

GATESHEAD COUNCIL

MEDIUM TERM FINANCIAL STRATEGY

2012/13 – 2014/15



CONTENTS

Page Nos.

1	Purpose of the MTFS	3
2	Benefits of the MTFS	3
3	Principles of the MTFS	4
4	Policy Context	6
5	Current Financial Context	8
6	Council's Current Financial Position	11
7	Medium Term Budget Pressures	12
8	Fees and Charges	20
9	Capital and Prudential Borrowing	21
10	Reserves	21
11	Funding	26
12	Budget Guidance	26
13	Indicative Budget Forecasts 2012/13 – 2014/15	28
14	Funding Options	29
15	Consultation and Equalities Impact	31
16	Risk Assessment	32
17	Conclusion	34

1 Purpose of the Medium Term Financial Strategy (MTFS)

- 1.1 The MTFS is a key part of the Council's Budget and Policy Framework which aims to ensure that all revenue resources are directed towards delivery of the Council's Corporate Plan and Vision 2030. The Strategy describes the financial direction of the Council for planning purposes and outlines the financial pressures over a 3 year period but is reviewed annually to reflect the dynamic nature of local government funding.
- 1.2 The MTFS establishes how available resources will be allocated to services in line with Council priorities following extensive consultation with councillors, residents and other stakeholders.
- 1.3 The review of the MTFS builds on the existing strategy and updates assumptions to reflect known funding and the 2011/12 projected revenue outturn. Detailed funding at a local level beyond 2012/13 is uncertain and is further complicated by the current review of local government funding based around the retention of business rates to fund services which is due to be implemented in 2013/14. Funding assumptions beyond 2012/13 are currently based on allocations at a national level announced as part of the Government's spending review in October 2010.
- 1.4 This review also takes financial planning to the end of the current four year government spending review in 2014/15.

2 Benefits of the MTFS

- 2.1 The MTFS assists in:-
 - Meeting the priorities of the Corporate Plan and delivering Vision 2030.
 - Improving financial planning and the 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.
 - Allowing the development of longer term budgets and strategic thinking.
 - Aligning financial resources to the Council's spending priorities.
 - 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.

3 Principles of the MTFS

3.1 The principles underlying the MTFS 2012/13 to 2014/15 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 six Big Ideas:-
 - City of Gateshead
 - Gateshead Goes Global
 - Gateshead Volunteers
 - Creative Gateshead
 - Active and Healthy Gateshead
 - Sustainable Gateshead
- 2) The Council recognises that it will not be able to continue to resource current levels of service given the level and pace of grant funding cuts over the period of the current spending review and will ensure that budget savings are identified to minimise the impact on frontline core services.
- 3) 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.
- 4) The Council will maintain its general reserve at a minimum of 3% of its net 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.
- 5) The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFS and reviewed annually.
- 6) The Council will continue to improve its approach to efficiency, value for money and procurement to minimise the impact of budget savings.
- 7) The Council recognises the impact of increases in council tax levels in an area of relatively low income and low wealth (as measured by property values) and will balance the need for council tax increases against the delivery of Vision 2030.
- 8) The Council will apply the framework in the Fees and Charges Policy to ensure that fees and charges are set at an appropriate level in line with the delivery of Vision 2030 and take into account comparative levels of charge and ability to pay.

- 9) The Council will consider ways in which it can maximise its powers of well-being including the consideration of trading opportunities and new charges to maximise income to deliver priorities.
- 10) The Council will consider the use of prudential borrowing to support capital investment to deliver Vision 2030 and will ensure that an agreed revenue income stream is identified to meet the borrowing costs when investment decisions are taken.
- 11) The Council will continue to contribute to reviews of the local government finance system, both in its own right and as a member of lobbying groups, such as ANEC and SIGOMA.
- 12) The Council will ensure that specific school resources earmarked in the Dedicated Schools Grant are distributed in line with the formula for Local Management of Schools and this distribution is regularly reviewed by the Gateshead Schools Forum. The Pupil Premium will be distributed in line with government guidelines.
- 13) The Council's performance management framework will inform the review of the MTFs on an annual basis. The annual review will include an update of the three year budget forecast, expected developments in services and changes to legislation informed by business plans.
- 14) Opportunities for securing external funding to support Vision 2030 will be sought. The implications of the cessation or withdrawal of funding will also continue to be reviewed so that options can be considered on the future of funded schemes.
- 15) Opportunities for working in collaboration and partnership will be identified and developed where this will support the Council's priorities and improve service efficiency and delivery.
- 16) The Council will apply the Fit For Future programme principles when reaching decisions on the challenges faced by public spending cuts. The application of the principles will be tested and reviewed through the Commissioning framework.

