Gateshead Council

2017 - 2022

Medium Term Financial Strategy

Contents

1. Executive Summary

1.1 This is the annual review of the Council's Medium Term Financial Strategy (MTFS). It is based on a financial forecast over a rolling five-year timeframe from 2017/18 to 2021/22 which will help ensure resources are aligned to the outcomes in the Council Plan 2015-2020. The MTFS sets the financial context for the Council's resource allocation process and budget setting.

1.2 The Council, along with other local authorities, has faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010. In addition, service pressures and increasing demand for services, particularly from the most vulnerable, has meant the Council has had to make significant budget savings in response to the Government's austerity measures. Like other Councils in the region, Gateshead Council has seen its funding disproportionately impacted and reduced by Government Policy when compared with the national context. The UK's recent vote to leave the European Union (EU) is likely to herald only more instability in the short to medium term and the consequences will need to be carefully considered over the MTFS period.

1.3 At a local level, there are changes in Gateshead's demography with an increasing population and a growing number of our most vulnerable residents requiring complex health and social care support. The impact of the recession has also seen reduced economic growth in Gateshead. Although an improved ranking in the Index of Multiple Deprivation 2015, there are still areas of high deprivation with issues of health inequalities and child poverty. We recognise the importance of increasing Gateshead's prosperity; encouraging housing and business growth, as well as revitalising our economy and job opportunities, so that ultimately people's standards of living will improve.

1.4 The likely continuing requirement and scale of budget savings, over and above the £130m already taken from budgets since 2010, presents an increasing challenge for the Council. The Government's approach to "continue the work of bringing the public finances under control and reducing the deficit, so Britain lives within its means" will result in further significant funding reductions for local government.

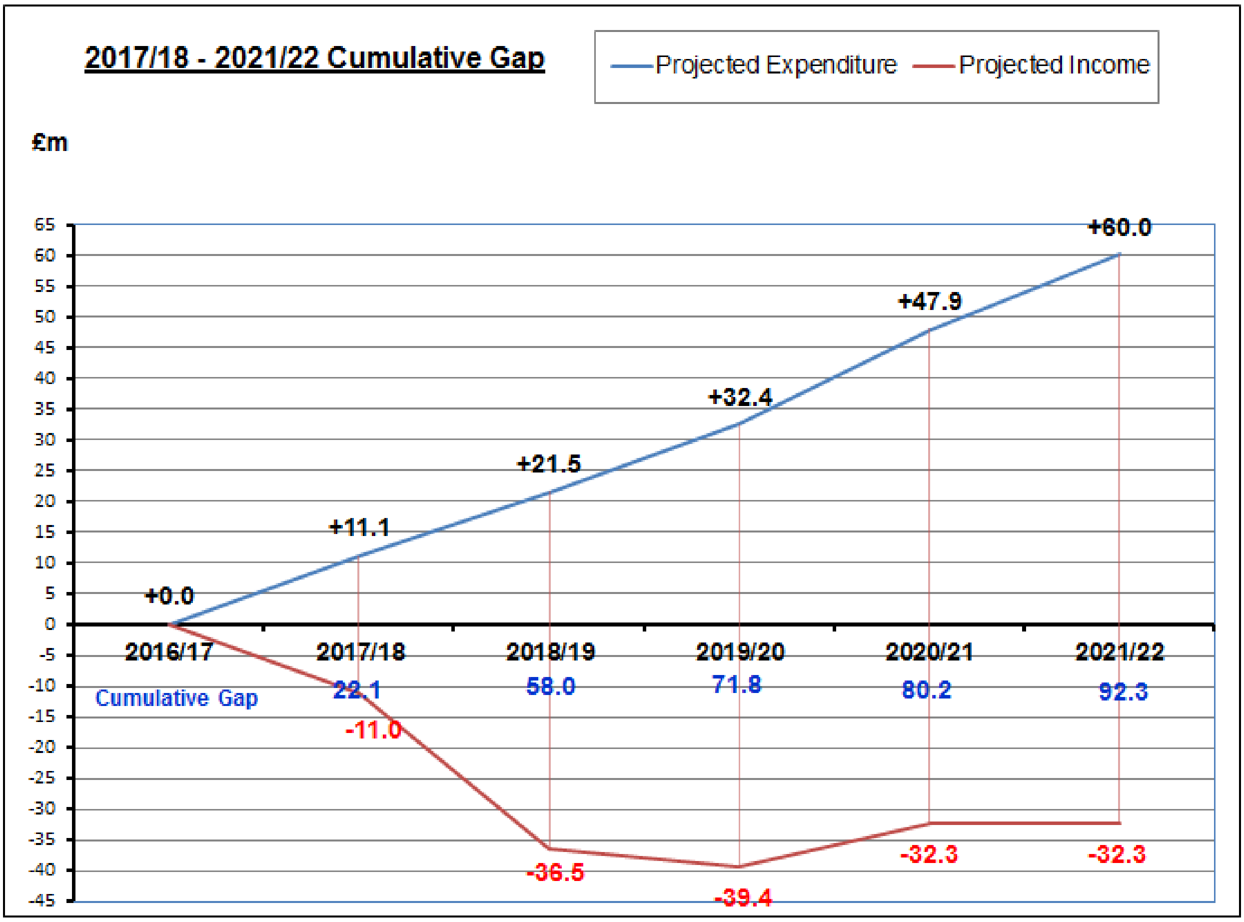
1.5 By the end of 2017/18 the Council's grant funding will have reduced by approximately 46% from 2010. This equates to over a £380 per head reduction and over an £800 per dwelling reduction in Government funding over the period. Central Government commitments to eliminating the budget deficit and to reducing the overall levels of public debt would indicate significant reductions in Government grant funding are likely to continue over the medium term. In order to strengthen our financial position the Council will have to consider other ways to generate income and be self-sufficient including changes in local taxation, fees and charges and trading activities as well as prioritising and supporting economic growth within the borough.

1.6 Reviewing the MTFS remains essential to ensuring the Council's medium term financial sustainability. The Council has responded to the financial challenges in a systematic and planned way through an approach based around four inter-related areas: economic growth, managing demand, collective responsibility and efficiencies and has a strong track record of identifying and delivering savings and efficiencies whilst protecting priority services as much as possible. The Council will have to make very difficult choices in the years ahead about which services to prioritise. In order to avoid cuts to services, the authority continues to explore alternative options of service delivery to ensure that services remain fit for purpose in the context of smaller budgets. This may mean revisiting the expectations of residents in order to protect services for the most vulnerable. It is also an opportunity to work with partners and neighbouring authorities to maintain and improve outcomes whilst reducing public spending.

1.7 Within the 2016/17 settlement the Government provided some details of indicative funding up to 2019/20 which gives a high level indication of revenue support grant funding. However uncertainty still exists in respect of likely government funding levels in relation to other grants over the period as well as instability that arises from the volatility of business rates funding and the implications of the move towards a new funding regime of 100% rate retention. Although there exists a great deal of uncertainty, overall it is now estimated that the Council will need to close a funding gap of £92.3m over the five financial years 2017/18 to 2021/22. This funding gap can be summarised as follows:

2016/17 £m	Indicative Budget Forecasts	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
217.679	Estimated Base Budget	210.009	220.410	231.317	246.771	258.903
(198.883)	Estimated Funding	(187.863)	(162.418)	(159.463)	(166.575)	(166.575)
18.796	Cumulative Funding Gap	22.146	57.991	71.854	80.196	92.328
18.796	**Annual Funding Gap**	**22.146**	**35.845**	**13.863**	**8.342**	**12.132**

1.8 The funding gap over the medium term can be further analysed to identify separately demand pressures on expenditure and the impact of funding reductions on income. This can be presented graphically as follows:



1.9 Government legislation has and will continue to directly impact local government. The welfare reform agenda is likely to continue to place additional demands on local authority services as well as significantly impacting on local authority finances with a further £12bn cuts to the welfare budget included in the Summer Budget 2015. The Social Care Act will also put additional strain on local authority services and while provision has been made to further improve the integration of social care and health services through the Better Care Fund it is unclear whether resources allocated to local government will be sufficient to cover additional burdens. Government policy in respect of schools and housing will also impact significantly on Council service provision and financial planning.

1.10 The Council will ensure that it maintains support to priority services, and it will seek to prioritise those services that are most needed. It will continue to review the services it delivers, and the way that it delivers them, through the Change Programme. This will ensure that reducing resources are used to maximum effect, and allow the Council to continue to deliver new and better ways of working and invest to improve the efficiency of services provided. It is evident however the continuing reductions in funding and increases in demand 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.

1.11 The Council's approach to financial planning over the medium term will include a focus on investment in growth and income generation. The Council recognises that economic growth benefits the residents of Gateshead and the businesses within Gateshead. It also strengthens the position of the Council by developing financial resilience through less exposure to reductions in government funding. The Council will retain its vision for the future of the Borough through promoting development and economic growth and this will assist in maintaining the medium term financial sustainability of the Council.

2. Introduction

The Purpose of the Medium Term Financial Strategy (MTFS)

2.1 The MTFS is a key part of the Council's Budget and Policy Framework which aims to ensure that all financial resources are directed towards delivery of the Council Plan and Vision 2030. The Strategy describes the financial direction of the Council for 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.

2.2 The review of the MTFS builds on the existing strategy and updates assumptions to reflect known funding announced as part of the local government financial settlement for 2016/17 and estimated multi-year settlement figures beyond this. Financial planning assumptions will need to be kept under constant review given the increased level of uncertainty which will continue until more detail is released on funding later in the year and as implications from the move to 100% rates retention are clarified.

2.3 The MTFS establishes the likely level of resources available to the Council over the medium term and also estimates the financial consequences of the demand for Council services. It provides the financial context within which the Council budget will be set.

The Benefits of the MTFS

2.4 The MTFS assists in:

- Delivering the priorities of the Council Plan and delivering Vision 2030;
- Improving financial planning and the strategic financial management of the Council's revenue and capital resources;
- Maximising the use of resources available to the Council, both internal and external;
- Ensuring that the Council provides value for money and delivers budget savings;
- Aligning financial resources to the Council's spending priorities and priority outcomes;
- Reviewing the Council's reserves policy to ensure there is protection against unforeseen events;
- Responding to external pressures;
- Developing a sustainable budget over the medium term;
- Highlighting financial risks and mitigating controls.

The Principles of the MTFS

2.5 The principles underlying the MTFS 2017/18 to 2021/22 are as follows:

1) The overall financial strategy will be to ensure that the Council's resources are directed to achieving Vision 2030 and the outcomes set out in the Council Plan. The Council's MTFS will be reviewed on at least an annual basis.

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

3) The Council will maintain its general reserve at a minimum of 3% of the net revenue budget to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.

4) The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed at least annually.

5) The Council will continue to improve its approach to efficiency, commissioning and procurement to ensure value for money and minimise the impact of budget savings on priority services as well as effectively managing the programme of change.

6) Opportunities for working in collaboration and partnership and different ways of working will be identified and developed where this will support the delivery of the Council's outcomes and improve service efficiency and delivery. This will include the use of well-being powers, development of trading opportunities and different business models and the sourcing and securing of external funding.

7) The Council will consider the use of prudential borrowing to support capital investment to deliver Vision 2030 and will ensure that the full costs of borrowing are taken into account when investment decisions are taken.

8) The Council will aim to promote and stimulate strong and sustainable economic growth leading to wellbeing and prosperity for residents and communities and this will be supported by a planned approach to strategic investment managed through the Council's capital programme.

9) 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 Vision 2030 and demand for services.

3. National Financial Context

3.1 The financial crisis of 2008 and 2009 revealed an unstable and unbalanced model of economic growth in the UK. Since 2010 the Government has introduced a number of reforms impacting on local government services and financing.

3.2 Measures set out at Spending Review 2015 meant savings of £21.5 billion, of which £9.5 billion was reinvested in the Government's priorities. The Budget 2016 set out that the Government is adjusting those plans with intent to find a further £3.5 billion of savings from public spending in 2019/20 with no breakdown for individual departments.

3.3 Summer Budget 2015 and Autumn Statement 2015 also announced reforms to the welfare system that are to be enacted through the Welfare Reform and Work Bill. The Government's intention is for system changes to be completed by the end of the Parliament. The proposed legislation potentially presents local government with a significant number of new burdens and pressures, which could result from both direct operational and indirect consequences.

