

Medium Term Financial Strategy 2025/26 - 2029/30

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 [Corporate Plan](#). Since the last MTFS was agreed by Council in November 2023, a number of factors continue to affect the financial outlook for the Council. Following on from a decade defined by the previous Government's austerity measures and underfunding, increasing demand, the war in Ukraine, and the global pandemic has led to higher inflation, 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 now reduced in line with Bank of England targets, the cumulative impact of higher inflation over the past year remains a pressure on Council budgets. The assumptions on both cost pressures and assumed funding have been completely refreshed since the last MTFS in November 2023, taking into consideration the Local Government Finance Settlement for 2024/25 and the Council's agreed base budget.

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 will then conclude in Spring 2025.

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 financial position which is exemplified as follows:

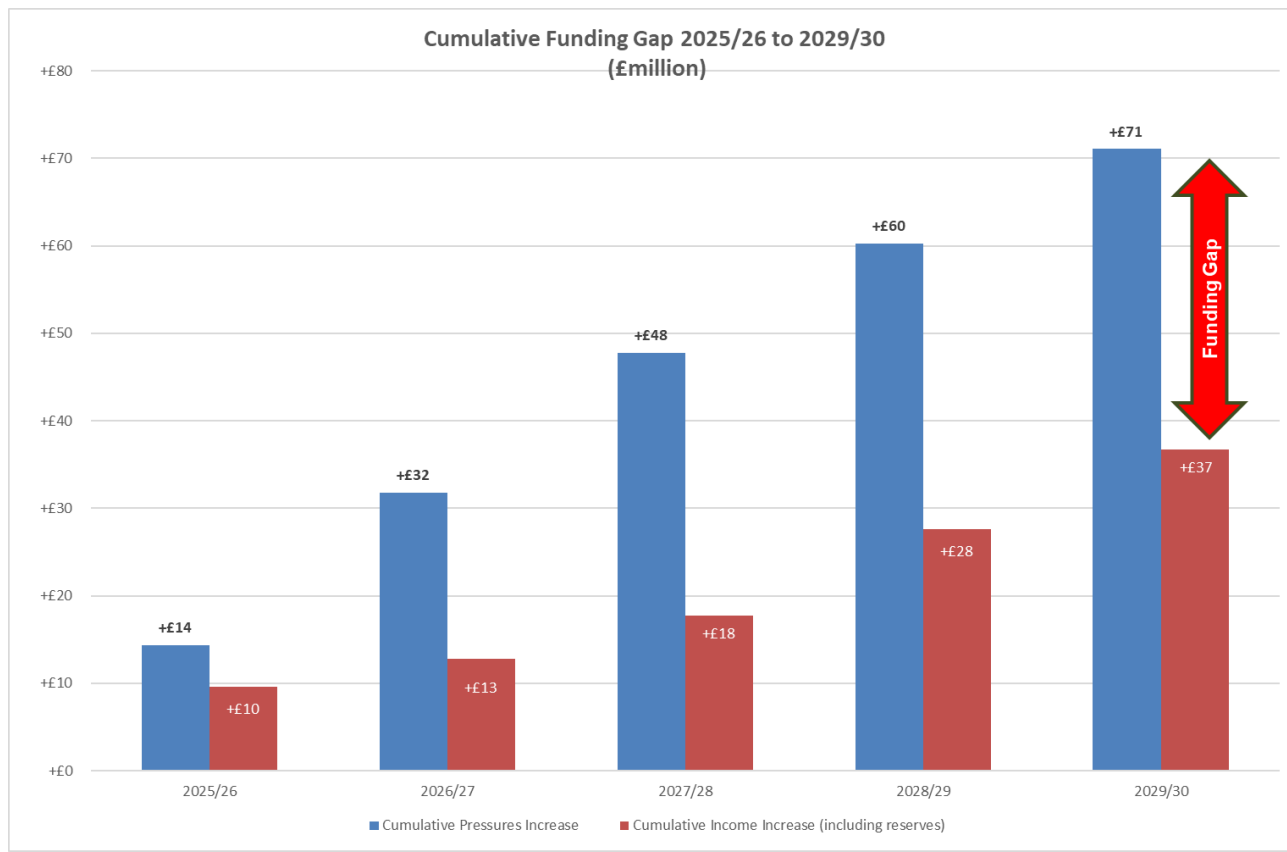
Indicative Budget Forecasts	2025/26	2026/27	2027/28	2028/29	2029/30
	£m	£m	£m	£m	£m
Brought Forward Base	306.277	320.647	338.095	354.069	366.571
Base adjustments	(3.834)	0.000	0.000	0.000	0.000
General Inflation	2.104	1.111	1.063	0.856	0.871
Contractual Inflation	0.000	0.298	0.303	0.309	0.315
Other Corporate Pressures - Transport Levy	0.201	0.204	0.000	0.000	0.000
Other Corporate Pressures - Capacity Fund / Growth	2.000	0.000	0.000	0.000	0.000
Other Corporate Pressures - Systems Upgrade	0.300	0.000	0.000	0.000	0.000
Other Corporate Pressures - Replenish Reserves	0.000	5.000	0.000	0.000	0.000
Other Corporate Pressures - BCF & Public Health	0.435	0.437	0.447	0.554	0.565
Fees and charges	(0.150)	(0.150)	(0.150)	(0.150)	(0.150)
Corporate Pay Pressures	3.874	3.935	6.998	4.062	4.127
Adult Social Care	4.339	4.406	4.537	4.618	4.623
Children's Social Care	0.743	0.645	0.662	0.739	0.758
Capital Investment	4.358	1.562	2.114	1.515	(0.339)
Estimated Base	320.647	338.095	354.069	366.571	377.340
Estimated Funding (excluding Reserves)	(307.323)	(315.048)	(324.053)	(333.879)	(342.987)
Cumulative Funding Gap (before reserves)	13.324	23.047	30.016	32.692	34.353
Planned use of reserves	(8.500)	(4.000)	0.000	0.000	0.000
Estimated Cumulative Savings Requirement	4.824	19.047	30.016	32.692	34.353
Estimated Annual Savings Requirement	4.824	14.223	10.969	2.676	1.662
Options to Close Gap:					
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)
Provisional Balanced Budget	0.000	0.000	0.000	0.000	0.000