4 Policy Context

Corporate Plans and Strategies

4.1 The hierarchy of corporate plans and strategies is shown below.



4.2 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. The 2010 refresh of Vision 2030 confirmed the key outcomes and priorities to 2013 for each of its six Big Ideas:-

- City of Gateshead
- Gateshead Goes Global
- Gateshead Volunteers
- Creative Gateshead
- Active and Healthy Gateshead
- Sustainable Gateshead

4.3 The Council's Corporate Plan articulates its contribution to achieving the aspirations set out in Vision 2030. Three priorities have been identified for the period to 2013:

- Deliver Vision 2030, focussing on economy, environment and health.
- Engage our communities.
- Corporate sustainability.

4.4 As the MTFS is central to the Council's capacity to deliver its priorities, it reflects:

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

- 4.5 On 1 November 2011, Cabinet approved a redesigned performance management framework which, along with the Fit For Future programme, will help to deliver the Council's priorities within Vision 2030 and the Corporate Plan.
- 4.6 The framework includes a stronger connection between strategic and operational performance management by establishing an integrated system linking Vision 2030, the Corporate Plan and service plans and identifying a clear distinction between the three linked factors of performance management; Strategic, Management Oversight and Operational.
- 4.7 The framework outlines a streamlined and more business like approach to service planning with new "Business Plans" focussing on service core offer (levels and standards), value for money (unit costs and quality assurance) and customer insight and market analysis.
- 4.8 Corporate strategies, which feed into the MTFS, include the Human Resources Strategy, Procurement Strategy, ICT Strategy, Capital Strategy, Children & Young People's Plan, Older Persons Strategy and Treasury Management Strategy. All of these strategies are linked to the MTFS through the updated performance management framework Business Plans.
- 4.9 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.

Fit For Future

- 4.10 In response to cuts in public funding the Council has developed a Fit For Future (FFF) programme to guide spending decisions and the shape of the Council in the future. The programme is based on principles which are consistent with the long term aims of Vision 2030, the Council's values, understanding of local needs, the commissioning framework and equality duties.
- 4.11 The principles which will be taken into account when the Council reaches decisions about the challenges being faced are:
- The needs of Gateshead residents and businesses as identified in the Strategic Needs Assessment. This will inform the Council's funding priorities.
 - The need to avoid disproportionate impact on vulnerable individuals and communities, tested through comprehensive impact assessments.
 - The long-term impact and sustainability of funding decisions.
 - The primacy of services to people, rather than a buildings-based approach.
 - The most cost-effective way of delivering services, including how we achieve added value for local people.
 - Opportunities to invest in building capacity in local communities and developing the market (e.g. voluntary sector) where this represents best value, supporting, wherever possible, local organisations.

- Opportunities to minimise the impact on frontline service delivery, by maximising the efficiency of back office activity.

5 Current Financial Context

Government Policy and Spending Review

- 5.1 The Spending Review published on 20 October last year and the two year local government finance settlement announced in January this year confirmed the unprecedented reductions in local government funding over the years 2011/12 to 2014/15, front loaded to the first two years.
- 5.2 The settlement included some significant changes to targeted grant funding streams, some of which were discontinued, merged or assimilated into the formula grant. The impact of these changes to targeted grants such as Working Neighbourhoods Fund was to remove funding from less well off areas such as Gateshead.
- 5.3 In addition to grant funding transfers, a number of new grants and funding streams were announced. These included a new council tax freeze grant to provide funding equivalent to raising an authority's council tax by 2.5% for 2011/12 and a Learning and Disabilities Health grant to reflect the transfer of responsibilities for social care from Primary Care Trusts (PCT's) to local authorities.
- 5.4 The Department of Health settlement also included an additional £648m in 2011/12 to support integrated working between health and social care. This has been allocated to PCT's through their formula grant and will be transferred directly to councils. Gateshead will receive £3.1m from the PCT in 2011/12 and £2.9m in 2012/13.
- 5.5 There is currently no indication that the Government will review its spending plans for 2012/13 onwards for local government in the light of the continued low economic growth.