3.4 During 2015/16 the Monetary Policy Committee (MPC) kept the Base Rate at 0.50% for the seventh successive year. It is not expected that the base rate will increase from 0.50% until Quarter 1 of 2017 at the earliest and subsequent rate rises are expected to be slow and gradual.

3.5 The Retail Price Index (RPI) in the year to March 2016 rose by 1.6%, up from 1.3% in February 2016 towards the MPC's 2% target. The Consumer Price Index (CPI) rose by 0.5% in the year to March 2016 compared with a 0.3% rise in the year to February. The CPI 12 month rate (the amount prices change over a year) between March 2015 and March 2016 stood at 0.5%. The rate has increased gradually since October 2015 although it is still relatively low in the historical context. In March 2016 the OBR revised down its forecast for UK growth in 2016 to 2.0% from the 2.4% outlined in the autumn statement with similar reductions in subsequent years. This is based on newly reduced assumptions of productivity growth, which is set to stay low throughout the developed world.

3.6 The OBR forecasts for this year and subsequent years which were predicted on Britain remaining in the EU, are as follows.

Autumn Statement 2015	**March Budget 2016**
2.4% in 2015	2.2% in 2015
2.4% in 2016	2.0% in 2016
2.5% in 2017	2.2% in 2017
2.4% in 2018	2.1% in 2018
2.3% in 2019	2.1% in 2019
2.3% in 2020	2.1% in 2020

3.7 In respect of Government borrowing the national debt is lower than anticipated in cash terms but is above target on a debt to GDP ratio basis. This is a consequence of the nominal size of the economy being lower than expected. Despite increasing its expected borrowing over the next three financial years, the Government has restated its intention to run a budget surplus in 2019/20 and has made a minor negative adjustment to its target for this year. The OBR forecasts that the public finances will deliver a surplus of £10.4 billion in 2019/20 and £11.0 billion in 2020/21. Public sector net debt is forecast to fall to 74.7% of GDP in 2020/21.

3.8 The Autumn Statement and Spending Review 2015 was announced on 25 November 2015 and the provisional local government finance settlement on 17 December 2015. The Final Local Government Funding Settlement was laid before Parliament on 8 February 2016.

3.9 The global economic outlook has deteriorated since the Spending Review and Autumn Statement 2015. Both the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) have revised down their global forecasts for GDP in 2016.

3.10 However it is important to note that in light of recent announcements of the UK's intention to leave the EU, all these assumptions will be revisited over the next month or so and the financial impacts to the Council's MTFS will be reconsidered.

3.11 The provisional local government finance settlement for 2016/17 was the first local government finance settlement (LGFS) of the current parliament and Spending Review (SR) period. It is also the first LGFS at the start of a parliament since Business Rate Retention (BRR) was introduced. The Government used this opportunity to present indicative funding levels throughout the period, in association with what they call an "offer" of four-year settlements, including 2016/17 up to 2019/20. The previous use of Spending Power (SP) was also revised to be known as Core Spending Power (CSP). The government announcement includes predications of certain core funding such as business rates, RSG and council tax but other specific grants such as public health are excluded.

3.12 The move to four year funding certainty is welcomed but the lack of clarity concerning the approach and other funding areas limits the benefit in respect of financial planning. This coupled with the Government's policy agenda continue to result in an overall context of funding uncertainty. The Government has stated intent to improve the fairness of the Local Authority Revenue Grant Settlement to 2019/20. The data analysis is mixed for 2016/17 against a backdrop of unfair funding since 2010.

4. Local Financial Context

4.1 Over the last 5 years, the most deprived areas of the country including the North East have suffered disproportionately high cuts in revenue grants and in revenue spending power. The North East is the most deprived and poorest region in England and as a result has suffered the highest proportionate cut in its spending power, resulting in deeper cuts in services having to be made. The cumulative pressure of higher cuts on the poorest areas of the country has been highlighted by independent bodies including the National Audit Office. The above average additional cut in spending power in the North East is estimated at over £166 million a year in 2015/16. This disproportionate burden of cuts has raised significant concerns in the region about the 'fair funding' of statutory revenue services and the impact that the higher cuts in services is having on the people in the region.

4.2 The Revenue Support Grant Settlement over the next two years is fairer than it would otherwise have been due to a number of changes to the way cuts in revenue support grant have been made. Despite these significant improvements, the North East continues to face higher cuts in core spending power, due mainly to its low Council tax base.

4.3 As Adults and Children's services now account for over half of Councils' budgets, they are expected to make significant contributions to local authority savings targets. This coincides with a rise in demand and the impact of welfare reform. Whilst this provides us with a unique challenge, particularly around capacity, it also provides a unique opportunity to do something different. That said, there is a particular context in which we are operating, as North East Councils have been hit the hardest by the cuts over the last 5 years, and some of our pressures (e.g. a 30% rise in Looked After Children in the region, 15.2% in Gateshead) add a particular urgency to ensuring that there is sufficient resource in the system to continue to deliver statutory services and discretionary preventative measures which can help reduce cost pressures across the public sector.

4.4 Some facts specific to the region is given below for information and context;

- Since 2010, unemployment in the North of England has fallen by a third. The employment rate in Newcastle/Gateshead was 68.5% in September 2015. The rate has been increasing over the last two years, narrowing the gap to England (73.6%)[1]
- The number of people out of work and claiming Jobseekers Allowance or Universal Credit has fluctuated around 8,000 since the summer of 2015, following several years of decrease. The current claimant rate is 2.6% compared to the England average of 1.8%
- The number of people claiming out of work benefits is reducing. In the last year, the number of claimants has reduced by 2,930, and over the last five years it has reduced by 10,650. The rate in Newcastle/Gateshead is now 12.0% compared with 8.9% across England.
- Median gross weekly pay of full time workers in both Newcastle and Gateshead remains lower than the England average; however since 2010 it grew faster in all regions of the North than they did in London.
- The Department for Communities and Local Government released the new Indices of Deprivation 2015 on 30 September 2015. Gateshead is ranked 73rd out of 326 local authorities where 1 is the most deprived (rank of average score – overall IMD).

[1] http://www.gateshead.gov.uk See Economic Scorecard and Population Estimates

- In total 25% (49,790 people) of the population of Gateshead live in the 20% most deprived areas in England. There are eight wards containing areas within the 10% most deprived in England. At 64%, Felling ward is estimated to have the highest proportion of its population living in the 10% most deprived areas in England. Low Fell ward is estimated to have the highest proportion of its population in the 50% least deprived areas in England.

- The latest estimated resident population of Gateshead is 200,500. This is calculated by the Office for National Statistics for mid-2014. Gateshead's population is projected to increase by 11,300 (5.6%) between 2012 and 2037 to 211,500.

- It is projected that by 2037 there will be an additional 16,400 aged 65 or over, an increase of 45%. Despite the growth of the working age population, the older age groups are growing at a faster rate and so working age people are projected to represent a smaller proportion of the total population i.e. 61% instead of 62%. This is illustrated in the table below;

Gateshead 2012 Based Population Projections

	2012	2025	2037	Change since 2012	% Change since 2012
0-4	11,900	11,200	10,800	-1,100	-9%
5-12	16,700	18,000	17,000	+300	+2%
13-19	16,400	16,400	16,100	-300	-2%
20-34	39,400	38,500	39,400	-0	-0%
35-49	41,200	39,000	40,000	-1,200	-3%
50-64	38,100	39,600	35,300	-2,700	-7%
65-84	32,000	37,500	42,900	+10,900	+34%
85+	4,400	6,700	10,000	+5,600	+126%
16-64	128,300	126,600	124,300	-4,100	-3%
All Ages	200,200	207,000	211,500	+11,300	+6%

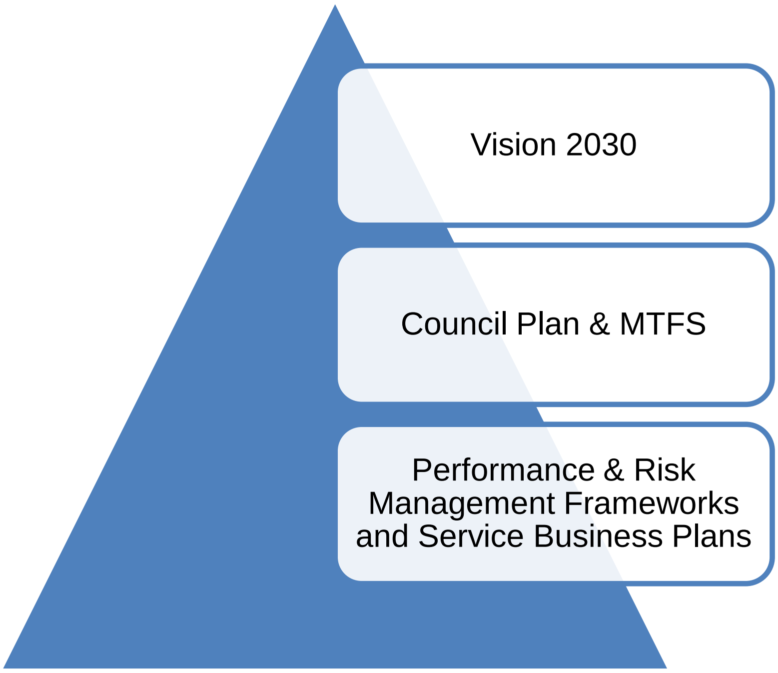
Figures may not sum due to rounding

- It is estimated that there are currently 90,582 households in Gateshead and that in just over 20 years there will be an additional 9,428 households bringing the total to 100,010 by 2037.

- The latest projections suggesting that working age people will represent a smaller proportion of the total population in future could present a challenge to the future economic sustainability of Gateshead. However, it is important to note that ONS' projections are based on the continuation of past trends. Through Council intervention the implementation of various initiatives aimed at attracting jobs and encouraging economic growth, it is possible that population growth, particularly among working age residents, can be higher than indicated by these latest projections - to a level that is more capable of delivering a sustainable future for Gateshead.

5. Local Policy Context

5.1 The hierarchy of corporate plans and strategies is shown below:



Plans

5.2 Vision 2030 was developed and agreed by the Gateshead Strategic Partnership (GSP) and is the overarching strategy setting out the long term vision and priorities for the future of Gateshead. Vision 2030 aims to improve the wellbeing and equality of opportunity for Gateshead residents so that all residents and businesses in Gateshead can fulfil their potential.

5.3 The Council Plan sets out the collective five year ambitions for the Council and how Vision 2030 will be achieved. It sets out clear policy directions which will help the Council make choices about where limited resources should be focused and what changing roles and responsibilities will mean for employees, buildings, and relationships with partners. The plan has been refreshed to cover the period 2015 to 2020 and sets the focus for the strategy and overall approach to individual Business Plans for each of the Council's services as:

- **Maximising growth** - we need to grow, generating income and prosperity, both indirectly by creating conditions for economic growth and high value jobs, and directly by generating income for the Council through more Council tax, more business rates, external funding and trading. We can then redirect resource to support those most in need.

- **Reducing costs** - both by managing demand in areas where there is significant cost pressure but also by increasing efficiency for example through technology and changes to the way the Council works, such as consolidation of buildings and reducing costly processes.

- **Increasing collective responsibility** – encouraging and supporting local people, partner organisations, businesses and local communities to play a more active role in achieving the outcomes for Gateshead.

5.4 This will be achieved by focusing on the following key shared outcomes:

Prosperous Gateshead – a thriving economy *for all*

- More and better paid jobs for local people
- Fewer people with low level skills and more people with higher level skills through:
- improved educational attainment
- increased learning and development
- More private, public and social investment
- An increase in the working age population

Live Love Gateshead – a sense of pride and ownership by all

- A confident and more aspirational population acting as Gateshead's strongest advocates
- Gateshead people who care about their local area and share responsibility for making and keeping our environment the best it can be
- A community who take pride in Gateshead the place and enjoy and engage in world class culture events and heritage that contributes to a sense of belonging and wellbeing.

Live Well Gateshead - a healthy, inclusive and nurturing place for all

- The destination of choice for families with a range of excellent and affordable housing choices
- A place where children have the best start in life
- A place where older people are independent and are able to make a valuable contribution to the community
- A place where people choose to lead healthy lifestyles, with more and more people across Gateshead living longer and without life-limiting illnesses
- A place where those who need help have access to appropriate joined up services that make a difference to the quality of their life
- A tolerant place where people feel safe.