The budget gap is predominantly driven by the significant ongoing demand pressure for social care and inflation on the Council's cost base. This is forecast to increase core costs by £71.1m over the period of the MTFs. Funding is forecast to increase by £36.7m over the 5-year period leaving a cumulative gap of £34.4m. After the social care demand interventions totalling £13.4m, and the budget efficiencies totalling £6.1m, there is a requirement to identify further budget cuts of £14.8m by 2029/30 to achieve financial sustainability over the medium term. Securing budget cuts to support closure of a gap at this level remains a significant challenge but will be assisted by the emerging work on of the budget approach and through the delivery of change to align resources to priorities to enable residents of Gateshead to thrive.

In their *Fixing the Foundations*¹ public spending audit, the Government outlined a commitment to a more empowered, accountable and sustainable local government system. The Government 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. However, until further information is received from the new Government's Budget and Spending Review, 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 and Services Grant), but until the Local Government Finance Settlement, expected late December, these cannot be clarified with any certainty.

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

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 previous Government’s austerity measures in 2010, the Council has made substantial cuts and responded to demand pressures to deliver £207.5m budget cuts. Despite ongoing financial challenges, the Council has delivered its revenue budget from 2012/13 showing strong and stable financial management.

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 Corporate Plan, underpinned by transformation and prioritisation to maximise the efficient and effective use of 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 a projection of the Council’s financial future over the next five years (2025/26 to 2029/30). 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 MTFFS 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 MTFFS 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.

The Council's [Corporate Plan](#), **The strength of Gateshead is the people of Gateshead**, sets out the steps we will take to deliver our agenda for the borough, respond to emerging challenges and ensure the ongoing delivery of good-quality public services. Building on a strategic approach, **Making Gateshead a Place Where Everyone Thrives**, the plan sets out what the Council will be doing over the next five years to make Gateshead a stronger place for our communities and 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 which includes the following Council pledges:

Putting people and families at the heart of everything we do

Tackling inequalities so people have a fair chance

Supporting our communities go support themselves and each other

Investing in our economy to provide sustainable opportunities for employment, innovation and growth

Working together and fighting for a better future for Gateshead

The Council's MTFFS sets out the financial context for the Council's resource allocation process and budget setting. The Council's 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 MTFFS has three main objectives: -

- Consider the scale of financial challenges over the medium term to inform 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 MTFFS is consistent with the priorities the Council is pursuing. The principles underlying the MTFFS 2025/26 to 2029/30 are 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 MTFFS 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 MTFFS 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 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.

3.External Cost Pressures

The Council is facing numerous financial challenges from external factors which it will plan to overcome to remain on a sustainable financial footing. (See PESTEL analysis in supporting information).

In its White Paper published on 7 June 2024, the Local Government Association (LGA) estimates that² :

- Local authorities face £2.3 billion in additional costs and demand pressures, such as inflation and demographic growth, in 2025/26, and a further £3.9 billion in 2026/27.
- Cost and demand pressures are rising faster than funding which have added £15 billion to the cost of delivering services since 2021/22.
- In addition to cost and demand pressures, councils have also faced a 22.2% reduction in core spending power from 2010/11 to 2024/25.

