pressures and additional inflationary costs.

Achieving sustainable finances represents a formidable challenge for the reasons outlined in this report and some tough choices will need to be taken to achieve long term sustainability. It is essential that the delivery of Council priorities and achievement of priority outcomes is linked to resource allocation in a sustainable way.

Sound and responsible financial management will provide a strong foundation to deliver against the challenges outlined above. The Council has a strong track record of financial performance and will continue to use resources in the best possible way to help residents of the borough thrive.

The Medium Term Financial Strategy of the Council will be kept under review to ensure that the financial context within which the Council operates is understood and informs effective decision making in a dynamic environment.

Supporting Information

Sensitivity Analysis for 2024/25 figures

= current assumptions built into MTFS

Pay Inflation

Employee costs represent the biggest area of the Council's spend and so pay inflation is a significant cost for the Council. The base assumption is pay inflation of 5.41%. Each percentage costs c.£1.5m

Pay Inflation	1%	2%	3%	4%	5.41%	5%	6%
Cost (£m)	1.485	2.971	4.456	5.941	7.693	7.427	8.912
Additional/(reduced) cost from MTFS	(6.208)	(4.722)	(3.237)	(1.752)	-	(0.266)	1.219

Council Tax

Following changes to referendum limits, the base assumption is a Council Tax core increase of 2.99% plus 2% for ASC precept. Each 1% of Council Tax generates c.£1.1m of income.

Council Tax	0%	1%	2%	3%	4%	4.99%	6%
Income Generated (£m)	0.000	(1.110)	(2.219)	(3.329)	(4.439)	(5.538)	(6.658)
(Additional)/reduced income from MTFS	5.538	4.428	3.318	2.208	1.099	-	(1.121)

Assumptions used for planning purposes and not approved until February 2024. Note for anything over 4.99% (2024/25, including ASC Precept) the Council must hold a local referendum before implementing any increase.

Funding

The base assumes CPI increase on Revenue Support Grant. Each 1% increase/decrease is a funding impact of £0.180m.

Revenue Support Grant	0%	2%	4%	5.41%	6%	8%	10%
Income Generated (£m)	-	(0.355)	(0.711)	(0.961)	(1.066)	(1.422)	(1.777)
(Additional)/reduced income from MTFS	0.961	0.606	0.251	-	(0.105)	(0.460)	(0.816)

Risk Assessment of Key Threats

A series of potential changes in the inflationary outlook, the Spending Review, Local Government Settlement, Business Rate reform and the results of the fair funding review inevitably means there are many uncertainties and sources of risk attached to the forecast.

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 2024/25 and beyond are based on best estimates at this time. A prudent approach has been adopted based on previous years' experience as well as using regional network contacts to inform modelling.
2. Volatility of Business Rates funding including uncertainty around impact of appeals	Likely	High/ Medium	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. Dependency on government funding in this area.
3. Public Health funding is insufficient to meet responsibilities	Possible	Medium	Funding confirmed for 2023/24 and an indicative allocation has been given for 2024/25, however funding in future years is unknown. The lack of certainty of continuation of grant going forward is a significant risk of circa £17.5m. Public Health responsibilities were to 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. With current high inflation and cost of living crisis the potential impacts can be seen within the sensitivity analysis.
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.
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. Some budgets rebased as part of the 2023/24 budget.
9. Budget monitoring not effective	Possible	High	Regular monitoring and reporting in line with corporate framework. Action plans including positive interventions 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.

Risk	Likelihood	Impact	Risk Management
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 changes	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/ICB Better Care Fund Programme Board. The impacts of welfare reform continue to be planned for and monitored through the Council Scrutiny Framework. Charging reform implementation of 18 (3) of the Care Act is managed by an operational working group.
14. 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