5.5 The MTFS is central to identifying the Council's capacity to deliver its outcomes and across the same time horizon as the Council Plan it reflects:

- The delivery of Vision 2030.
- The Council's current financial position and outlook.
- The Council's overall financial strategy, including use of reserves.
- Internal and external pressures which may influence the Council's financial position.

5.6 In April 2016, Cabinet approved a redesigned performance management framework which, along with the change programme, will continue to help deliver the Council's priorities within Vision 2030 and the Council Plan.

5.7 A number of key corporate strategies also feed into the MTFS, including the Workforce Strategy, Digital Strategy, Corporate Asset Strategy and Management Plan. All of these strategies are linked to the MTFS through the performance management framework Business Plans.

5.8 As well as setting out the Council's role, the corporate strategies described above emphasise the work with partners, including the voluntary sector, in the delivery of Vision 2030. In some cases this is achieved through pooling or aligning resources where this can be demonstrated to add value.

6. The Council's Current Financial Position and Outlook

2015/16 Revenue Outturn Position

6.1 The agreed net revenue budget for 2015/16 was £207.387m. The final revenue outturn, for 2015/16 was reported to Cabinet on 14 June 2016 stating an overall under spend of £0.771m against a revised net budget (following cuts to Public Health Grant) of £206.345m. Whilst the outturn position is positive, it should be noted that a number of one-off areas of under spend and additional income have contributed to this position.

6.2 The Council's current reserves, as a result of the 2015/16 outturn, are covered in Section 11, along with a review of the Council's policy on the use of reserves.

Budget 2016/17

6.3 Council agreed the revenue budget for 2016/17 at its meeting in February 2016. This was set at £198.883m (excluding schools) and included £18.796m savings.

6.4 The budget includes a number of risk areas which, if not closely monitored and controlled throughout the year, could add further pressure to the funding gap in future years. These include the delivery of agreed savings and achievement of income targets, particularly in relation to localisation of business rates and council tax.

6.5 £4.4m of reserves were earmarked to support delivery of savings proposals within 2016/17. It is assumed within future sections that these savings are fully achieved before budget 2017/18 otherwise the financial gap would increase. These will be closely monitored throughout the year.

Outlook

6.6 Medium term financial planning remains difficult and the plan has been prepared against the continuing funding cuts for local government coupled with increased demand for social care and welfare reform. In addition, there is great uncertainty in relation to the level of funding beyond 2020 and greater risks in relation to the localisation of business rates and the local council tax scheme. The impact of the Government's devolution agenda as well as the future of the UK's inclusion in the European Union will mean that these forecasts will need to be closely monitored and potentially refreshed as consequences become clear.

6.7 The 2016 budget was delivered on 16 March 2016 and had a number of items that could affect the Council's position particularly around business rates;

- A further £3.5 billion efficiency saving in 2019-20 with no phasing and no clear allocation to government departments;
- The government will increase the National Minimum Wage rates from October 2016;
- Business Rate annual indexation will change from the Retail Prices Index (RPI) to the main measure of inflation, currently the Consumer Price Index (CPI), from 1 April 2020; (CPI runs at a lower rate than RPI and will result in lower rate increases to authorities)
- Small Business Rate Relief (SBRR): doubling – The government will permanently double SBRR in England from 1 April 2017. With the cost subsidised by treasury;

- Small Business Rate Relief: thresholds – The Government will raise the threshold in England to rateable values of up to £12,000 tapering to £15,000 from 1 April 2017;

- Standard multiplier – The Government will raise the threshold at which business rates bills in England are calculated using the standard multiplier to properties with rateable values of £51,000 and above from 1 April 2017;

- Modernisation – The Government will work with local authorities in England to standardise business rates bills by 1 April 2017, ensure that all ratepayers can receive bills and make payments online by 1 April 2017 and ensure that all local authority billing and collection systems link with HMRC digital tax accounts by 2022;

- Valuation reform – The government will aim to introduce more frequent (at least 3 yearly) revaluations of properties in England for business rates purposes;

- All schools were expected to become academies by 2020, or to have an academy order in place to convert by 2022.(Government have subsequently relaxed this requirement)

6.8 Subsequently in April ministers confirmed to the local government select committee that budget announcements on cuts would not affect the multi-year settlements but that the funding allocations for 2019/20 may be subject to implementation of 100% rate retention.

6.9 The provisional Local Government Finance Settlement for 2016/17 was announced on 17 December 2015 and was reported to Cabinet on 19 January 2016. In terms of the grant settlement, by the end of 2017/18 the Council's grant funding (adjusted for new burdens) has reduced dramatically by around 46% since 2010/11, or £380 per head. The overall adjusted revenue spending power has reduced by over 30% since 2010.

6.10 The actual reduction in Revenue Support Grant from 2015/16 to 2016/17 was £10.51m (22%) From 2013 when the funding system changed to localisation of business rates RSG alone has reduced from £76.7m to £37.2m in 2016 (51%). Furthermore by 2020 the Council will no longer receive this grant with the move to a new funding system of 100% rates retention. The implication being that the Council will become less reliant on central sources of funding towards the end of the decade.

6.11 The Council has repeatedly raised concerns about fairness in the distribution of funds in the Settlement, as the region has been faced with amongst the highest cuts in the country at a time of very significant cost pressures and conversely, some of the most affluent parts of the country have received increases in their spending power in previous years.

6.12 There is growing concern and evidence of the negative impacts of the current economic climate on mental health and wellbeing, particularly in areas of deprivation like Gateshead. It is already a major priority in the Gateshead Joint Strategic Needs Assessment, the Health and Wellbeing Strategy and the Annual Public Health report for Gateshead.

6.13 Even the projected Government figures highlight significant challenges ahead for Councils who will have to make savings, despite receiving a proposed flat-cash settlement over the next four years. Additional cost pressures include those arising from general inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, pressure on homelessness budgets and increases in core costs such as national insurance, the National Living Wage and pension contributions.

6.14 The change in local government funding to 100% rate retention brings additional risks that were formally managed nationally and will now be transferred to local government, namely;

- Risks in wider economic regeneration and downturns in the local economy in areas that suffer weaker national average economic performance;
- Increased risks in greater numbers of benefits claimants under the local council tax reduction scheme that transferred to local authorities in 2013/14;
- The Government have confirmed that additional responsibilities will be transferred to local government in the move towards 100% retention. Indications at this stage are that Public Health funding and attendance allowance payments (currently administered by Department for Work and Pensions) will transfer. This places any risks of increasing demand in these areas and any others transferred onto the Council;
- Risks of welfare reforms and the impact on collection rates of both council tax and business rates.

6.15 The Council is operating in a challenging national policy context which has been compounded by Government funding reductions and unfunded cost pressures. The Government's methodology for funding local authorities is inextricably linked to the performance of the local economy in the local authority areas via New Homes Bonus Funding arrangements, Business Rate Retention and Local Council Tax Reduction Schemes.

6.16 From 2010 onwards, local authorities have had to adapt to:

- The impact of central government funding reductions, a real terms reduction in central government funding of 37% between 2010/11 and 2015/16 (National Audit Office, 2014)
- The local impacts of the economic crisis, in terms of increased pressures on some services (e.g. social services and benefits payments)
- The impact of changes to business rate retention from 2013/14 and related issues of rate volatility such as impacts of Appeal rulings
- The new responsibility of locally funding council tax benefit payments, previously paid by central government.
- Since 2013 responsibility for commissioning many public health services moved from the NHS to local authorities and a new executive agency of the Department of Health, Public Health England and more recently responsibilities for commissioning for public health services for 0-5 year olds.

6.17 The scale of reductions in central funding has required local authorities to focus more on local self-sufficiency through other forms of income generation such as:

- Council tax rate increases, subject to referendum limits;
- Increases in the rates of fees and charges;
- Increases in the scope of fees and charges (i.e. charging for services not previously charged for);
- Economic development measures to increase the funding through tax collected (council tax and business rates);
- Increasing trading activities to generate surplus for reinvestment in other vital services.

6.18 Vision 2030 sets out the following goals under the Prosperous Gateshead theme which will support a thriving economy for all over the next five years;

- More and better paid jobs and more people in work
- Fewer people with low level skills and more with higher level skills
- More private, public and social investment
- An increase in the working age population

6.19 A significant amount of activity is already being delivered by the Council and its partners, to promote sustainability and growth across the borough and evidence of this is readily visible through the regeneration of the town centres.

6.20 The Gateshead Economic Growth Acceleration Plan 2013-18 provides a broad framework to direct the investment of the Council's resources, including the Capital Programme and creation of an Economic Growth Reserve, to ensure economic growth and job creation opportunities are maximised.

6.21 In the future the urban core will be the focal point for economic growth and transformation, becoming the main contributor to Gateshead's economic prosperity. As well as being the cultural, retail, tourism and leisure hub, it will be a regionally significant office location for professional, financial and business services; particularly within the Accelerated Development Zone. The growing creative and ICT/media industries are already well represented and demonstrate strong growth potential. Investment will also be encouraged within the key employment areas of Team Valley and Follingsby, the primary centres for manufacturing industries and distribution services.

6.22 In addition the Council's Rural Economic Strategy (2015-2020) supports economic growth in the borough's rural communities, whilst contributing to growth across Gateshead and the region. Working with a range of public, private and voluntary sector partners it supports business development in sectors such as tourism and food and drink, whilst seeking to maximise the use of land and property assets for business purposes, thereby increasing business rates income to the Council. Helping residents develop the skills to access these jobs is a key aspect of the work as is helping to co-ordinate the economic objectives arising from for example the development of new housing, the growth in rural services and improvements to the natural environment.

6.23 The reduction in public funding for infrastructure has required consideration of new approaches to regeneration. As part of the Newcastle City Deal in July 2012, an Accelerated Development Zone (ADZ), within Gateshead was agreed. The deal allows for 100% of the business rate income at Gateshead Quays and Baltic Business Quarter to be retained locally, rather than held by the Treasury, to support the delivery of vital economic infrastructure that will boost economic growth in the area. On 2 June 2015 Cabinet approved the appointment of a development partner for Gateshead Quays which will assist with regeneration plans and business rates growth.

6.24 The 2014 to 2020 European Structural and Investment Fund (ESIF) programme also presents an opportunity to lever funds in to the borough to deliver our ambitions for smart, sustainable and inclusive growth.

6.25 The Council's strategic ambitions for economic growth will be supported by the Local Plan for Gateshead which includes the Planning for the Future Core Strategy and Urban Core Plan for Gateshead and Newcastle upon Tyne. This framework will help to create and sustain thriving communities and a more prosperous economy through developments, including the provision of new homes, jobs growth and a portfolio of employment land.

Change Programme

6.26 In response to cuts in public funding Cabinet agreed to a major programme of change at its meeting on 9th February 2016 to guide budget decisions and the shape of the Council in the future. Given the unprecedented scale and pace of change required a co-ordinated programme was determined to provide the best opportunity to review activities at the right time and minimise the effect on what residents may need and expect. This approach will ensure that opportunities are explored to increase income as well as closing or reducing current provision. The Council's approach within the programme is aligned with the Council Plan and is thus focused on four inter-related areas: economic growth, managing demand, collective responsibility and efficiency by:

- Doing all we can to support economic growth and revenue generation – given reductions in Central Government funding, success in this area will enable the Council to redirect resource to activities which protect the most vulnerable.
- Focusing on managing demand (particularly in social care) with a targeted approach, emphasising early intervention and prevention.
- Increasing collective responsibility – encouraging and supporting local people, partner organisations, businesses and local communities to play a more active role in achieving the outcomes for Gateshead.
- Continuing to drive efficiencies through changes to the way the Council works, for example, through exploiting new technology, consolidation of buildings and services, reducing complex processes and increased trading.

6.27 The change programme has four workstreams as follows:

- **People**- Adult Social Care and Children's Services – reviewing proposals for change within each of the services and consider options for earlier intervention and different ways of working with partners and other agencies.
- **Place** – increasing community and individual resilience such as enabling communities to do more themselves by actively improving the environment and promoting positive behaviours. Exploring opportunities and positive actions to achieve economic growth of the borough, maximising assets and considering the Council's approach to Housing and leisure strategy.
- **Trading** –finding opportunities to increase our income from trading.
- **Ways of Working** – considering how we can maximise the use of buildings and technology to help everyone work smarter and more efficiently, and helping the Council to get the most out of its most valuable resource, its employees.