Inflationary Pressures

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 peaked at 11.1% in October 2022. Inflation has been on a slow downward trend after its peak of 11.1% and is now in line with the Bank of England's target of 2%. While rates have now dropped, the cumulative impact of higher inflation remains a pressure on Council budgets.

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 2024/25, (offer status) made by the National Employers has been factored into contingency estimates. Any pay award or National Living Wage (NLW) increases are unfunded from Government and

² [Local Government White Paper | Local Government Association](#)

must be met from settlement funding which puts additional pressure on the Council's budget.

Cost of Borrowing

On 3 August 2024 the Bank of England (BoE) cut the bank base rate from 5.25% to 5.00%, the first rate reduction since a series of fifteen incremental increases resulted in a 16 year high interest rate of 5.25% on 16 August 2023. The cut was responding to a reduction of headline inflation from 7.9% CPI in June 2023 to 2% CPI in May 2024 and remaining at 2% the following month, therefore achieving the banks CPI target. The base rate reduction is expected to lower the cost of borrowing and provide stimulus to the economy ahead of a predicted inflation increase above the 2% target figure.

Gateshead Context

Over the years all local authorities have faced significant cuts to their funding from central government because of the previous Government's austerity measures, at a time when pressure on core service delivery has increased, particularly in Children's Services and Adult Social Care, and homelessness support. Many Councils have been forced to reduce 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. While inflation has reduced to Bank of England targets, the cumulative impact of higher inflation over recent years remains a cost pressure.

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

Under the previous Government, longer-term reform of local government funding was continually delayed. The current system is out of date, opaque, and overly complex and it requires urgent reform. 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 a comparatively low council tax and business rate base. The link between need and funding has been eroded. The Government's manifesto has outlined that they will replace the business rates system so it can raise the same in a fairer way, but it remains unclear how this will impact on the Council's funding. 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.

- **Brexit Impacts**

The medium and long-term implications of Brexit remain unclear and they continue to emerge, but they include shortage of labour, shortage of goods and materials including longer lead in times and price increases.

- **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 significantly reduce 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 have 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.

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.

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

The Chancellor's statement on 29 July 2024 confirmed that regular spending reviews and longer-term planning and spending plans will be re-introduced. The next

Spending Review will be a multi-year review, covering at least three financial years and will conclude in Spring 2025. This approach should improve stability, encourage innovation, and enable informed value for money decisions, compared to the short-term funding settlements in recent years. This will include consolidating funding streams for local authorities into the Local Government Finance Settlement, with a 'mission-led approach' to public service delivery including greater focus on long-termism, investment in prevention, managing demand, and local integration of services.

- **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. The MTFS assumes use of earmarked reserves in 2025/26 and 2026/27. A plan to replenish reserves forms part of this MTFS.

4. Council's Current Financial Position

Revenue Outturn 2023/24

Council agreed the £289.9m revenue budget for 2023/24 on 21 February 2023. This was amended to £281.9m as part of the first quarter report to Cabinet. The overall provisional 2023/24 revenue outturn position results in an overall Council positive balance of £5.8m, 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 2023/24](#) reported to Cabinet on 25 June 2024. The report included a review of strategic reserves and included a proposal to increase the Financial Risk and Resilience Reserve by £1.5m to provide additional financial sustainability in relation to commercial risk and grant clawback. 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 that kept pressures under review within the financial year and ensured that action was taken in a timely manner to outturn within budget.

Although the overall outturn is positive, the position 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 £207.5m of budget savings.

Revenue Budget 2024/25

On 22 February 2024 the Council agreed a [revenue budget](#) of £306.277m which was balanced through planned use of £6.834m of reserves. This approach was in line with the

agreed five-year approach for planned use of reserves to allow time to identify cuts and efficiencies.

Given the cumulative impact of high inflation alongside increasing demand, there is an expectation that delivery of the budget will require active management. At quarter one, there are significant projected overspends in Children's Services, and homelessness support which will be subject to management interventions.

5. Financial Challenge Beyond 2024/25

The new Government have announced a Budget on 30 October 2024 and Spending Review expected to conclude in Spring 2025 which will set the Department Expenditure Limits (DEL) for all government departments. Until the outcome of the Budget and Spending Review, and the Local Government Finance Settlement, the assumptions in the MTFS remain subject to significant uncertainty and they will be revisited once further announcements are made.

The unknown impacts alongside the level of risk to finances mean that all forecasts will be closely monitored and potentially refreshed more frequently than usual. 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 2025/26 and beyond is to remain highly challenging.

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.

Proposals for budget cuts 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. 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. The Council 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.

On 30 July 2024, the Deputy Prime Minister set out to the House of Commons the Government's plan to build the homes the country need, announcing the launch of a consultation on proposed changes to the National Planning Policy Framework (NPPF) and other aspects of the planning system including the introduction of strategic planning, changes to planning fees and new thresholds for some National Strategic Infrastructure Projects (NSIPs).