Local Government Finance Settlement

- 5.6 The current settlement covers the two year period 2011/12 to 2012/13. The government plans to make changes to the local government finance system for 2013/14 and has begun a review of local government funding which includes a consultation on localisation of business rates which ended 24 October 2011. The potential impact of the proposed changes is covered in section 7.
- 5.7 The Council's formula grant for 2011/12 reduced by £13.724m, equivalent to 11.5% when compared to the 2010/11 adjusted grant. This was well above the national average of 9.9% despite the Council being within the top 15% of deprived authorities. The provisional formula grant for 2012/13 reduces by a further £8.036m or 7.6%. This outcome, on top of the ending of most targeted grants aimed at more deprived areas, is at odds with the Government's desired aim of fairness.

- 5.8 Due to the number of changes to grant funding, the settlement was complex and lacked transparency. To aid comparison, the government introduced the concept of "Revenue Spending Power" The aim of this calculation, which is an aggregate of council tax, formula grant, other specific grants and NHS funding, is to determine eligibility for Transition Grant. This is payable to councils who had a reduced spending power of more than 8.8% in 2011/12.
- 5.9 The Government has reported Gateshead's reduction in Revenue Spending Power for 2012/13 to be £7.793m, a reduction of 3.63%. This means that the Council is not eligible for transition grant.
- 5.10 In addition to grants included within Revenue Spending Power, changes to other grant streams mean that the Council's grant funding will reduce by £8.035m in 2012/13. This is on top of the £17.038m reduction in Revenue Spending Power in 2011/12. The actual reduction in grant, excluding schools, is summarised in the table below:

Actual Funding Reductions	2011-12 £000	2012-13 £000	Change £000
Council Tax Requirement	85.354	85.354	+0.000
Formula Grant	105.450	97.414	-8.036
Learning Disability and Health Reform Grant	8.347	8.545	+0.198
Early Intervention Grant	10.108	10.293	+0.185
Preventing Homelessness	0.160	0.160	+0.000
Council Tax Freeze Grant (2011/12 continuing)	2.137	2.137	+0.000
NHS funding	3.061	2.921	-0.140
Revenue Spending Power	214.617	206.824	-7.793
Housing and Council Tax Benefit Subsidy Admin Grant	2.005	1.855	-0.150
Lead Local Flood	0.116	0.138	+0.022
New Homes Bonus	0.068	0.068	+0.000
Community Safety Grant	0.230	0.116	-0.114
Other Grant Reductions	2.419	2.177	-0.242
Total Funding Reduction	217.036	209.001	-8.035

Excludes schools funding from Dedicated Schools Grant

- 5.11 The provisional 2012/13 settlement is expected by the end of November. The 2012/13 formula grant announced as part of the current two-year settlement may be subject to change in relation to academies funding.

Funding beyond 2012/13

- 5.12 The local government settlement confirmed in January 2011 was for the first two years of the spending review only.
- 5.13 No detailed figures have been released for 2013/14 and 2014/15 and assumptions in the MTFS are based on national indicators announced as

part of the spending review. This assumes formula grant reductions of 0.8% for 2013/14 and 5.37% for 2014/15.

- 5.14 In addition, the Government's proposals for changes to the allocation of local government funding announced as part of the review of local government resources alongside significant changes to health funding could have major implications for the Council and the MTFs. Further details are given in section 7.

Schools Funding System

- 5.15 The 2011/12 Local Government Finance Settlement transferred a number of specific grants into the Dedicated Schools Grant (DSG). It was a one year settlement with proposals for changes for future years funding distribution to be consulted on in the following twelve months. For 2011/12 the Council received approximately £130m DSG to allocate to schools. This is at a "flat cash" per pupil amount and means schools need to find efficiency savings (£1bn nationally) to fund their own cost pressures.
- 5.16 The DSG has 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.
- 5.17 There was also a new specific grant for 2011/12 called the Pupil Premium. For 2011/12 this was initially announced as £430 per pupil entitled to a free school meal and for Looked After Children who have been in care for more than six months. This has recently been adjusted to £488 per pupil, mid-year. This level of grant and methodology is for 2011/12 only. Future years distribution methods and funding levels are not yet known.
- 5.18 Surpluses for all schools in Gateshead are still relatively high. At 31 March 2011 these totalled £10.9m. The Council currently retains some limited clawback powers working with the Schools' Forum, but the government intends to remove these powers by 2012/13.
- 5.19 The 2011/12 DSG settlement was a one year settlement with proposals for changes for future years funding distribution to be consulted on from April 2011 to March 2012. There have been two rounds of consultation so far this year.
- 5.20 The proposal is for a national funding formula for schools, a simplification of the formula and the reduction in the number of allowable factors. Three and four year-old funding for the maintained, private, independent and voluntary sectors will remain outside of this as will the high cost pupil funding in respect of children with special educational needs.
- 5.21 The government have not yet finalised their proposals on changes to schools funding and therefore changes will not start to be implemented until 2013/14.