7. Looking Ahead: Review of Cost Pressures

7.1 Future budget forecasts include the following cost pressures:

Base Adjustments

- There are no anticipated base adjustments required over the period. These are used at base budget setting where there are transfers of responsibilities.

Inflation

- General inflation pressures for items such as utilities, rates, fuel, insurance etc. are based on 0.9% average RPI/CPI projections have been included per annum over the period. This will be updated to reflect the prevailing rate of inflation during the budget process but will be kept to a minimum. Contractual inflation for care related costs are based on known planning assumptions in each specific area.

Corporate Pressures

- *Pensions* -The Local Government Pension Scheme (LGPS) was last subject to its triennial review in 2014/15 the next revaluation will be in 2017/18 and given performance on the fund in recent years is likely to add an additional cost pressure assuming the fund deficit increases as fewer employees are contributing. Stepped deficiency payments have been included in the 2016/17 budget and estimated funding gap for the MTFS period. The next review will be in 2020 within the MTFS period.

- *Pay* (including implementation of National Living Wage) – The current LGS pay award of 1% will run through to 31 March 2018. Beyond that assumptions are based on awards being limited to 1% for the remaining period of the MTFS. (The Summer Budget 2015 announced the context of limiting of pay awards to 1% for the period 2016/17 to 2019/20). It is important to note that the MTFS is not an expression of Council Policy on pay awards, but a means of ensuring an appropriate provision is made as part of the overall financial planning of the Council. The cost of implementing the National Living wage becomes more significant towards the later years where greater stepped changes are required to meet the Governments prescribed wage per hour.
  The new mandatory National Living Wage (NLW) will come into effect from 1 April 2016, set at £7.20 an hour for workers aged 25 and above. The government has asked the Low Pay Commission (LPC) to set out how the new NLW will reach 60% of median earnings by 2020. Based on the OBR's March 2016 earnings forecasts, a NLW of 60% of median earnings would be £9 in 2020.

- *Demand Pressures* corporate pressure to the Council budget arising from Housing /Housing Revenue Account changes and School Funding changes

- *Apprentice Levy* - As announced at the Autumn Statement 2015, an apprenticeship levy will be introduced in April 2017. One year impact to base budget in 2017 of £0.500m based on costings done of employment costs.

- *Significant loss of Government grant* - within services as Government departments cut in year or after the settlement date

- *Workforce Management* - Given the level of savings required to close the funding gap additional resources will be required to be identified to fund potential further workforce management costs. The 2016/17 base budget has £1.1m in contingency but additional resources may be needed from reserves.

The Council has policies, procedures and guidance in place to manage changes in the workforce whether they come from budgetary pressures or other operational or organisational changes. These have been successfully applied in the past but the extent of the savings required to balance the budget will put pressure on all budgets, including staffing.

The total cost of redundancy to the Council in 2015/16 totalled £6.893m (excluding schools staff). In addition, as part of the 2015/16 revenue outturn, a provision of £5.971m was created for redundancies in 2016/17 and the 2016/17 base budget includes a contingency of £1.1m for workforce management costs. Coupled with the provision, these resources reflect the anticipated redundancy costs as a result of the estimated funding gap. Further resource may be required from reserves once the savings for 2017/18 and beyond have been confirmed.

Service Demand Pressures

- *Welfare Reform /Bad Debt* -The Government's changes to welfare reform including Universal Credit are likely to have an impact in relation to potential bad debt of council tax income and housing rents. In addition the impact of welfare reforms on residents' ability to pay may result in increased demand for services in respect of benefits advice and local welfare assistance. The outturn position for 2015/16 included a provision for Housing Benefit Overpayments bad debt totalling £3.2m and Council Tax bad debt of £2.3m.

- *Social Care* -Includes continuing specific demographic pressure arising from demand for adults and children's social care as well as the potential impact of future liabilities arising from the Care Act implementation and other contractual obligations.

Strategic Investment (Revenue Cost of Capital)

- Includes the revenue implications of the Council's Strategic Investment programme outlined in future section of this report. The primary impact on the revenue budget of supporting capital investment is through the Minimum Revenue Provision (MRP) and external interest charges. Supporting the level of capital investment contained within the Council's capital programme is expected to require £30.5m of revenue resources in 2016/17 to meet the borrowing costs. Assuming a similar level of capital investment over the medium term would see the annual cost rise by an average of £1.2m per annum to reach a total of £36.7m by 2021/22 as shown in the table below;

Capital Financing Costs	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
MRP - Excluding PFI Schemes	13.147	13.871	14.532	15.380	16.710	17.156
MRP - Schools PFI	0.746	0.795	0.848	0.904	0.964	1.028
MRP - Waste PFI	2.183	2.227	2.273	1.659	2.057	2.143
Total MRP	16.076	16.893	17.652	17.943	19.731	20.327
External Interest Excluding PFI	11.862	12.648	12.854	13.021	13.213	13.376
External Interest - Schools PFI	1.619	1.570	1.517	1.461	1.401	2.280
External Interest - Waste PFI	0.943	0.898	0.852	0.805	0.771	0.729
Total External Interest	14.424	15.116	15.223	15.288	15.385	16.385
Total Capital Financing Cost	**30.500**	**32.009**	**32.875**	**33.231**	**35.116**	**36.712**
Variance		+1.509	+0.866	+0.356	+1.885	+1.595

8. Looking Ahead: Review of Funding and Income

8.1 The government's forecast reduction in core spending power per dwelling over the next four years for Gateshead is quoted as 1.2% compared to an England average of -0.4%. This position is not considered a true reflection and it is important to note the following points;

a. The government's future Council Tax figures assume average growth for each authority as well as an annual consumer price index (CPI) increase (which is an annual average of 1.75%) as well as the 2% social care charge. It is assumed this occurs each year over the period up to 2019/20. This assumes that a local area can not only grow its base substantially year on year but that its residents will be willing and able to pay uplifts of up to 4% year on year. This moves funding for essential Council services from government funding to local residents. This does not take into account the mix of a Councils tax base and their ability to pay. In Gateshead 61% of our residents are in band A, the lowest property value banding.

b. Business rates also include notional projections of growth of circa 3% per year. The retained rates that Gateshead Council will have available for funding will depend on the extent to which business growth can be supported in the area as well being influenced by loss of income through the cost of appeals, refunds, changes in collection rates and the impact of rate avoidance.

c. New homes bonus allocations are notional future estimates and cannot be taken with any certainty as the whole system is subject to change following consultation.

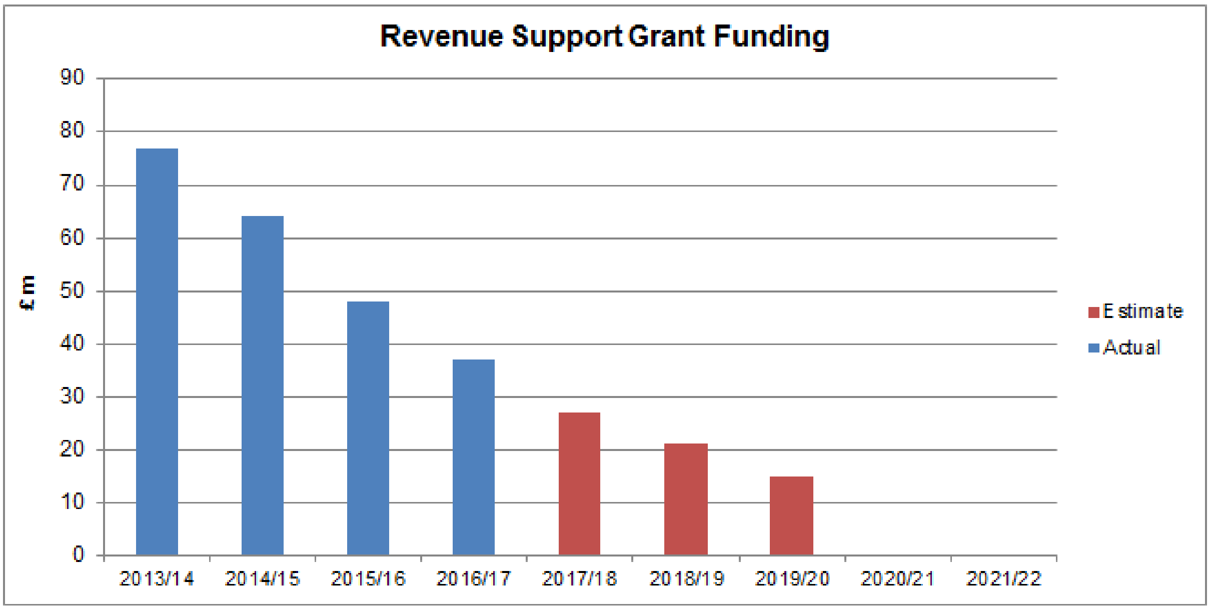
d. Figures include £13.89m over 2017/18 to 2019/20 for the improved Better Care Funding which aims to redress some balance of need. However, the funding will only impact towards the end of parliament when the funding is urgently needed now.

e. Only potential funding has been considered in this projection with no consideration given of the impact of the increasing costs in social care from increased demand, contractual inflationary increases and the costs of implementing the National Living Wage. Similar cost pressures are also seen in children's social care and other Council services arising from inflation, pay increases, changes in national insurance contributions and additional transfers of responsibilities, many of which will wipe out the increases shown, when only looking at the potential resources available.

f. Furthermore analysis per dwelling does not take account of the levels of deprivation of an area resulting in more demand for services such as children's social care, homelessness and welfare support. More affluent areas benefit more from increases in their council tax bases and residents are more able to contribute to the cost of their service provision

Revenue Support Grant (RSG)

8.2 As part of the 2016/17 settlement the Government provided indicative projections of core funding to 2019/20. The funding gap is based on the RSG figures given up to 2019/20 and shows a reduction in RSG over the period of £22.2m (from £37.2m in 2016 to £15.0m in 2019). The equivalent actual reduction in RSG from 2015/16 to 2016/17 for comparative purposes was £10.5m or 22%. This is illustrated in the table below;



8.3 The March 2016 budget announced reductions to public spending totalling £3.5 billion across all government departments in 2019/20 with no phasing. There was no revision of the 2016/17 four year Local Government Financial Settlement as part of this announcement but this could impact on Council grant funding in the future once further details are released.

8.4 The MTFS assumes zero RSG from the year 2020 in line with government announcements of the intention to remove all core grants by the end of parliament.

Retained Business Rates

8.5 The 2013/14 finance settlement provided each local authority with its starting position under the business rates retention scheme. These baseline calculations were fixed until the first intended reset in 2020. This means that Gateshead Council now retains 49% of any growth in business rates income above the prescribed baseline to reinvest in Services. The Government retains 50% with the remaining 1% being retained by the Tyne and Wear Fire and Rescue Service.

8.6 The system of business rate retention provides opportunities for local authorities to benefit from increased revenue funding raised from growth in local business rates but it also transfers significant risks from Central Government to local Councils, and in particular the requirement to meet half the cost of backdated appeals which was previously met in full by Central Government. A further specific risk of the retention system exists in respect of national companies appealing to have one centrally assessed liability which, if successful, can result in 100% of business rates income being retained by central government.

8.7 Retained business rates reflect the baseline outlined in the 2016/17 indicative funding. At this stage no further retained business rates from economic growth are included for the period of the MTFS but this will be one of the key options to close the funding gap and projections have been modelled for internal budget planning. The government have recently consulted on possible reforms to the business rates system in response to concerns from many business ratepayers that reform is required to make the system “fit for purpose in a 21st century economy”. Given that local authorities have been made dependent upon the level of retained business rates as a source of finance for providing local services any changes to the system could significantly impact on the future sustainability of the Council’s financial position.

Council Tax

8.8 The current funding gap in the MTFS assumes no increase in council tax. An increase would need to take into consideration the Government's referendum principles which are currently based on the requirement to hold a referendum for increases of 2% or above. A 1% increase in Council Tax yields approximately £0.71m. In the 2016 settlement the government increased the referendum threshold to allow for authorities to charge a 2% adult social care precept. This 2% was included in government funding projections of each local authority up to 2019/20. The current MTFS figures do not include any funding arising from a council tax increase including the social care precept however this will be factored into internal projections. Annual increases remain subject to the decision of both Cabinet and Council.

