

**TITLE OF REPORT:**           **Medium Term Financial Strategy 2025/26 – 2029/30**

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

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### **Purpose of the Report**

1. To request Cabinet to recommend to Council the approval of the Medium Term Financial Strategy (MTFS) 2025/26 to 2029/30 including the proposed MTFS principles and the medium-term financial context as set out in this report and appendix.

### **Background**

2. The Medium-Term Financial Strategy (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.
3. 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. On 29 July 2024, the Chancellor of the Exchequer delivered a statement to Parliament accompanied by a policy paper on £22 billion public spending pressures. The Chancellor outlined that the overall funding totals for 2025/26 will be confirmed at the Budget on 30 October 2024, and a multi-year Spending Review covering at least three financial years will then conclude in Spring 2025. During the debate following the statement, the Chancellor expressed an intention to introduce multi-year finance settlements for local government, but no further detail has been provided, including when this proposal might be implemented.
4. Government announcements regarding funding will be closely monitored during the budget process and their impacts assessed, in line with an iterative approach. As such, the assumptions in the refreshed MTFS remain subject to significant uncertainty at this stage. The financial assumptions in this report will be revisited following the Budget on 30 October 2024.
5. Funding of local authorities and of the increasing demand pressures is a national issue with a growing number of local authorities reporting significant financial issues and failures, including 19 local authorities which needed exceptional financial support to set a legally balanced budget in 2024/25. While Gateshead Council is not in this position,

the challenges that the Council is facing should not be underestimated. However, the starting point for the refresh of the MTFS is built on the solid foundation of:

- The Council has a strong track record of delivering the revenue outturn within budget. The 2023/24 revenue outturn was positive but there were a number of one-off issues that masked overspending in some areas. The positive outturn remains a significant achievement given the financial pressure faced by services and it provides the foundation of the Council's forward plan.;
- The 2024/25 Finance Settlement was considered to be more positive than anticipated. However, the impact of inflation has eroded the spending power which has a cumulative impact over the MTFS;
- The Council agreed £15.9m of cuts for 2024/25 to achieve a legally balanced budget, recognising that use of reserves cannot be the solution to the funding gap;
- The 2024/25 settlement and active management of reserves enabled some flexibility on the use of reserves in 2024/25, requiring £5m budgeted use of Budget Sustainability rather than £11.175m estimated in the MTFS;
- The 2024/25 base budget includes capacity to deliver change within the Council. This is strengthened within the MTFS which projects an additional £2m capacity building funding in 2025/26 outlined later in this report.

6. The MTFS is not the budget, rather it provides a framework and context for the budget process. There are many assumptions that will need clarification between now and February 2025, in particular:

- The implications of announcements in the Chancellor's Budget on 30 October 2024;
- The Local Government Finance Settlement, assumed to continue as late December 2024;
- Confirmation of retained business rates and associated relief grants at the end of January 2025;
- The impact of the pay award in 2024/25 and assumptions for 2025/26;
- Confirmation of National Living Wage rates which impact on provider fee negotiations;
- Confirmation of Council Tax Support Scheme;
- Confirmation of the Collection Fund surplus or deficit in mid-January 2025;
- Council Tax base to be reported to Cabinet in January 2025;
- Agreed Capital Programme;
- Agreed increase in Council Tax in line with referendum principles; and
- Delivery of the 2024/25 budget. Q1 reported to Cabinet on 16 July 2024 outlined a projected overspend of £3.6m.

7. The process is iterative as these areas become known and ultimately impact on the level and timing of interventions and budget cuts required, as well as the level and profiling of reserves usage. The Council will develop an approach to the 2025/26 legally balanced budget based on the latest set of assumptions set out in the proposed MTFS.

## **Fixing the Foundations**

8. In their *Fixing the Foundations*<sup>1</sup> public spending audit, the Government outlined a commitment to a more empowered, accountable and sustainable local government system. The Government's stated intent is to use the Spending Review to improve how different tiers of local government work together which will include consolidating funding streams for local authorities into the Local Government Finance Settlement. Many Government funding sources have been short term or have 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 and Services Grant), but until the Local Government Finance Settlement, expected late December, these are not confirmed.