Economic Trends

- 5.22 There is uncertainty in the economy as to the impact that the Government's debt reduction policy will have on the economic recovery, with the growth forecasts for both 2011 and 2012 being reduced during 2011 increasing the threat of a double-dip recession.
- 5.23 The base rate has remained at 0.50% throughout 2011 and although inflation is expected to remain above the 2% target until 2012, it is not anticipated that the base rate will increase until the middle of 2012 at the earliest because of concerns about another recession.
- 5.24 Concerns over the slowdown of growth in the economy resulted in the Bank of England's Monetary Policy Committee announcing that they will commence a second round of quantitative easing in an attempt to stimulate growth.
- 5.25 The reduction in total public sector spending combined with the increased cost of borrowing due to the additional 1.00% charged on Public Works Loan Board (PWLB) borrowing will place more pressure on the Council's finances.
- 5.26 The Retail Price Index (RPI) for September 2011 was a 5.6% increase over the last twelve months. Over the same period, the Consumer Price Index (CPI) increased by 5.2%. Although it is expected that the CPI inflation measure will reduce before the end of 2011 it is likely to remain above 4%, placing additional pressures on the Council's finances.
- 5.27 The Chancellor has confirmed that the Office for Budget Responsibility (OBR) will make its economic and fiscal outlook on 29 November 2011 along with his Autumn statement.

6 Council's Current Financial Position

2010/11 Outturn Position

- 6.1 Although service spending in 2010/11 in some areas was above budget, the action taken during the year, along with additional income, meant that overall spending was contained within budget. This was a significant achievement given the financial pressures faced by all services and avoided the Council's sound financial position being undermined during a difficult period for public spending and the economy.
- 6.2 The Council's current reserves, as a result of the 2010/11 outturn, are covered in Section 10, along with a review of the Council's policy on the use of reserves.

2011/12 Budget Pressures

- 6.3 The 2011/12 Base Budget is under pressure in a number of service areas, in particular Adult Social Care and Looked After Children. A report to Cabinet on 1 November 2011, based on the quarter two position to the end of September 2011, projects an over spend in the current year of £8.467m.

Action is being taken to reduce this figure to comply with one of the MTFS principles that spending should be contained within budget. Whilst it is increasingly unlikely that spending will be contained within budget there is an expectation that the size of the projected overspend will reduce as action plans are implemented and one-off income is taken into consideration.

- 6.4 Analysis of the budget position in 2011/12 does suggest that the Council is facing a structural deficit in some areas due to the demand for services for vulnerable people. This will need to be determined and addressed as part of the financial model which underpins the MTFS putting further pressure on future years budgets.

7 Medium Term Budget Pressures

- 7.1 In addition to the impact of the economy, the Council is facing a number of spending pressures, some of which are corporate and some service specific:-

Corporate Budget Pressures

Localism Bill

- 7.2 The Localism Bill reflects the Government's plans to devolve power from Whitehall to communities and local authorities and is continuing its passage through the House of Commons. The Bill sets out a package of proposed reforms, many of which could have financial implications for the Council as well as impacting on service delivery.