Collection Fund

8.9 The 2016/17 base budget does not include a contribution from the Collection Fund. The current gap assumes no further contributions as the position on the Collection Fund will be directly affected by the level of collection rates of both council tax and business rates which could be adversely affected by the economic downturn and changes to welfare reform. The final position on the Collection Fund for 2015/16 will be reflected in the 2015/16 Statement of Accounts.

Other Grants

8.10 Other grants include government grants that are used to finance general Council budgets. These include New Homes Bonus, Better Care Fund and Section 31 grant related to refunded costs by government for the business rate system. Given the announcement of reductions on a national basis in non-schools education grant funding assumptions for reductions each year for Education Services Grant have been included in the estimated budget gap. The MTFS assumes that by the end of parliament all other grants will taper off to nil to be replaced by the new funding regime under 100% rates retention.

Public Health

8.11 The Chancellor's Autumn Statement confirmed that LAs' funding for public health would be reduced by an average of 3.9% in real terms per annum until 2020. This equates to a reduction in cash terms of 9.6% over the same period. The Autumn Statement also confirmed that a central government grant, ring-fenced for use on public health functions, would continue for at least two more years. It has been confirmed by the Department of Health that there will be a reduction in the total grant of 2.2% in 2016/17 (to £17.380m) and a further reduction of 2.5%in 2017/18 (indicative £16.952m) These totals have been included in the MTFS. In the absence of any other direction the MTFS has assumed that in line with government announcements public health grant is then rolled into the RSG allocation as additional responsibilities from 2018. This is subject to government consultation.

Schools Funding System

8.12 In 2016/17 the Council will receive an indicative £135.8m Dedicated Schools Grant (DSG), ring-fenced for the education of children. From this amount the Department for Education (DfE) will recoup the funding for academies in Gateshead which is estimated to be £39m. The £96.8m retained after recoupment for academies is allocated between High needs, Schools, Early Years providers and other centrally held service areas. Funding for maintained schools and the providers of early years education is distributed on a formula basis in accordance with the Schools and Early Years Finance (England) Regulations. Funding for 2, 3 and 4 year olds has been estimated by the DfE for 2016/17 at £9m as this will be confirmed in July 2016 based on actual take up.

8.13 In addition, the Pupil Premium for 2016/17 will be £1,320 for primary school children and £935 for secondary school children. This amount is paid per pupil entitled to a free school meal at any time in the last six years. Looked after Children receive Pupil Premium Plus at £1,900 per eligible child. The estimated entitlement for schools in Gateshead is £9.7m, of which an estimated £2.5m will be recouped for Academies.

8.14 From 2017/18 there will be a new national funding formula for the schools and high needs blocks of the DSG. 2 year old funding is already distributed on a national formula basis. The national funding formula will operate on a ‘soft’ basis for 2017/18 and 2018/19, which means that the DfE will use the national funding formula to calculate each schools budget, but will then pass the total calculated for all Gateshead Schools to the Council who can then allocate the funding based on its own local formula (as it currently does), as agreed by Schools Forum. Further details are expected in a second stage consultation in July 2016.

8.15 2017/18 will also see the introduction of the 30 hours free entitlement for 3 & 4 year olds with working parents and the introduction of the apprentice levy on schools.

8.16 The DSG is required to be spent directly on the education of children, with the vast majority of funding going into schools, based on an allocation mechanism agreed by the Schools Forum, which has minority representation from the Council. Some schools funding is centrally retained by the Local Authority with the approval of schools forum to fund services for schools, such as the Ethnic Minority and Traveller Achievement Service, and the Behaviour and Attendance team.

8.17 At 31 March 2016 surpluses for all schools in Gateshead totalled £7.046m for all maintained schools, a decrease of £0.770m from March 2015.

Treasury Management

8.18 The Council invests money in a wide range of financial institutions and the investment interest earned is used to support the delivery of Vision 2030. The major issue for treasury management continues to be the significant difference between investment rates and borrowing rates.

8.19 Emphasis continues to be placed, in line with the Treasury Management Strategy, on mitigating counterparty risk by giving preference to security and liquidity. This has resulted in greater use of investments with higher security and increased liquidity. The Strategy continues to support a policy of limiting the need for external borrowing by the utilisation of internal funds.

Fees and Charges

8.20 The Council currently raises in the region of £17.8m from fees and charges, of which around £3.3m relate to statutory charges and £14.5m relate to non-statutory charges. The largest areas of non-statutory charges relate to Adult Services, Car Parking, Waste Services and Grounds Maintenance and Leisure which account for over £12m of the total charges, with Leisure being the largest amount of income generated. The largest areas of statutory charges relate to Cemeteries and Crematoria, Planning and Car Parking.

8.21 It is normal practice for the Council to set the standard increase for the annual review of fees and charges from 1 April each year in line with the movement in inflation. Fees and charges will be reviewed as part of the annual corporate work programme and the outcome of this review will inform the strategy on increases to fees and charges for 2017/18 onwards. This will include the development of any policies in respect of discounts and concessions. Any impact on income budgets arising from these areas will be adjusted at the annual budget setting stage or will be consulted on as part of the budget proposal process.

9. Capital & Prudential Borrowing

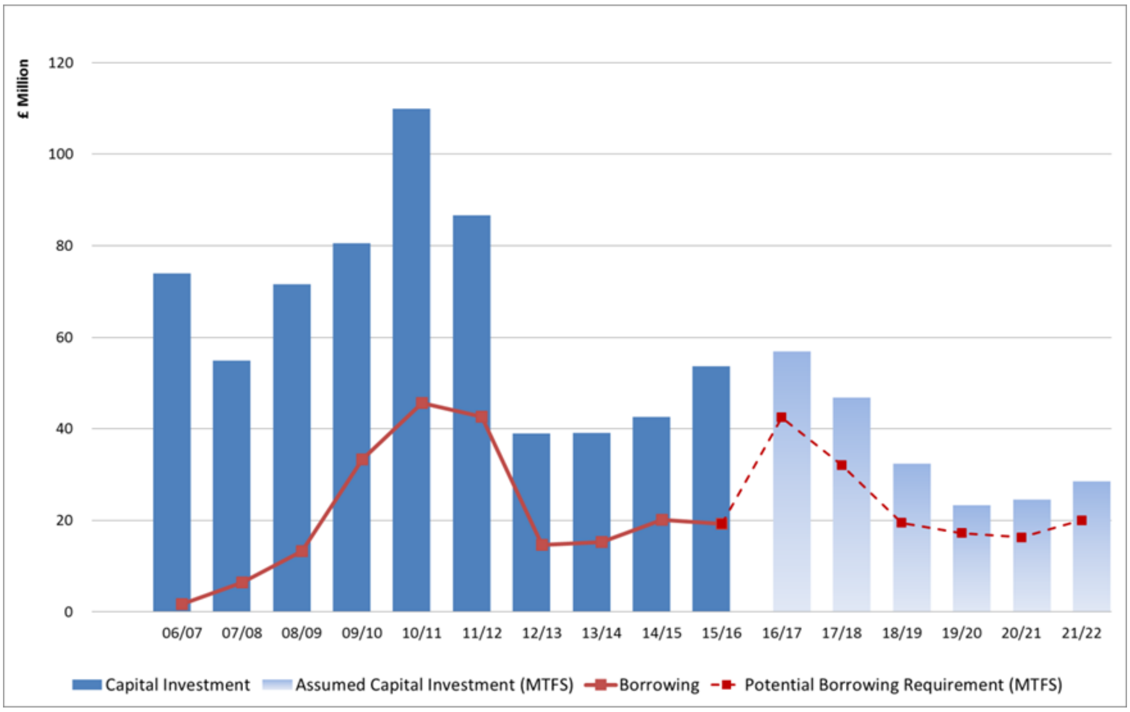
Capital Investment in Gateshead

9.1 The Council's capital investment plans are set out in the capital programme, which the latest approved programme covering the period between the 2016/17 and 2020/21 financial years. The efficient and effective use of capital resources, including asset management, is fundamental to the Council achieving its medium and long term objectives. It is also critical to achieving the delivery of the required savings across the Council and providing the best possible services within Gateshead.

9.2 Any capital investment decision will have implications for the revenue budget. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within the Council's financial plans and to demonstrate that the capital investment is affordable. Revenue implications may include the costs associated with supporting additional borrowing as well as any changes to the running costs associated with the asset or wider benefits to the Council such as the delivery of ongoing revenue budget savings or additional income through the generation of Business Rates, Council Tax or energy revenues.

9.3 Over the last 10 years the Council has invested almost £1billion in funding capital projects within Gateshead including investment within the HRA, with average annual capital investment amounting to almost £100m during this period with a maximum programme of £153m in 2009/10.

9.4 The availability of resources to support capital investment has had a significant impact upon the level of capital programme that the Council can continue to support and in recent years the General Fund capital programme has fallen dramatically as shown in the following graph:

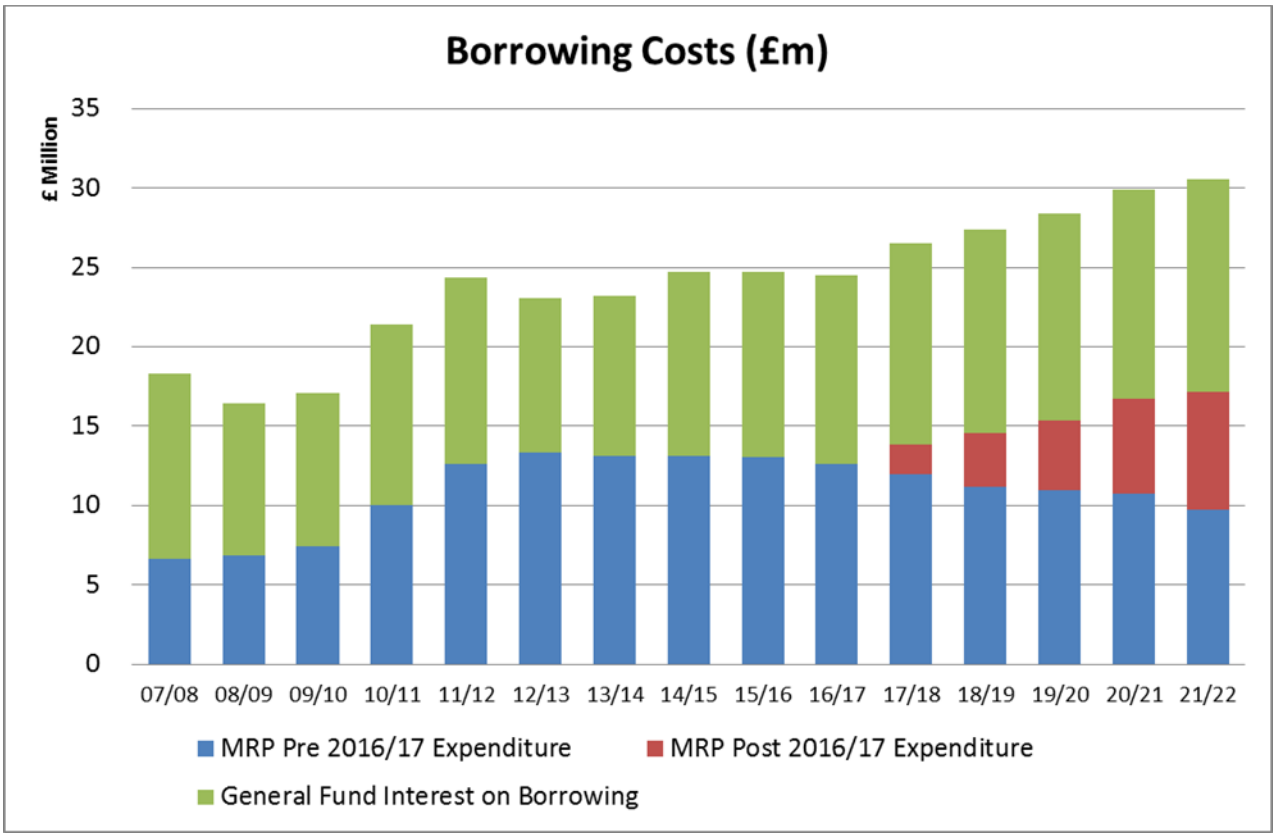


9.5 In 2015/16, the Council spent £54m on capital projects, of which £36m related to the General Fund and the remaining £18m was spent on improving the Council's housing stock. Capital investment in 2015/16 included projects aimed at encouraging economic growth and housing growth within Gateshead in addition to investment in low carbon energy infrastructure such as the District Energy Network and investment in the Council's schools, technology and highway network.