## Proposal

9. Based on estimates outlined in this report, the Council estimates that overall, it will need to close a cumulative financial gap of £34.4m by 2029/30. The MTFs assumes positive interventions to manage demand and cost pressures in social care totalling £13.4m and proposed use of reserves of £12.5m over years 2025/26 to 2026/27 to allow smoothing of transformation work to deliver these interventions. Alongside proposed budget efficiencies totalling £6.1m, this leaves unidentified savings of £14.8m to deliver a sustainable MTFs, summarised as follows:

	YR 1	YR 2	YR 3	YR 4	YR 5
	2025/26	2026/27	2027/28	2028/29	2029/30
	£m	£m	£m	£m	£m
Estimated Base	320.647	338.095	354.069	366.571	377.341
<b>Estimated Funding (excluding Reserves)</b>	<b>(307.323)</b>	<b>(315.048)</b>	<b>(324.053)</b>	<b>(333.879)</b>	<b>(342.987)</b>
Cumulative Funding Gap (before reserves)	13.324	23.047	30.016	32.692	34.354
<b>Planned use of reserves</b>	<b>(8.500)</b>	<b>(4.000)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
Estimated Cumulative Savings Requirement	4.824	19.047	30.016	32.692	34.354
Estimated Annual Savings Requirement	4.824	14.223	10.969	2.676	1.662
<b>Options to Close Gap:</b>					
Adults Social Care Interventions	(2.117)	(2.270)	(1.878)	(2.178)	(1.481)
Children's Social Care Interventions	(0.612)	(1.744)	(0.577)	(0.560)	0.000
Budget Efficiencies	(2.095)	(2.000)	(2.000)		
Potential budget Cuts: Unidentified		(8.209)	(6.514)	0.062	(0.181)
<b>Balanced Budget</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>

10. Preventative interventions and demand management will be key components of a sustainable budget strategy. However, these often have a long lead in time and will possibly require pump-priming support. The MTFs sets out the financial context of the levels of demand management and cuts that are projected to be required to balance the budget over the medium term. This will provide a planning framework for an approach to budget setting.

11. The MTFs reflects a balance between long-term and short-term planning; the longer-term transformational and demand management interventions alongside the short-term immediacy of a legally balanced budget for 2025/26.

12. In summary, the MTFs strategy is built upon on the following approach:

<sup>1</sup> [Fixing the foundations \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

- **Intervention of demand / cost pressures** - The MTFS outlines significant demand and cost pressures, particularly in social care. A fundamental approach to a sustainable budget is to identify positive interventions and transformation to reduce projected cost increases. The approach is underpinned by credible delivery plans with clear timescales.
- **Planned Use of Reserves** - Recognising the timing required to deliver change, it is planned to continue to use reserves to allow time for the delivery of the interventions. The MTFS projects use of reserves of £8.5m in 2025/26 and £4m in 2026/27. The proposed timing of the application of Budget Sustainability Reserve in the MTFS is aligned to options to close the gap to minimise cuts while permanent solutions to the funding gap are found. The extension is predicated on the following:
  - The impact that cumulative high inflation is having on the Council's budget;
  - The active management of reserves that allows this flexibility;
  - The current Capacity Fund and a further £2m projected in 2025/26 to drive through to sustainability;
  - A budget approach to identify and deliver a pipeline of budget mitigations, efficiencies and cuts of £34m; and
  - A plan to replenish reserves from 2026/27.
- **Council Efficiencies** – The Council will continue to review all service areas with a view to identifying more efficient ways to deliver services. The Group and Service plans will be the conduit for identifying, delivering, and monitoring progress. A Council wide approach will be adopted.

13. The proposed MTFS for 2024/25 to 2028/29 is attached at Appendix 2. This presents a continuing challenging financial position over the medium term and reflects continued uncertainty on funding and increasing demand.