Local Government Resource Review

- 7.3 The government is reviewing local government resources in two stages. Phase one is reviewing localisation of business rates and phase two will review community budgets.
- 7.4 On 18 July 2011, DCLG launched a consultation paper on proposals for business rate retention. The review, in line with the direction of general government policy, seeks to remove the centralised control of funding for local authorities with greater autonomy over locally raised resources linked to an incentive to generate business growth.
- 7.5 Consultation on phase one ended on 24 October 2011 and the Council's response to the consultation was reported to Cabinet on 1 November 2011.
- 7.6 There are a number of financial risks facing local authorities as a result of proposals in the consultation including the proposed baseline funding position whereby areas of deprivation with a low tax base may suffer meaning inequalities in the system may be locked in and more affluent areas with a history of strong growth may benefit disproportionately.
- 7.7 On 29 June 2011, DCLG announced the terms of reference for phase two of the review which is looking to extend financial autonomy to communities and local people through Community Budgets. The second phase of the review will be completed by April 2013.

Review of Schools Funding

- 7.8 The 2011/12 DSG settlement was a one year settlement with proposals for changes for future years funding distribution to be consulted on from April 2011 to March 2012. There have been two rounds of consultation so far this year.
- 7.9 The proposal is for a national funding formula for schools, a simplification of the formula and the reduction in the number of allowable factors. Three and four year-old funding for the maintained, private, independent and voluntary sectors will remain outside of this as will the high cost pupil funding in respect of children with special educational needs.
- 7.10 The government have not yet finalised their thoughts on changes to schools funding and therefore changes will not start to be implemented until 2013/14.

Academies

- 7.11 As part of the 2011/12 settlement and 2012/13 provisional settlement, the government top sliced formula grant to fund the transfer of schools to academy status. This was done regardless of whether a local authority had academies in its area. For Gateshead, this was a reduction in formula grant of £0.473m for 2011/12.
- 7.12 This top slice has been disputed and a number of authorities, including Gateshead, have asked for a judicial review of the governments actions. The government said that it would consult on the top slicing so the judicial review was stayed pending the outcome of the consultation. To date the outcomes of the consultation have not been announced.
- 7.13 Gateshead now has one academy school with four more progressing towards conversion.

Review of Council House Finance

- 7.14 The reform of council house finance will be implemented in April 2012. The current ring-fenced Housing Revenue Account (HRA) system will be replaced by self-financing for council housing. The objective is to provide local authorities with the resources and flexibility to manage their own housing stock for the long term. In order to bring this about, there will be a one-off readjustment of each local authority's housing debt. These reforms will have major implications for the operation and management of the council's housing stock but are not expected to impact on the rest of the Council's services as the HRA has a separate 30-year business plan.

Decent Homes Programme

- 7.15 Construction Services have been completing Decent Homes work on behalf of The Gateshead Housing Company since 2004 and during that period these works have yielded surpluses of £6.1m over the 7 years. In December 2011 this work will end which, based on 2010/11, will result in a reduction of turnover to Construction Services of £10.8m. The reduction in

workload will have implications for the employees which will need to be considered as part of the Council's approach to workforce management.

Council Tax Benefit Localisation

- 7.16 The Welfare Reform Bill contains provisions for council tax benefit in its current form to be abolished. It is currently administered by local authorities with a subsidy being reclaimed from the Department for Work and Pensions for the expenditure incurred by the local authority.
- 7.17 Localising support for council tax is part of the government's wider policy of decentralisation and, as part of the Spending Review 2010, the government announced it would localise support for council tax from 2013/14 with a 10% reduction in funding. The government's consultation to the proposals ended on 14 October 2011. The Council has responded to the consultation which was reported to Cabinet on 1 November 2011.
- 7.18 There are a number of financial risks facing local authorities as a result of proposals in the consultation including the 10% reduction in expenditure on council tax benefit worth £2.5m and how this will be managed as part of the development of a local scheme given that the Government wants to protect pensioners who make up about 50% of claimants. This means that working age claimants could face a much bigger reduction in benefit.

Pensions and Pension Reform

- 7.19 The actuarial review of the Tyne and Wear Pension fund outlined the impact on the fund over the period 2011/12 to 2013/14. Based on the actuarial assumptions there will be no significant changes to the Council's contribution to the fund over this period. The indicative assumptions have been built into the MTFS but beyond this period there is uncertainty subject to the next triennial review and proposals for pension reform.
- 7.20 The government is currently consulting on changes to the Local Government Pension Scheme (LGPS). This proposes increases to employee contribution rates, effective from April 2012, in order to achieve short term savings nationally of £900m by 2014/15.
- 7.21 Whilst this consultation does not propose changes to employer contribution rates, the outcomes of the consultation and any proposed changes could have important implications for the next actuarial review of pensions due in March 2013. In particular, the proposals intend to re-balance the costs of public service pensions between scheme members and employers and taxpayers. In the context of the LGPS, this would be achieved when employers' contributions are reduced as part of the scheme's statutory triennial actuarial valuation. The current regulations do not allow a downward revision of employer contribution rates between three-yearly valuations. The consultation proposes a technical amendment, effective from April 2012, that would enable scheme appointed actuaries to vary rates between valuation exercises.
- 7.22 The closing date for the consultation is 6 January 2012 and the Council's response will be reported to Cabinet on 13 December 2011.