9.6 The planned capital investment from 2016/17 onwards continues to be set at a reduced level, given the limitations and pressures on the available capital and revenue resources. The approved five year Capital Programme for the period 2016/17 to 2020/21 had estimated £155m of planned capital investment (excluding Housing) and it is envisaged that additional projects will emerge over the period as major projects, such as investment in Gateshead Quays, continue to progress towards the delivery phase. The assumptions within the MTFS therefore assume capital investment and funding sources for the medium term as follows:

15/16 (£m)	Planned Investment	16/17 (£m)	17/18 (£m)	18/19 (£m)	19/20 (£m)	20/21 (£m)	21/22 (£m)	Total (£m)
36.1	**General Fund Capital**	**57.0**	**46.8**	**33.3**	**23.3**	**24.5**	**28.5**	**213.4**
19.3	Assumed Borrowing	42.5	32.0	19.4	17.2	16.3	20.0	147.4
1.3	Capital Receipts	2.0	1.0	5.0	-	1.5	1.5	11.0
14.1	External Funding	12.5	13.8	8.9	6.1	6.7	7.0	55.0
1.4	Revenue Contributions	-	-	-	-	-	-	-
36.1	**Assumed Funding**	**57.0**	**46.8**	**33.3**	**23.3**	**24.5**	**28.5**	**213.4**

9.7 Supporting capital investment resulted in revenue costs for the Council of almost £25m in 2015/16, excluding PFI projects. The graph below highlights the revenue cost to the Council of supporting both historic and planned capital expenditure:



Funding Capital Investment

9.8 The Council's capital finance plans must operate in accordance with the Prudential Framework. This framework has operated since April 2004 and allows the Council the freedom and flexibility to determine its own plans for capital investment as long as assurance can be provided that investment plans are prudent, affordable and sustainable.

9.9 The Council cannot use any capital resources to fund revenue expenditure, but revenue resources can be used to fund capital costs.

9.10 If expenditure meets the definition of capital then there are opportunities to finance the investment immediately when it is incurred using:

- Capital receipts generated by disposing of existing assets;
- External funding, grants or contributions from other parties; and
- Direct contributions from available revenue balances.

9.11 If these resources are not available to support capital investment, then the Prudential Framework allows the Council to borrow to fund capital expenditure. The Council's underlying need to borrow is measured by the Capital Financing Requirement (CFR) and the Council must set aside resources to repay the borrowing over future financial years, known as the Minimum Revenue Provision (MRP).

9.12 The Council aligns the repayment of debt to the useful life of the asset to which it relates and the Strategic Director, Corporate Resources will provide a statement to confirm the Council's MRP policy as part of the budget setting process.

9.13 The creation of an Accelerated Development Zone enables the Council to undertake prudential borrowing to fund capital investment in designated areas on Gateshead Quays and Baltic Business Quarter which can be supported by the retention of 100% of future business rate growth generated as a result of the initial investment.

9.14 Since the introduction of the Prudential Framework, the Council has been required to borrow to fund an increasing proportion of the capital programme over the last 10 years. This is primarily as a result of the significant reductions in the availability of both external funding and capital receipts to support capital investment and means that there is an increasing impact on the Council's revenue resources associated with supporting both historic and planned capital investment.

9.15 The Council continues to explore external funding possibilities when developing capital projects to minimise the borrowing requirement as far as possible. Within the MTFS, assumptions have been made around the level of external funding in the future but detailed work programmes will not be committed to until the allocations have been confirmed. Projects and investment plans may therefore be re-prioritised depending on the availability of external funding.

9.16 The availability of capital receipts has also reduced in recent years as a result of the property market. The Council has identified a programme of potential asset disposals and the progress is reviewed by the Council's Land Development Group throughout the year. If additional capital receipts are generated during the year this provides the Council with the flexibility to consider the introduction of additional projects to the capital programme or the ability to reduce the borrowing requirement.

9.17 In general, capital receipts from the sale of assets are treated corporately to allow the Council to target resources towards the highest priority projects, although there may be circumstances where a capital receipt must be used to fund a specific scheme.

9.18 Following the adoption of the Council's Core Strategy and Urban Core Plan, the Council is likely to secure additional capital receipts for sites as developments come forward. The Council is also likely to secure contributions from developers (including the potential introduction of Community Infrastructure Levy) to help fund the provision of strategic infrastructure that is necessary to support future developments and growth which may be used to support future capital investment, either as an addition to the capital programme or to displace the use of planned borrowing helping to reduce the revenue cost of supporting the capital programme.

Capital Investment Pressures

9.19 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:

- Meeting essential health and safety and mandatory obligations, such as Equality Act improvements, to improve the accessibility and sustainability of Council owned assets;
- 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 Centre 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 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, including the development of a Town Centre District Energy network to provide lower cost, lower carbon energy to support regeneration and economic development, generate income and provide long term resilience against rising energy prices;
- Working with our private sector partner, Evolution Gateshead, to provide good quality, energy efficient homes to ensure that our neighbourhoods are sustainable; and
- Rationalising the Council's property portfolio to ensure that the Council operates an efficient and sustainable estate which is aligned to service delivery models, disposing of surplus properties to generate additional capital receipts.

10. Housing Revenue Account (HRA)

10.1 In order to facilitate decision making and plan strategically for Housing in the future the Council continually updates its 30 year HRA Business plan. This plan considers the long term future of the housing stock alongside the short term plans. The plan contains information on estimates regarding the level of capital investment (including estate regeneration and maintaining decency), the anticipated levels of voids and right to buy sales and also the assumed level of income from rents and service charges. It also includes a provision for the Gateshead Housing Company's management fee and plans around borrowing and repaying debt in the future. The HRA has £100m worth of loans maturing in the next five years.

10.2 Although it is projected that the HRA reserve will stand at £18.188m as at the end of March 2017 the impact of welfare reform, the required sale of high value properties and other pressures arising from Government guidance the Housing Capital Programme will deplete this reserve in coming years. To protect the Council in a self-financing regime a minimum balance for the HRA of £3m was approved by Council in February 2012. The current assumptions and projections in the 30 year HRA business plan are that this minimum balance will be reached by 2019/20 and the HRA will no longer have reserves to the level held currently.

10.3 Housing Revenue Account (HRA) expenditure for 2015/16 amounted to £78.783m with income of £83.006m, resulting in an increase to the reserve of £4.223m. The underspend achieved was mainly in relation to slippage in the Capital Programme and contingencies not being required.

10.4 As a result of the Government policy to reduce rents the capital programme has been reduced in the coming years. The proposed allocation of resources from the HRA to support a Capital Programme for the next five years (2016/17 to 2021/22) totalling £98.4m over five years, will be kept under regular review by Cabinet.

11. Reserves

11.1 The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. In establishing reserves, the Council must comply with the Code of Practice on Local Authority Accounting in the United Kingdom. The Strategic Director, Corporate Resources is required, as part of the budget setting process, to provide a statement on the adequacy of reserves.

11.2 Reserve management is used to help absorb any specific unforeseen expenditure, e.g. for the impact of a large insurance claim, alongside maintaining reserves at a prudent and adequate level over a period of time. Much like using savings to offset monthly household bills the use of financial reserves cannot solve a budget problem outright but allows for smoothing of impacts or allows the Council to ride any short term situations before returning to normal. Thus reserves are mainly used to;

- Soften the impact of cuts over a longer period of time
- Invest in schemes that allow services to be delivered cheaper
- Take “one-off hits” for the Council as a whole without the need to further reduce service budgets (e.g. changes to national insurance contributions or local tax regimes)
- Provide capacity to absorb any non-achievement of planned budget reductions in a given year
- To temporarily roll over unused portions of grants that can legally be used at a later date
- To insure against major unexpected events (such as flooding)
- To guard against general risk (i.e. saving up for unexpected events)
- To guard against emergent specific risks, such as business rate appeals, council tax support funding cuts and welfare reform. These risks are predicted to continue increasing.

Reserves Policy

11.3 The Council’s policy on reserves is outlined within the MTFS principles 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 2015/16

11.4 The Council undertakes a review of all strategic reserves in line with the CIPFA guidance on Reserves and Balances (LAAP Bulletin No 99 July 2014 which recommends at least annually) and the requirements of the Code of Practice on Local Authority Accounting. The review process covers each individual strategic reserve and identifies:-

- 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.

11.5 Following the 2015/16 Revenue Outturn, at 31 March 2016, the Council's usable revenue reserves are £60.043m. Of this sum, £25.232m is held in earmarked reserves and £16.341m Council General Reserve. The remaining balance of £18.470m is ring-fenced and cannot be used to support the revenue budget and Council Tax requirement.

11.6 A review of reserves was undertaken as part of the 2015/16 Revenue Outturn, reported to Cabinet on 14 June 2016, with the underspend position contributing to an increase in the Council's general fund reserve. The movement on reserves supporting the revenue outturn are summarised as follows:-

Gateshead Reserves	Opening Balance April 2015 £000s	Revenue Outturn 2015/16 £000s	Closing Balance March 2016 £000s
General Fund			
General Reserve	(15,570)	(771)	(16,341)
LMS Budget Share Reserve*	(7,816)	770	(7,046)
Total General Fund Reserve	**(23,386)**	**(1)**	**(23,387)**
Earmarked Fund Reserves			
Strategic Reserves			
Business Rates	(5,000)	0	(5,000)
Insurance	(3,000)	0	(3,000)
Grant Clawback	(1,314)	0	(1,314)
Gateshead Development Pool	(6,009)	0	(6,009)
Economic Growth Reserve	(3,644)	188	(3,456)
Discretionary Social Fund Reserv	(1,167)	210	(957)
Strategic Change Reserve	(2,500)	0	(2,500)
Budget Flexibility Reserve	(1,883)	(1,113)	(2,996)
Ring Fenced Reserves			
Developers' Contributions*	(2,295)	259	(2,036)
DSG Reserve*	(2,828)	(529)	(3,357)
Unapplied Revenue Grants*	(3,667)	(592)	(4,259)
Public Health Reserve*	(2,035)	263	(1,772)
Total Earmarked Fund Reserves	**(35,342)**	**(1,314)**	**(36,656)**
Total Reserves	**(58,728)**	**(1,315)**	**(60,043)**
Total Ring fenced*	(18,641)	171	(18,470)
No Ring-fence	(40,087)	(1,486)	(41,573)
	(58,728)	**(1,315)**	**(60,043)**

 # Figures are Subject to External Audit

** Ring Fenced reserves are not available to support the Revenue Budget and Council Tax Requirement*

11.7 An explanation of each reserve is shown below;

General Reserve (£16.341 m at 31 March 2016)

The General Reserve acts as a contingency and allows the Council to meet any unforeseen expenditure. It has been assessed at a minimum of 3% of the net revenue budget in line with the Council's reserves policy and MTFS principles and this currently equates to a minimum of £6 million. The balance on this reserve has increased by £0.771m due to the positive revenue outturn position in 2015/16. The 2016/17 budget earmarked £3.971m against this reserve to support the delivery of the savings proposals.

Strategic Earmarked Reserves;

Business Rates (£5.0m at 31 March 2016)

This reserve has been created to mitigate the risk of current and future business rate valuation appeals and other risks associated with the business rates retention scheme. This area of risk was previously explicitly covered by the General Reserve. It is proposed that £5.0m is still the appropriate level for the Business Rates Reserve to prevent a major impact on the revenue budget in any year, however due to the volatility in the move to 100% rate retention this will need to be kept under constant review and may need to increase.

Insurance (£3.0m at 31 March 2016)

The reserve is to allow for possible claims against the Council which are not covered by external policies and to cover insured liability claims falling within the claims excess and policy stop loss. The reserve is based on an assessment of both insured and uninsured liabilities and claims potentially falling on the Council. It is proposed that £3.0m is still the appropriate level for the Insurance Reserve to prevent a major impact on the revenue budget in any year.

Grant Claw-back (£1.314m at 31 March 2016)

The reserve is for grant received which may need to be repaid. The reserve exists to mitigate the risk of potential claw-back of funding following European Audit of ERDF grant claims. Following a full review of projects this level is still considered prudent until programme closure.

Gateshead Development Pool (£6.009m at 31 March 2016)

This reserve has been used to support the redundancy scheme in previous years and further support to workforce management may be required in the future.