From a financial perspective the Council will look to work with partners and invest resources to generate economic growth that may result in increased business rates and council tax income to the Council.

Social Care Challenges

The social care demand and cost pressures estimated at £26m (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	2025/26	2026/27	2027/28	2028/29	2029/30
	£m	£m	£m	£m	£m
External fees	3.178	2.626	2.754	2.884	3.014
Demands	1.161	1.780	1.783	1.734	1.609
Total Pressures	4.339	4.406	4.537	4.618	4.623
BCF additional funding	0.135	0.136	0.139	0.172	0.176
MSIF additional funding	-	-	-	-	-
Discharge Fund additional funding	-	-	-	-	-
Total	4.474	4.542	4.676	4.790	4.799
Demand Interventions	(2.117)	(2.270)	(1.878)	(2.178)	(1.481)

Childrens Social Care	2025/26	2026/27	2027/28	2028/29	2029/30
	£m	£m	£m	£m	£m
External fees	0.743	0.645	0.662	0.739	0.758
Demands	-	-	-	-	-
Home to School Transport	-	-	-	-	-
Total Pressures	0.743	0.645	0.662	0.739	0.758
Demand Interventions	(0.612)	(1.744)	(0.577)	(0.560)	0.000

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. In addition, complexity of need is increasing across all age groups, and the aim to keep people out of hospital/facilitate discharge from hospital quickly will continue to add to demand pressures.

Our communities in Gateshead are diverse and we know that some of them face more challenges than others. In Gateshead, 31% of our residents live in the 20% most deprived areas in England. Deprivation is closely linked to poor health outcomes and social care

needs are further shaped by inequalities within Gateshead, with residents in deprived areas experiencing fewer years good health in comparison to counterparts.

Currently 80% of the population are adults, with 23.1% aged 65 and over. The overall population is expected to grow by 5% by 2043; with an ageing population it is projected that by 2043 there will be an additional 12,316 people aged 65 and over, an increase of 29%, demanding more support for social care services.

The [Integrated Adults and Social Care Strategy 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. We will continue to focus on the following key areas and further build on the achievements made in prior years.

Prevent, reduce, and delay the need for support: -

- Redesign Adult Social Care pathways focusing on prevention and early intervention is in progress.
- Work to maximise access and availability of information, advice and guidance, improving navigation and easy to read information.
- Embed the local VCSE organisations in prevention, planning and delivery.
- Develop online assessment functionality, including financial assessments and care assessments.
- Work with Tech Enabled Care partners to develop solutions to common problems being faced by those needing our services.
- Develop and launch a new Direct Payments Support Service.

Caregivers and the Voice of People and Communities: -

- Improve information and advice support to Caregivers.
- Develop Engagement and Co-production Strategy and Framework.
- Finalise and publish Caregivers and young carers strategies.

Workforce and Commissioning: -

- Development of our recruitment offer and workforce brand, including retention of our workforce.
- Develop a new quality pathway for contract and quality management for providers.
- Equipping our workforce with the right skills and knowledge to deliver strengths-based assessments and successful enablement approaches.
- Continue to create opportunities for development and career pathways, including health and social care workforce.

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 Community Led Support working principles to support the Thrive agenda and develop accessible services that support people in their local communities. In delivering all the outcomes described it will be necessary to create a new social care delivery pathway that puts local communities, prevention and people at the heart of what we do and is built on the foundation of strengths-based practice and person-centred delivery.

The Medium-Term Financial Strategy continues to make a number of assumptions in relation to funding including the continuation of the Market Sustainability and Improvement Fund.

New government announcements in the year include the cancellation of adult social care charging reforms (care cost cap and associated measures) which will no longer go ahead. This will have no impact on the Strategy.

Children's Social Care

In Gateshead the numbers of children in care have increased significantly over recent years from 414 at March 2020 to 527 at March 2024. However, 2023/24 was the first year in five years there was not an increase year on year. There has been a reduction in new children coming into the care system of 10.4% in the last year and a 9.6% increase in the numbers of children exiting the care system in that same period. However, the rate remains higher than statistical neighbour averages.

The high numbers are exacerbated by an increase in the complexity of need and a market which is unable to meet the needs of children and the extent of the demand. The 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. Overall, the budget associated with placements for children in care in the council makes up 54% of the overall children's services budget.

The extent of children's complex and mental health needs is also having an impact on the capacity and availability of placements able to meet need. There has been a reduction in the numbers of in patient mental health beds for young people nationally over the last few years at the same time as children's needs are increasingly complex. There are limited community options for children with the most complex needs and a very limited market to accommodate these children and therefore the cost of doing so is significant.