Transfer of Public Health Responsibilities

- 7.23 The Public Health White Paper published in November 2010 outlined the government's proposals for the commissioning and delivery of public health services, including local authority responsibilities in relation to health improvement and the co-ordination of local arrangements. This will include the transfer of public health responsibilities from Primary Care Trust's (PCT's) to local authorities with ring-fenced funding from April 2013 and shadow allocations for 2012/13 to provide an opportunity for planning.
- 7.24 The Council's response to consultation was reported to Cabinet on 29 March 2011. Indicative figures reported by Gateshead PCT suggest a possible transfer of £14.9m to the Council. Implications on future public health funding grant allocations could result in adverse consequences for the Council if it is not adequately resourced to take on the new responsibilities. At this stage the financial modelling in the MTFs assumes the transfer will be cost neutral.

Equal Pay

- 7.25 The Council has previously agreed a compensatory payments scheme to prevent a large number of equal pay claims. Although the Council is partially protected as a result of this action, further significant liabilities are accruing which could destabilise the Council's budget in the medium term. A capitalisation direction of £11.7m was received in 2009/10 to allow any costs to be spread over a number of years.
- 7.26 Some equal pay claims have now been settled but there are a significant number still under negotiation with Trade Unions which may require an additional contribution from the revenue budget and/or reserves.

Pay and Price Increases

- 7.27 The Government is still expecting a two-year pay freeze across the public sector although this is dependent on national negotiations between the Local Government Employers and Trade Unions. The Council is still signed up to delivering the outcome of these negotiations.
- 7.28 For 2012/13, the second year of the freeze, the Trade Unions have submitted a pay claim for *a substantial increase on all pay points.....in particular the lowest paid*. 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. No provision has been included for 2012/13 and indicative estimates of a 2% increase in the overall paybill for 2013/14 and 2014/15 has been included at this stage.
- 7.29 Other price inflation has been assumed to increase in line with the appropriate price indicators. A significant share of this provision will be required to meet energy costs, nationally recommended increases for fostering allowances and planned increases to landfill tax.

Workforce Management

- 7.30 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.
- 7.31 In the light of the required savings over the MTFs, in December 2010 the Council made an offer of enhanced voluntary redundancy to all employees with the exception of those working in schools. By the end of June 2011 a total of 871 employees took up this offer which required significant one-off costs of £27m in terms of statutory and enhanced redundancy payments and pension costs. Although the Council has been successful in securing a capitalisation direction to enable it to spread some of the cost over a number of years, the amount awarded through capitalisation was not sufficient to cover the total cost. The majority of the cost of voluntary redundancy was funded from one-off revenue savings or reserves. In anticipation of further savings and the need to delete posts, the Council applied for further capitalisation for 2011/12 and have received £6.5m which can be used to meet statutory payments.
- 7.32 Given the spending pressures and level of reserves, the current enhanced scheme is not financially sustainable. This has led to a fundamental review of the level of benefits that can be supported which is being considered by Cabinet on 22 November 2011.

Treasury Management

- 7.33 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 issues for treasury management continue to be the significant difference between investment rates and borrowing rates and the uncertainties in the financial markets. The impact of this is partly mitigated by a reduction in the average rate of interest on external borrowing as new loans are being taken out at lower than budgeted rates as a result of the historically low base rate.
- 7.34 Due to the continuing uncertainties in the banking sector, emphasis is placed on mitigating counterparty risk by giving heightened preference to security and liquidity. This has resulted in a greater use of investments with higher security and increased liquidity.