Economic Growth (£3.456m at 31 March 2016)

One of the key objectives of Vision 2030 and the Council Plan is to stimulate the local economy. Use of this reserve will enable the Council to support emerging opportunities to accelerate development and incentivise economic growth on a business case basis within the framework of the Gateshead Economic Growth Acceleration Plan 2013-18.

Discretionary Social Fund (£0.957m at 31 March 2016)

The Discretionary Social Fund was not fully utilised during 2014/15 and this was appropriated into this reserve to support the most vulnerable in society over the period of the MTFS, as the government confirmed that specific funding for this initiative would cease from 2015/16. Funding from this reserve will be drawn down to support in year social fund activities.

Strategic Change (£2.500m at 31 March 2016)

This reserve was created in 2014/15 to support the delivery of the refreshed Council Plan over the period to 2020. This will support initiatives linked to the priorities within the plan and provide flexibility around interventions in support of outcomes, including investment in technology to deliver new ways of working.

Budget Flexibility (£2.996m at 31 March 2016)

This reserve was created in 2014/15 to allow flexibility to carry-forward appropriate under spend balances for reinvestment normally the following year. A total of £0.576m was transferred from this reserve to match expenditure incurred in 2015/16 with £1.689m appropriated into the reserve for use from 2016/17.

Ringfenced;

Schools LMS (£7.046m at 31 March 2016)

Combined with the General Reserve, this reserve forms the General Fund but use of this reserve is ring-fenced to schools and there is a duty to report planned use to the Schools Forum. The reserve is made up of individual balances relating to each maintained school.

Developer Contributions (£2.036m at 31 March 2016)

This reserve, which is ring-fenced and not available to support the budget, 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 areas of new housing.

Dedicated Schools Grant (£3.357m at 31 March 2016)

This reserve is ring-fenced for schools use and cannot be used for other priorities within the Council. Use of this reserve will be agreed by Schools Forum.

Unapplied Revenue Grants / Receipts (£4.259m at 31 March 2016)

This reserve was created as a result of changes to the Accounting Code of Practice whereby unused grants and contributions, without conditions attached, should be appropriated to reserves to fund future expenditure rather than creating creditors on the Balance Sheet

Public Health (£1.772m at 31 March 2016)

The responsibility for Public Health transferred to local authorities on the 1 April 2013. The funding is ring-fenced for future Public Health use. The 2016/17 budget has earmarked £0.849m against this reserve to support the delivery of the savings proposals within Public Health.

Reserves Summary 2016/17 to 2020/21

11.8 The following table illustrates the estimated use of all revenue reserves over the period to March 2021;

Gateshead Reserves	Closing Balance March 2016 £000s	Estimated Use 2016/17 £000s	Estimated Use 2017/18 £000s	Estimated Use 2018/19 £000s	Estimated Use 2019/20 £000s	Estimated Use 2020/21 £000s	Estimated Use 2021/22 £000s	Estimated Balance As at March £000s
General Fund								
General Reserve	(16,341)	3,971	3,000	3,000				(6,370)
LMS Budget Share Reserve*	(7,046)	750	750	750	750	750	750	(2,546)
Total General Fund Reserve	**(23,387)**	**4,721**	**3,750**	**3,750**	**750**	**750**	**750**	**(8,916)**
Earmarked Fund Reserves								
Strategic Reserves								
Business Rates	(5,000)	1,000	1,000	1,000	1,000	1,000		0
Insurance	(3,000)							(3,000)
Grant Clawback	(1,314)							(1,314)
Gateshead Development Pool	(6,009)	1,000	2,000	3,009				0
Economic Growth Reserve	(3,456)	1,100	1,100	1,256				0
Discretionary Social Fund Reserve	(957)	250	250	250	207			0
Strategic Change Reserve	(2,500)	1,600	900					0
Budget Flexibility Reserve	(2,996)	2,563	433					0
Ring Fenced Reserves								
Developers' Contributions*	(2,036)	446	446	351	100	100	100	(493)
DSG Reserve*	(3,357)	0	250	250	250	250	250	(2,107)
Unapplied Revenue Grants*	(4,259)	1,199	761	536	812	226	226	(498)
Public Health Reserve*	(1,772)	849	923					0
Total Earmarked Fund Reserves	**(36,656)**	**10,008**	**8,063**	**6,652**	**2,369**	**1,576**	**576**	**(7,411)**
Total Reserves	**(60,043)**	**14,729**	**11,813**	**10,402**	**3,119**	**2,326**	**1,326**	**(16,327)**
Total Ring fenced*	(18,470)	3,244	3,130	1,887	1,912	1,326	1,326	(5,644)
No Ring-fence	(41,573)	11,484	8,683	8,515	1,207	1,000	0	(10,684)
	(60,043)	**14,729**	**11,813**	**10,402**	**3,119**	**2,326**	**1,326**	**(16,327)**

 # Subject to External Audit
** Ring Fenced reserves are not available to support the Revenue Budget and Council Tax Requirement*

11.9 Forecasts show that the Council will likely reach minimum balance on the general reserve during the period of the MTFS and Council may need to consider replenishment.

11.10 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.

11.11 In line with LAAP 99 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 prudent to finance recurrent expenditure in this way. Where this approach is adopted the Council will be explicit as to how such expenditure will be funded in the medium to long term. This approach was clearly stated when setting the 2016/17 base budget when £3.971m of general reserves were earmarked to allow additional time for agreed savings to be delivered. 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.

12. Indicative Budget Forecasts 2017/18 to 2021/2022

12.1 Indicative budget forecast models for the period 2017/18 to 2021/22 have been produced to reflect the issues identified as part of the review of the MTFS.

2016/17 £m	Indicative Budget Forecasts	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
217.679	Estimated Base Budget	210.009	220.410	231.317	246.771	258.903
(198.883)	Estimated Funding	(187.863)	(162.418)	(159.463)	(166.575)	(166.575)
18.796	Cumulative Funding Gap	22.146	57.991	71.854	80.196	92.328
18.796	**Annual Funding Gap**	**22.146**	**35.845**	**13.863**	**8.342**	**12.132**

2016/17 £m	Indicative Budget Forecasts	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
207.387	**Net Revenue Budget**	**198.883**	**210.009**	**220.410**	**231.317**	**246.771**
	Cost Pressures:					
1.592	Base Adjustments	0.000	0.000	0.000	0.000	0.000
1.360	Inflation (General)	0.900	0.950	0.900	0.900	0.850
0.337	Inflation (Contractural Social Care Fees)	1.350	1.350	1.350	1.350	1.350
5.030	Corporate (inc pay)	4.617	4.484	5.552	8.319	5.237
1.973	Demand (Social Care)	2.250	2.250	2.250	2.500	2.600
0.000	Demand (Other)	0.500	0.500	0.500	0.500	0.500
0.000	Strategic Investment (Capital)	1.509	0.866	0.356	1.885	1.595
217.679	**Total Cost Pressures**	**210.009**	**220.410**	**231.317**	**246.771**	**258.903**
	Funding:					
(37.258)	SFA - Revenue Support Grant	(27.783)	(21.423)	(15.012)	0.000	0.000
(44.218)	SFA - Retained Business Rates	(44.218)	(44.218)	(44.218)	(89.338)	(89.338)
(9.951)	SFA -Top Up Grant	(10.147)	(10.446)	(10.780)	0.000	0.000
(77.236)	Council Tax	(77.236)	(77.236)	(77.236)	(77.236)	(77.236)
(30.209)	Other Grants (inc Public Health)	(28.479)	(9.094)	(12.217)	0.000	0.000
(0.011)	Collection Fund	0.000	0.000	0.000	0.000	0.000
0.000	Reserves	0.000	0.000	0.000	0.000	0.000
(198.883)	**Total Funding**	**(187.863)**	**(162.418)**	**(159.463)**	**(166.575)**	**(166.575)**
18.796	**Cumulative Funding Gap**	**22.146**	**57.991**	**71.854**	**80.196**	**92.328**
18.796	**Annual Funding Gap**	**22.146**	**35.845**	**13.863**	**8.342**	**12.132**

12.2 The indicative budget forecast shows an estimated funding gap of around £92.3m for the five-year period 2017/18 to 2021/22.

12.3 There are a number of key risks associated with the assumptions in this report including delivery of economic growth to generate additional retained business rates, significant uncertainty in relation to funding reductions, the potential wider implications of the Government's welfare reform agenda and uncertainty in relation to the Better Care Fund and the financial implications of the Social Care Act and Devolution. The forecasts and assumptions will be refreshed following the Autumn Statement and the Local Government funding settlement in December 2016.

13. Options to Close our Financial Gap

13.1 The indicative budget forecasts outlined in Section 12 show that all funding options will need to be considered to deliver a balanced budget.

13.2 Funding options include:-

- Budget savings – savings removed from the base expenditure budget
- Retained business rates from economic growth – increased income from retained business rates in the borough
- Realignment of spending priorities with the Council Plan 2015-20 - reassesses the current base budget and the priorities for spending to ensure all resources are focused in delivery of the Council Plan 2015-20.
- Capacity building within communities - seek to mitigate demand pressures within services by capacity building within communities including, where appropriate, work with partners and volunteers.
- Additional external funding grant income - Specific general and one-off funding will continue to be sought in line with the principles of the MTFS although the climate for generation of external funding is more challenging than has been the case in previous years.
- Additional income – additional income will be sought from a full review of fees and charges as part of the annual work programme and consideration of potential trading opportunities via the Change Programme Workstream
- Council tax increases – over and above assumed increases but subject to increases in referendum thresholds set by central government
- Use of reserves - At this stage the MTFS funding gap assumes no contribution from reserves to set the budget. Use of reserves is finite and priority should be given to invest to save initiatives to promote economic growth and increase the level of retained business rates

14. Efficiency Plans

14.1 The Council continues to look at opportunities to improve efficiency and reduce costs associated with service delivery so that any impact on our ability to ensure delivery of frontline services is limited. Last year we made efficiency and effectiveness savings of approximately £8.7m, achieved by reducing the Council's property portfolio, reductions in senior management posts, implementing service reviews, deleting vacant posts from the Council's employee establishment, as well as reducing the cost of supplies and services. Through our Change Programme we are maximising the contribution that employees make to the Council, primarily through the implementation of the Workforce Strategy and reviewing how we manage and use buildings, to ensure maximum efficiency and effectiveness.

14.2 We have acknowledged in the Council Plan 2015-2020 that in order to deliver on the shared outcomes, one of the key policy directions we need to do as an organisation, is to work differently. This plan focuses on what we believe we need to do as a Council if we are to achieve our collective ambitions. It sets out some clear policy directions, which will help the Council, make choices about where limited resources should be focussed and what our changing roles and responsibilities will mean for our residents, our employees, our buildings, and our relationship with partners.

14.3 The Council has also been able to reduce the number of buildings from which it operates, and continues to progress a programme of rationalisation of its portfolio through its Corporate Asset Management Strategy & Plan 2015-20, enabling revenue savings. During 2014/15 a further 23 buildings were declared surplus to requirements. This builds on the 159 properties which were removed from the portfolio between October 2010 and March 2015 generating some £2m of savings. Rationalisation of the portfolio continues to be a priority and throughout 2015/2016 further opportunities for consolidation and rationalisation of the portfolio have been progressed as a result of which the Council has been able to declare a number of additional buildings surplus to requirements and so now operates out of 243 buildings for the purpose of service delivery, of which five are leased from private providers.