Children's services in Gateshead have a combined strategy that addresses a reduction in the overall number of children in the looked after system alongside a focus on ensuring that where children do need to come into the care system they can live within family units wherever possible and as locally as possible, either within extended family units or with Gateshead's foster carers for as short a time as is in their best interests.

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.

As well as a comprehensive early help offer being delivered via nine locality based Family hubs there is an enhanced and increased service offer for all families to have the opportunity to be a part of a Family Group Conference. This involves a plan developed by the extended family to support children remaining living with their networks. A DfE funded pilot focused on financial support for extended families to care for these children is also being piloted as part of a national evaluation to further support this work.

A new multi-agency vulnerable adolescent service has been developed which brings together services supporting vulnerable teenagers is now in place and includes intensive outreach support; support for young people who are missing from home and care; substance misuse workers; youth justice workers and mental health staff to support young people to remain safely living with their families and prevent entry to care. The new Trusting Hands service with investment from the NHS is a key part of this approach.

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.

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 or kinship care arrangements where possible, or with our own foster carers.

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. We continue to see a steady recruitment of in-house foster carers, with 8 households being recruited since April 2024, offering Gateshead 12 additional beds. This means that currently the number of foster carer households totals 145.

There are a number of ongoing fostering assessments which will be progressing and will conclude in the next 3 months. These will provide a further 6 foster carer households and offer us an additional 7 beds. As well as the regional Fostering Pathfinder approach to recruitment, Gateshead will continue to take a more community based approach which is offering some success, which includes information sharing sessions and use of social media platforms

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.

Whilst the use of Independent Fostering Association (IFA's) places is still high they have begun to reduce in recent months and are now 7% lower than they were a year ago. IFA placements cost twice as much as in house foster placements.

External residential placements have continued to rise in the last year and are the single biggest pressure on the service. Whilst the average cost to the council of a commissioned home is approximately £5,400 per week after Integrated Commissioning Board (ICB) contributions, this can include costs of over £20,000 per week for children with the most complex needs. The top 10 costing placements are expecting to cost the council almost £3.5m in 2024/25 even after ICB contributions; representing 13% of the overall placement budget.

Two new children's homes have opened in Gateshead in the last five years, a further two are scheduled to open in 2024 and another in 2025. These three homes will provide seven additional places for young people. 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.

There is also significant pressure from funding remand places. Between 2022/23 and 2024/25 it is estimated that over £1m will have been spent on accommodating young people on remand. Whilst there is a national funding mechanism based on the previous 3 year average number of bed nights, this does not factor in stays in secure children's homes, only young offender institutions. Therefore, the vast majority of these placement costs have resulted in overspends and this may continue into the future.

There are a number of grants within the service that are due to come to an end in March 2025, many of which sit in the preventative Early Help side of the service. Whilst further funding may be announced at a later date, the change in Government and their policy direction is still unknown and places greater risk of the funding reducing or even ceasing. In particular, the Family Hubs and Supporting Families grants are still unknown post March 2025 with their grant amounts to Gateshead equating to over £2.1m in total.

A new commissioning and tendering exercise for supported living provision is currently out for procurement which will increase the sufficiency of places for older young people, supporting independence and providing 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 from the Local Authority 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. An externally commissioned consultant, PeopleToo are currently conducting a review of Home to School Transport in Gateshead.

Looking Ahead Threats

- ▶ Cost of living crisis and impact of cumulative 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;

6.MTFS Estimates

The MTFS has been prepared on best estimates using the current information we have amidst significant uncertainty about international issues, the national economy, cost of living crisis, and pending decisions from the Chancellor's Budget on 30 October 2024. 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.

As part of last year's MTFS, it was agreed to extend the use of reserves for a further two years into 2025/26 and 2026/27. The MTFS projects use of reserves of £8.5m in 2025/26 and £4m in 2026/27 to smooth the impact of cuts over the next 2 years. Significant use of reserves can only be justified the following two fundamental criteria being met:

- **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 planned use of reserves 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.

The starting point for the MTFS forecast is the 2024/25 net budget of £306.277m approved by Council in February 2024. The MTFS forecast assume delivery of this budget and ongoing costs are incorporated into the projections. The financial gap is projected as follows:

Indicative Budget Forecasts	2025/26	2026/27	2027/28	2028/29	2029/30
	£m	£m	£m	£m	£m
Brought Forward Base	306.277	320.647	338.095	354.069	366.571
Base adjustments	(3.834)	0.000	0.000	0.000	0.000
General Inflation	2.104	1.111	1.063	0.856	0.871
Contractual Inflation	0.000	0.298	0.303	0.309	0.315
Other Corporate Pressures - Transport Levy	0.201	0.204	0.000	0.000	0.000
Other Corporate Pressures - Capacity Fund / Growth	2.000	0.000	0.000	0.000	0.000
Other Corporate Pressures - Systems Upgrade	0.300	0.000	0.000	0.000	0.000
Other Corporate Pressures - Replenish Reserves	0.000	5.000	0.000	0.000	0.000
Other Corporate Pressures - BCF & Public Health	0.435	0.437	0.447	0.554	0.565
Fees and charges	(0.150)	(0.150)	(0.150)	(0.150)	(0.150)
Corporate Pay Pressures	3.874	3.935	6.998	4.062	4.127
Adult Social Care	4.339	4.406	4.537	4.618	4.623
Children's Social Care	0.743	0.645	0.662	0.739	0.758
Capital Investment	4.358	1.562	2.114	1.515	(0.339)
Estimated Base	320.647	338.095	354.069	366.571	377.340
Estimated Funding (excluding Reserves)	(307.323)	(315.048)	(324.053)	(333.879)	(342.987)
Cumulative Funding Gap (before reserves)	13.324	23.047	30.016	32.692	34.353
Planned use of reserves	(8.500)	(4.000)	0.000	0.000	0.000
Estimated Cumulative Savings Requirement	4.824	19.047	30.016	32.692	34.353
Estimated Annual Savings Requirement	4.824	14.223	10.969	2.676	1.662
Options to Close Gap:					
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)
Provisional Balanced Budget	0.000	0.000	0.000	0.000	0.000

Rates used within the MTFS 2025/26 to 2029/30 assumptions

Assumptions	2025/26	2026/27	2027/28	2028/29	2029/30
CPI	1.65%	1.63%	1.64%	2.00%	2.00%
Pay Inflation	2.00%	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%	2.00%	2.00%	2.00%	2.00%

All assumptions are for planning purposes only and without prejudice to decisions that will be taken as part of the budget

Capital investment must also be kept under review and clearly aligned to priorities and financial sustainability to ensure affordability and to manage risks.

Inflation

Inflationary Pressures – The inflationary pressures identified in 2024/25 will have a cumulative effect across the MTFS period. CPI assumption is based on the latest Office for Budget Responsibility (OBR) forecasts and 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 reduce 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 2024/25 made by the National Employers is yet to be agreed. The 2024/25 base budget includes contingency for an estimated 5.41% pay award and 2% thereafter. 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	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Utilities Increase	0.000	0.100	0.100	0.100	0.100
Other Costs (NNDR & insurance)	0.717	0.729	0.741	0.756	0.771
Pay Award / JE	3.874	3.935	6.998	4.062	4.127
Investment interest tapering	1.387	0.282	0.222	0.000	0.000
Contractual Inflation	0.501	0.502	0.303	0.309	0.315
Total	6.479	5.548	8.364	5.227	5.313

Corporate Pressures

Job evaluation review has commenced in 2023/24 and it is expected to be finalised in 2027/28. 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 2024/25 to 2028/29 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 inform the allocation of resources within the capital programme.

Resources - Other Grants

For the Public Health Grant, from 2025/26 inflationary increases in grant are assumed. It should be noted if any funding formula are changed this could result in significant changes. 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 was provided in 2023/24 and 2024/25, repurposed from delays to reform, most notably the Market Sustainability and Improvement Fund, and the Discharge Fund. Although the increase in funding was 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 MTFS assumes these funding streams will continue.

The Council also received an increase for the Social Care grant in 2023/24 and 2024/25. 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 2024/25 but no further funding has been included in the MTFS on the assumption that this grant will cease.

In 2024/25 the Council received a Services Grant which was significantly reduced from 2023/24. This reduction reflects the Government's approach to using this as a balancing funding stream in Core Spending Power allocations. The MTFS assumes this grant will cease.

The MTFS projections assume all grants will continue beyond 2024/25, with the exception of New Homes Bonus and Services Grant

2024/25 £m	Funding / Grants	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
(18.146)	Public Health	(18.445)	(18.746)	(19.054)	(19.435)	(19.823)
(8.211)	Better Care Fund	(8.347)	(8.483)	(8.622)	(8.794)	(8.970)
(11.387)	Improved Better Care Fund	(11.387)	(11.387)	(11.387)	(11.387)	(11.387)
(25.644)	Social Care Grant	(25.644)	(25.644)	(25.644)	(25.644)	(25.644)
(4.958)	ASC MSIF	(4.958)	(4.958)	(4.958)	(4.958)	(4.958)
(2.661)	ASC Discharge Fund	(2.661)	(2.661)	(2.661)	(2.661)	(2.661)
(19.521)	S31 Business Rates	(19.843)	(20.166)	(20.497)	(20.907)	(21.325)
(0.030)	New Homes Bonus	0.000	0.000	0.000	0.000	0.000
(0.408)	Services Grant	0.000	0.000	0.000	0.000	0.000
(90.965)	Total	(91.284)	(92.045)	(92.822)	(93.785)	(94.768)

Council Tax

The previous Government announced referendum limits for Council tax of 2.99% for core council tax, and 2% for the Adult Social Care Precept, 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, for 2025/26 the MTFS assumes the same rate as 2024/25, 2.99% maximum increase in council tax and 2% maximum increase in Adult Social care precept. For the years 2026/27 to 2029/30, the MTFS assumes the rates to be 1.99% for core council tax, and 2% for 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 2025, in advance of setting the Council Budget in February 2025. If no assumptions of Council Tax increases were included in the projections, then the funding gap over the 5 years would increase by a further £30m.