14. To assist in meeting the financial challenges ahead the principles which underpin the MTFS have been reviewed and these are proposed as follows:

- The overall financial strategy will be to ensure that the Council's resources are directed to deliver the Council Corporate Plan and 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 the Council Corporate Plan and 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, then plans should be prepared setting out the actions required to ensure spending at the end of the year does not exceed original budget estimates. Senior management are accountable for delivery of the budget in their areas of responsibility.
- 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 Council priorities.
- The Council will meet its financial obligations and maintain financial sustainability through the setting of a legal balanced budget and the delivery of outturn within the overall budget each year.

15. A detailed review of the reserves will be undertaken as part of the budget and council tax setting. General Reserves and Strategic Earmarked Reserve balances as at 31 March 2024 can be found in appendix 1. A breakdown of reserves can be found in the full MTFS document at appendix 2.

16. The Council recognises that the use of reserves is one-off in nature and must be linked with expenditure and income plans to support financial sustainability in the medium term. Therefore, using reserves to balance the budget requires there to be a planned pipeline of budget cuts and efficiencies to achieve a balanced budget in future years. The Capital Strategy and Plan and Housing Revenue Account Business Plan will also be aligned and prioritised to ensure affordability and to manage strategic risks.

## Recommendations

17. Cabinet is requested to recommend to Council the approval of the Medium Term Financial Strategy for 2025/26 to 2029/30 and the medium-term financial context as set out in this report and appendix including the MTFS principles and the Reserves Policy.

for the following reason(s)

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

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**CONTACT:** Darren Collins / David Johnson extension 3598

## APPENDIX 1

### Policy Context

1. The Medium-Term Financial Strategy (MTFS) includes financial projections analysis and context that supports the Council's policy approach 'Making Gateshead a Place Where Everyone Thrives'. The Council recognises there are huge financial pressures on not just Council resources, but those of partners, local businesses and residents. To deliver on the policy approach over the next five years, the Council will remain resolute in its determination to make Gateshead a place where everyone thrives. This means the Council's decision-making including resource allocation through the budget will be policy and priority led and driven in line with the Council Plan; ***The strength of Gateshead is the people of Gateshead.***

### Background

2. The MTFS provides an estimate of the level of revenue resources available to the Council over the medium term and estimates the financial consequences of the demand for Council services. It assists financial planning and strategic financial management by providing the financial context within which the Council budget will be set.
3. 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. On 29 July 2024, the Chancellor of the Exchequer delivered a statement to Parliament accompanied by a policy paper on £22 billion public spending pressures. The Chancellor outlined that the overall funding totals for 2025/26 will be confirmed at the Budget on 30 October 2024, and a multi-year Spending Review covering at least three financial years will then conclude in Spring 2025.
4. During the debate following the statement, the Chancellor expressed an intention to introduce multi-year finance settlements for local government, but no further detail has been provided, including when this proposal might be implemented. As such, the assumptions in the refreshed MTFS remain subject to significant uncertainty at this stage until further information becomes available. The Council is focusing on what it can control to mitigate these risks, but it emphasises that urgent reform of local government funding is required, including the quantum of funding, the method on which it is distributed, and multi-year settlements to allow for effective planning.
5. These areas have been repeatedly communicated to the Government through lobbying responses to the Local Government Finance Settlement.
6. The financial assumptions in this report will be revisited following the Chancellor's Budget on 30 October 2024.
7. Local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Therefore, to legally balance the budget the Council must make spending plans affordable by matching these to the estimated funding available over that time. Staying the same will not be an

option. The Council is required to change to deliver its priority outcomes within the funding available.

8. The Council will ensure that resources are used to maximum effect and allow the Council to continue to deliver new and better ways of working and invest to improve the efficiency of services provided. However, without an increase in the quantum of funding for local authorities alongside a fairer distribution, it is evident the estimated funding gap will have an inevitable impact on both the nature and scope of services that the Council is able to deliver. The Council will aim to manage the process of change to its services effectively through the Budget Approach.
9. The Council will continue to have significant revenue and capital budgets to invest and deliver services consistent with the delivery of the Council Corporate Plan and the key priority outcomes of “Making Gateshead a Place where Everyone Thrives”. The Council will retain its vision for the future of the Borough through promoting development and economic growth and by working with partners. This will assist in maintaining the medium-term financial sustainability of the Council.