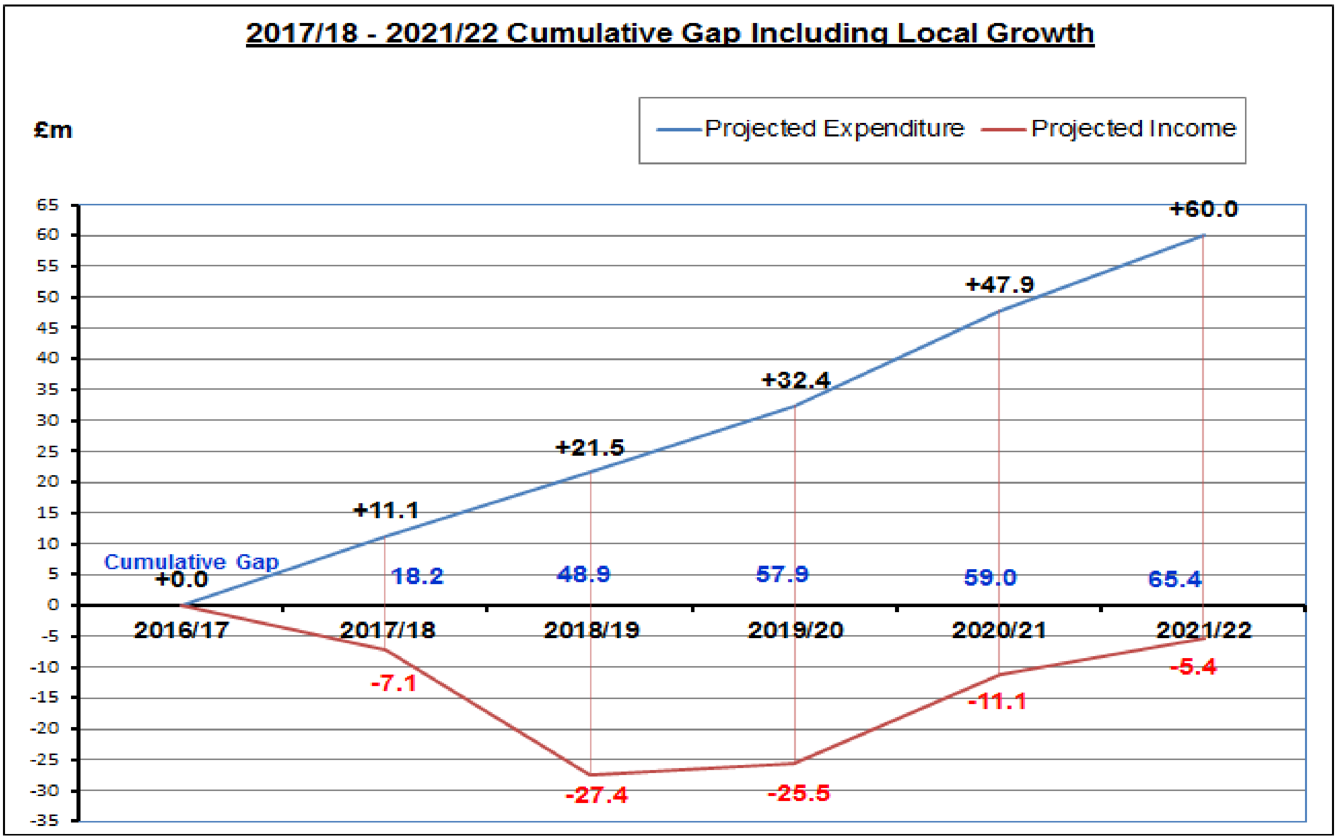
14.4 The Department for Communities and Local Government (DCLG) wrote to each Council in March setting out the details of the multi-year settlement offer and the process for acceptance. Efficiency plans must show the further saving opportunities created by the greater certainty of a 4-year budget. Councils have until Friday 14 October 2016 to respond to the offer and it is intended that the Council accept the Government's offer.

14.5 The four year settlement will allow for more informed financial planning and budget savings will be identified in line with Council Plan outcomes, the vast majority of which will form part of the Council's change programme and will be subject to detailed local consultation as part of the annual budget process.

14.6 The settlement figures alongside internal modelling of indicative projections of council tax and business rate funding has formed the basis of three year service efficiency plans up to 2019. Internal modelling shows that if local growth is achieved this can potentially reduce the cumulative gap from £92.3 to £65.4m.

14.7 Indicative revised funding levels including local growth projections are shown below;

Indicative Budget Forecasts	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Cumulative Funding Gap	**22.146**	**57.991**	**71.854**	**80.196**	**92.328**
Annual Funding Gap	**22.146**	**35.845**	**13.863**	**8.342**	**12.132**
Local Growth Funding Options					
Business Rates NET Growth Cumulative	(0.104)	(0.789)	(1.106)	(3.658)	(4.356)
Council Tax Base Growth Cumulative	(0.687)	(1.894)	(3.012)	(4.093)	(5.211)
Council Tax Increase (est 3.99%) cumulative	(3.109)	(6.390)	(9.847)	(13.485)	(17.313)
Cumulative Funding Gap (After Growth)	**18.246**	**48.918**	**57.889**	**58.960**	**65.448**
Annual Funding Gap (After Growth)	**18.246**	**30.672**	**8.971**	**1.071**	**6.488**



14.8 Indicative future budgets link to planned achievement of local growth of rates, council tax and trading activities. A three year approach to 2019/20 has allowed for improved financial strategies linked closely to the outcomes of the Council plan and resilient reserve management.

14.9 Our proactive financial planning will allow us to continue to work closely in collaboration and partnership with our neighbouring authorities and across public sector partners. In particular work continues to be progressed towards greater alignment and integration of health and social care to meet our aspirations for the health and wellbeing of local people, working with health partners e.g. through work to progress new models of care for our local health and care economy and through initiatives such as our Better Care Fund Plan for Gateshead which will see the transition of its core schemes to new models of care. More broadly, the Council has and will continue to work with health partners to develop and implement a Sustainability and Transformation Plan for Northumberland and Tyne & Wear, which will also have a specific focus on the Newcastle Gateshead local health economy.

14.10 The Council already has a number of these arrangements in place such as;

- **Gateshead Trading Company a** wholly owned subsidiary of Gateshead Council limited by shares. 2010 was the first active year of trading.
- **Gateshead Regeneration Partnership** - a joint venture commenced 2012 with Galliford Try, Home Group and the Council. To build 2,400 homes across 19 sites in Gateshead over 15 – 20 years.
- **ALMO – Gateshead Housing Company** established in 2004, is responsible for nearly 20,000 homes, with a management agreement in place with Gateshead Council until 2020.
- **Gateshead Quays** – a collaborative partnership with Patrizia UK and Ask Real Estate (appointed2015).
- **PFI - South Tyne & Wear Waste Management Partnership** established in 2007 between Gateshead, Sunderland and South Tyneside Councils. Service commenced 2014 and will run to March 2039.
- **PFI – Pinnacle Schools Gateshead Limited (PSG)** to design, build, finance and operate seven new schools in 2007 and 2008. PSG will manage and maintain these until 2033.
- **Energy Services Company (ESCO)** agreed 2015. Since 2011, the Council, with support from WSP/Parsons Brinckerhoff, has been developing a district energy network. Construction of the energy centre began in 2015.
- **Various joint commissioning arrangements** are in place across public health, children and adults services.
- **Collaboration partnerships with other LAs** e.g. Scape System Build Ltd (2006) – acts as a contracting authority and central purchasing body, joint arrangements regarding traffic lighting in Tyne and Wear, River Tyne Debris Clearance Service, Tyne and Wear Archives & Museums, Tyne and Wear Specialist Conservation Team.
- **Collaborative partnership with public service organisations** – North East Public Service Academy and Northumbria University Trinity Square Accommodation
- **Community Asset Transfer** - 20 community centres, 3 leisure facilities and 5 volunteer community libraries are operating under Asset Transfer

15. Consultation

15.1 The Council will continue to strive to deliver efficient services that provide value for money. Budget proposals will be prepared following budget guidance and these will be made available for public consultation.

15.2 The Council's budget planning framework is supported by the development of Equality Impact Assessments (EIAs) for the budget proposals, identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010. The EIAs will also identify potential mitigation where applicable. Specific consultations will also be launched throughout the year and are made available via the Councils website.

15.3 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. EIAs help the Council to arrive at informed decisions and to make the best judgements about how to target resources.

16. Risk Assessment

16.1 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 less than assumed.	Possible	High	Annual review of reserves and reserves policy to identify future resources. Assumptions on funding for 2016/17 and beyond are based on national policy context outlined in various government documents. 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 given uncertainty around impact of appeals	Likely	Medium	Volatility of funding stream outside of Council control but impact mitigated by establishment of specific earmarked reserve and financial monitoring framework. Modelling of potential impacts is used to inform financial planning.
3. Public Health funding not sufficient to meet responsibilities	Possible	Medium	Funding confirmed for 2016/17 and indicative 2017/18 Lack of certainty of continuation of grant going forward is a significant risk.
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.
5. Future spending plans underestimated	Possible	Medium	Service planning process identifies future budget pressures and these have informed the indicative Budget Forecasts. Effective Budget Monitoring Framework is in place.
6. Anticipated savings/ efficiencies not achieved	Possible	High	Regular monitoring and reporting takes place but the size of the funding cuts increase the likelihood of this risk. Non achievement of savings would require compensating reductions in planned spending within services. MTFS principle to maintain General Reserve at 3% of net revenue budget to cover unforeseen events. Recent track record of delivery provides some assurance.

Risk	Likelihood	Impact	Risk Management
7. Revenue implications of capital programmes 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 scenario planning. Reduced Capital Programme reduces this risk.
8. Income targets not achieved	Possible	Medium	Current economic climate likely to impact. Regular monitoring and reporting. Full review of fees and charges is undertaken on an annual basis linked to Change Programme.
9. Budget monitoring not effective	Unlikely	High	Regular monitoring and reporting in line with corporate framework. Action plans developed to address problem areas. Regular reports to Strategy Group and Cabinet. Track record of delivering budget.
10. Exit strategies for external funding leasing/tapering not met	Possible	Medium	Regular monitoring and reporting. Government policy to remove ring fencing provides greater flexibility.
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 backed by Government guarantees and internal funding.
12. Interest rates lower than expected	Unlikely	Low	Regular review, monitoring and reporting on interest rates. Prudent assumptions on likely interest rates for 2017/18 and onwards have been incorporated into the MTFS.
13. 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 including pump priming from reserves. Monitoring of Collection Fund is formally incorporated into the revenue monitoring process.
14. Changes to Government policy including Health and Social Care integration and Welfare Reform	Likely	High	Best estimates of impact of Government policy on funding factored into MTFS. Estimates are prudent and based on recent experience. Specific areas of uncertainty identified and subject to focussed actively, close monitoring and review. Risks of Better Care Fund are managed through the joint Council/CCG Better Care Fund Programme Board. The impacts of welfare reform continue to be planned for and monitored through the Council Scrutiny Framework.

Risk	Likelihood	Impact	Risk Management
15. Lack of funding and influence through Government Devolution reforms.	Possible	High	Additional responsibilities arising from any new arrangements will constantly be assessed and the Council holds in year contingency as well as a general fund reserve to meet any unforeseen costs
16. 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.
17.Financial budget impacts of UK's vote to leave the European Union	Likely	Medium /High	Continue to work collaboratively with treasury advisors to assess potential budget impacts whilst the Government attempts to ensure a smooth transition to a new economic relationship between the U.K. and the EU, including clarifying the procedures and broad objectives that will guide the process.

17. Conclusion

17.1 The review of the MTFS has again been undertaken against a background of significant reductions and changes in grant funding and increasing costs due to service pressures. These factors could jeopardise the Council's sustainable financial position unless budget savings continue to be delivered alongside the delivery of the Council's corporate priorities.

17.2 The MTFS covers five years commencing after the final year of the Government's current spending review period. Funding beyond 2016/17 remains uncertain although all indications are that austerity measures are likely to continue throughout the medium term.

17.3 The MTFS identifies a potential funding gap of £92.3m in the years from 2017/18 to 2021/22. This funding gap comes on top of budget savings of £130m that have already been taken from budgets by this Council since 2010.

17.4 The MTFS supports the requirement to continue a rolling programme of internal indicative budget setting and efficiency plans to bridge an estimated £71.8m funding gap covering 2017/18 and 2019/20.

17.5 Although the financial context continues to be increasingly challenging and uncertain the Council has a track record of identifying and delivering significant savings and achieving budget outturn under agreed budget, supported by a framework of effective financial planning. This approach will need to continue to ensure that a sustainable medium-term financial position can be maintained. The approach will need to be built upon the delivery of significant changes in service delivery arising from effective decision making at the appropriate pace.

17.6 The Council will continue to keep the MTFS under review given the high degree of uncertainty surrounding the potential impact on Government policy and Government funding decisions in relation to Local Government arising from the European referendum result.

Further Information

Web links:

Gateshead Council:	www.gateshead.gov.uk
Council Finance:	http://www.gateshead.gov.uk/Council Finance
Annual Statement of Accounts:	http://www.gateshead.gov.uk/Council finance statement
Council Plan 2015-2020	http://www.gateshead.gov.uk/Council plan