MTFS Assumptions	2025/26	2026/27	2027/28	2028/29	2029/30
2.99% Council, 2% ASC Precept 25/26, then 1.99% and 2%	£m	£m	£m	£m	£m
Council Tax Base	(117.473)	(123.860)	(129.322)	(135.002)	(140.908)
Council Tax Base Growth	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
Council Tax Base Reduction : Local Council Tax Support	0.0	0.0	0.0	0.0	0.0
Council Tax Uplift - Council	(3.527)	(2.475)	(2.583)	(2.696)	(2.814)
Council Tax Uplift - Adult Social Care	(2.359)	(2.487)	(2.596)	(2.710)	(2.828)
	(123.860)	(129.322)	(135.002)	(140.908)	(147.050)

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. The new government has advised it intends to restore the method used for assessing housing needs and planning for homes. This will mean an increase in the annual target from 417 to 909, which would result in a housing target increasing to 18,180 homes in 20 years. The Housing development programme, which was agreed in 2022, aimed to deliver 3,500 in the next five years, based on previous targets, therefore it is likely that this will need to be revised to meet the new Government's agenda. However, the existing 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 the Dedicated Schools Grant (DSG) and several other grants including the Pupil Premium Grant. Children's services funding is included within the core council funding known as the Settlement Funding Assessment.

The Government introduced different National Funding Formulas (NFF) for the 4 blocks of the DSG which have their factor values updated each year to take account of changes in data, additional grants being mainstreamed, or increased funding.

The Government sought views on the approach to completing reforms to the schools block NFF and how to transition to all mainstream schools' funding allocations being determined directly by the NFF. This has not yet been achieved, however Gateshead mainstream school funding formula "mirrors" the mainstream NFF.

On 31 March 2024 the overall reserves balances for all maintained schools in Gateshead totalled £7.49m, a decrease of £0.79m from March 2023. This position demonstrates that the overall position of schools is continuing to decline with the number of schools with deficits and projected deficits is increasing. The current cost pressures for utilities, food,

and pay awards makes the position difficult to estimate going forward, together with the uncertainty of the delayed announcements for future DSG funding.

The Government have announced a Core Schools Budget Grant to cover the period from September 2024 to March 2025 to help schools with the cost of the teachers' pay and support staff pay awards. It is anticipated that this grant will be mainstreamed into the DSG for 2025/26, however, although the methodology for mainstream schools has been announced, the actual allocations for schools have not yet been announced.

To support with the pandemic impacts schools received additional grants such as Recovery Premium and National Tutoring Programme (NTP) funding aimed at helping children recover lost education resulting from the pandemic. Both the Recovery Premium and NTP funding will cease at the end of the 2023/24 academic year, and as yet no replacement funding has been announced.

It is also thought that the full impact of the pandemic and the current economic situation on pupil's characteristics has not fully materialised with increased numbers of pupils eligible for Free School Meals (FSM) which will impact on the funding to schools, and the cost to schools of providing a FSM. The percentage of FSM pupils in state funded schools has increased each year from 15.4% January 2019 to 24.6% January 2024. The cost of the provision of school meals has been heavily impacted by inflationary increases presenting a significant financial issue to both schools and meal providers.

The Supreme Court ruling on Harpur Trust V Brazel for part time, term time only workers will continue to have a financial impact on schools. Whilst schools have set aside a provision for future costs, the full consequences will not be known until the outcome of the consultation and further information is released by the Government.

The increase in the complex needs of children and the additional support schools are required to provide for their current and future pupil cohorts is an additional unfunded cost pressure for schools that is difficult to quantify and is an additional cost pressure for schools.

The number of Education Health and Care Plans (EHCP) 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 issue, but it can allow for smoothing of impacts or allow the Council time to address the issue.