### **Reserves Summary**

10. A breakdown of each reserve available to support the budget, and balances as at 31 March 2024 are outlined below;
  - **Council General Reserve £16.2m**- This is a statutory fund that acts as a contingency and allows the Council to meet any unforeseen costs. If the council overspend in a year this fund will meet that liability. The minimum balance on the reserve is 3% of the net revenue budget in line with MTFS principles.
  - **Financial Risk and Resilience £23.6m**- This reserve is held in respect of key financial risks identified through risk management process. Balances include; Insurance £6.9m, grant clawback £4m, workforce development costs £4.1m, commercial risk £3.0m, and budget flexibility £5.6m.
  - **Thrive £6.2m** -This reserve is held to support the Council Thrive priorities of Economic, Housing and Environmental Investment £2.7m, Poverty, Health and Equality Investment £3.0m, and Discretionary Social Fund £0.5m.
  - **Budget Sustainability £22.2m** – As agreed in December 2021 an approach to help support the timings of achieving significant budget savings and Thrive outcomes whilst still dealing with pandemic impacts over three-year period. £5m is committed in 2024/25 with a further £8.5m proposed in 2025/26, and £4m in 2026/27. A plan to replenish this reserve forms part of the MTFS.
11. The proposed use of reserves relies upon a planned pipeline of demand mitigations, budget cuts and efficiencies over the period to achieve a balanced budget that is sustainable in future years.

### **Consultation**

12. The MTFS sets a financial context for the approach to budget. The Council’s budget planning framework will be supported by the development of integrated impact

assessments (IIAs) for draft budget proposals as appropriate. These assessments include identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010 and identify potential mitigation where applicable.

13. The Council maintains its strong commitment to equality, believing that all groups and individuals within the community and its workforce have equal opportunity to benefit from the services and employment it provides. IIAs help the Council to arrive at informed decisions and to make the best judgements about how to target resources.
14. The Leader of the Council has been consulted on this report.

### **Alternative Options**

15. There are no alternative options.

### **Implications of Recommended Option**

16. Resources:

- a) **Financial Implications** – the Strategic Director, Resources and Digital, confirms that financial context is contained within the report and appendices. Any direct implications will form part of the budget planning framework and identification of budget proposals.

The Council is legally required to set a balanced budget annually and should plan to achieve this using a prudent set of assumptions. As such, the Government's decisions about 2025/26 funding and beyond will be significant and could have a material impact on the wider budget process.

- b) **Human Resources Implications** – The need to support Council employees as much as possible through changes is recognised. Any direct implications will



form part of the budget planning framework and identification of budget proposals.

- c) **Property Implications** - No direct property implications. Any direct implications will form part of the budget planning framework and identification of budget proposals.

17. **Risk Management Implication** - Risks arising from the direct impacts of this strategy will form part of the Council's approach to the budget planning framework.
18. **Equality and Diversity Implications** - An equality impact framework has been developed to assess budget proposals.
19. **Crime and Disorder Implications** – No direct crime and disorder implications. Direct implications arising from the impacts of this strategy will form part of the Council's approach to the budget planning framework and consultation process.
20. **Health Implications** - No direct health implications. Direct implications arising from the impacts of the Health and Wellbeing Strategy this will form part of the Council's approach to the budget planning framework and consultation process.
21. **Climate Emergency and Sustainability Implications** - The MTFS provides a framework with the express objective of achieving a sustainable financial position over the medium term. Addressing climate change remains a priority of the Council and the MTFS frames the resources available.
22. **Human Rights Implications** - No direct human rights implications.
23. **Area and Ward Implications** - All areas of the Borough are covered by the principles set out in this strategy.

### **Background Information**

- Provisional Revenue Outturn 2023/24 – Cabinet 25 June 2024
- Revenue Monitoring 2024/25 Q1 – Cabinet 16 July 2024