The [Statement of Accounts 2023/24](#) (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 2023/24 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 2024 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 2024
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)	£16.2m
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	£7.5m

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 2024
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 (£6.9m), grant clawback (£4.0m), workforce development costs (£4.1m), commercial risk (£3.0m), and budget flexibility (£5.6m) £0.299m of this reserve is committed within the 2024/25 budget	Yes	£23.6m
Thrive	This reserve is held support to Council thrive priorities of Economic, Housing and Environmental Investment (£2.7m) Poverty, Health and Equality Investment (£3.0m), and Discretionary Social Fund (£0.5m) £1.535m of this reserve is committed within the 2024/25 budget	Yes	£6.2m
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. £5.0m of this is committed within the 2024/25 budget with a further £8.5m proposed in 2025/26 and £4.0m in 2026/27.	Yes	£22.2m

The following table shows the projected use of reserves over the MTFs, including a plan to replenish reserves from 2026/27 onwards. Projected use of the Financial Risk and Resilience Reserve, and the Thrive Reserve reflect annual decisions agreed as part of the

Budget and Council Tax report in February to temporarily fund specific priority areas of the budget in the short-term. As such, future projected use of these reserves is to be confirmed.

	Balance 31/03/2024*	Budgeted Use 2024/25	Estimated Balance 31-Mar-25	Proposed Use 2025/26	Proposed Use 2026/27	Proposed Use 2027/28	Proposed Use 2028/29	Proposed Use 2029/30	Estimated Balance 31-Mar-30
	£000	£000	£000	£000	£000	£000	£000	£000	£000
General Reserve	(16,218)	0	(16,218)	0	0	0	0	0	(16,218)
Replenishment		0	0	0	(5,000)	(5,000)	(5,000)	(5,000)	(20,000)
Earmarked:									
Financial Risk & Resilience	(23,627)	299	(23,328)	TBC	TBC	TBC	TBC	TBC	(23,328)
Thrive	(6,241)	1,535	(4,706)	TBC	TBC	TBC	TBC	TBC	(4,706)
Budget Sustainability	(22,175)	5,000	(17,175)	8,500	4,000	0	0	0	(4,675)
TOTAL	(68,261)	6,834	(61,427)	8,500	(1,000)	(5,000)	(5,000)	(5,000)	(68,927)

* Subject to audit

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 2024
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	£2.4m
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	£2.1m
Schools PFI	Ring-fenced funds set aside to cover the final year Unitary charge of the schools Private Finance Initiative (PFI)	No	£4.1m
Highways Enforcement	Ring-fenced surplus enforcement funds required to be held separate and used to carry out highways improvement projects and cannot be used for wider council activities	No	£1.1m
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	£5.0m
Dedicated Schools Grant Reserve	This is for schools use and cannot be used for other priorities within the Council. Use of this reserve will be agreed by Schools Forum.	No	£2.7m

Reserve	Why Needed	Available to support Council budget	Balance as at 31 March 2024
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	£11.1m
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	£21.9m
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	£30.0m

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 2 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 £4.9m 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 £34.4m within the MTFs that is 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 2025/26 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 2%. It should be noted that the 2024/25 pay award is yet to be confirmed, the base budget includes contingency of £7.6m with the cumulative impacting on future years. Each percentage costs c.£1.5m.

Pay Inflation	1%	2%	3%	4%	5%	5%	6%
Cost (£m)	1.537	3.074	4.611	6.148	8.315	7.685	9.222
Additional (+) / reduced(-) cost from MTFS	-1.537	0.000	+1.537	+3.074	+5.241	+4.611	+6.148

Council Tax

Pending confirmation of referendum limits, the base assumption is a Council Tax core increase of 2.99% plus 2% for ASC precept in line with last year's principles. Each 1% of Council Tax generates c.£1.1m of income per year.

Council Tax	0%	1%	1.99%	2.99%	4%	5%	6%
Income Generated (£m)	-	(1.180)	(2.348)	(3.527)	(4.719)	(5.899)	(7.078)
(Additional)/reduced income from MTFS	3.527	2.348	1.180	-	(1.192)	(2.371)	(3.551)

Funding

The base assumes CPI increase of 1.65% on Revenue Support Grant. Each 1% increase/decrease is a funding impact of c.£0.190m.

Revenue Support Grant	0%	1.65%	2%	3%	4%	5%	6%
Income Generated (£m)	-	(0.313)	(0.379)	(0.568)	(0.758)	(0.947)	(1.137)
(Additional)/reduced income from MTFS	0.568	-	(0.066)	(0.256)	(0.445)	(0.635)	(0.824)

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 funding reform 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 2025/26 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	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.
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 2024/25 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.

Risk	Likelihood	Impact	Risk Management
10. Exit strategies for external funding leasing/tapering not met	Possible	Medium	Regular monitoring and reporting.
11. Loss of principal deposit	Unlikely	Medium	Limited by the controls in the Treasury Management Strategy which prioritise security of deposit over returns. Impact limited due to the strategy of a diverse portfolio with top rated institutions.
12. Collection rates for retained business rates and council tax lower than anticipated	Possible	High	Impact mitigated by the review of bad debt provisions. Proactive approach to stimulating economic growth. Monitoring of Collection Fund is 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. Recent LGA review of MTFS confirmed current approach.

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