Service Pressures

- 7.35 As part of the Council's medium term planning, individual services have identified future medium term budget pressures. These will be incorporated into the redesigned performance and management framework which was agreed by Cabinet on 1 November 2011. For each Council Group, the relationship with the delivery of Vision 2030 and the Corporate Plan has been identified as follows:-

Community Based Services

7.36 Community Based Services manages a net revenue budget of £66m. The past 2-3 years have proved challenging for all services, particularly around growing demand and cost of services, availability of external funding and the delivery of the decent homes programme.

Challenges and priorities for the Group include:

- Demographic pressures, including a growing number of older people, those with complex needs and dementia.
- Continued geographical dispersion of families resulting in higher proportions of older people becoming increasingly isolated and without support networks.
- Growing demand for respite services for older family carers.
- Implementation of the Adult Social Care Transformation agenda including, Personalisation and the reform of in house services including the development of the re-ablement service and the growth in the use of tele-healthcare and assistive technology.
- Maintaining the competitiveness of directly provided services in sport, well-being and independence.
- Maximising value for money and maintaining standards from all adult social care commissioned services.
- Safeguarding adults, particularly vulnerable adults, victims of domestic abuse and hate crime.
- Preparing for the transfer of public health responsibilities.
- Maintaining Arts and heritage services with changing and reducing external funding streams.
- Maintaining the impact of library services to support health and wellbeing, community cohesion, social inclusion and lifelong learning.
- Continuing to deliver the aims of the Building an Active Future programme, sustaining the demand for the use of the facilities and maintaining world class sporting events in a time of economic austerity.
- Continuing to ensure a neighbourhood focus particularly in relation to tackling inequalities in priority areas.
- Continuing to ensure a neighbourhood focus particularly in relation to tackling inequalities in priority neighbourhoods.
- Ensuring that Gateshead is resilient and able to respond to and recover from emergencies whilst continuing to provide essential services.
- Implementing HRA Self Financing and ensuring there are sufficient resources to continue to invest in housing regeneration whilst maintaining decency.
- Preparing and aiming to mitigate the effects of the proposed welfare reforms.

Development and Enterprise

7.37 Development and Enterprise has a net revenue budget of £6.9m and a gross budget of £23.5m. The Group relies heavily on external funding and income generated from fees and property. The income received from building control and rents from business premises have all been failing to meet their targets, due to the downturn in the economy. Similarly, there will

be a significant reduction in the income generated from fees and technical charges due to the reduction in the capital programme from 2011/12 onwards.

Challenges and priorities for the service include:-

- Progressing major regeneration schemes including the Town Centre, Northern Design Centre, Gateshead Quays, the Baltic Business Quarter and the Joint Venture Company.
- Tackling economic issues affecting businesses and residents arising from the economic downturn.
- Progressing the Local Development Framework and Area Action Plans (documents which will set out the long term land uses of the borough).
- Continuing the work in tackling Climate Change and Carbon Reduction to reduce the impact of the carbon reduction commitment charge and rising energy costs on the budget.
- Continue the work in Housing Market Renewal related activity, Public Health and Road Safety issues at a time when the capital programme is reducing and grant funding is either reducing or ceasing.
- Ensure opportunities are maximised to support the economy and environmental sustainability in a changing regional context such as working with the Local Enterprise Partnership as the funding provided by One North East, GONE and Bridging NewcastleGateshead has ended.
- Deliver the Department for Work and Pensions (DWP) Work Programme effectively.

Learning and Children

7.38 Learning and Children has a net revenue budget of £157m, of which £129m is funded by Dedicated Schools Grant. Central to the delivery of services is the inter-agency Children and Young People's Plan, which, though no longer a statutory requirement, will continue to guide the Children's Trust, and will be supported by a commissioning plan setting out areas for investment. The vision and objectives continue to be driven by five Every Child Matters (ECM) outcomes of Healthy, Safe, Enjoy and Achieve, Positive Contribution and Economic Wellbeing

Challenges and priorities for the service include:-

- Keeping children safe from harm, ensuring effective, high quality safeguarding policy and practice.
- Commissioning the best early interventions and prevention for children and young people.
- Looked After Children numbers continue to rise, there has been a 19% increase compared to last year. In April 2011 new care standards were introduced with additional responsibilities and duties for Local Authorities.
- Closing the outcome gaps for Looked after Children and other vulnerable children and young people.
- Due to recent legislation family carers now receive the same allowances and support as Foster Carers, this has increased the level of spend. Potential back pay claims increase the pressure.

- Focusing on early years to give children the best start in life and reducing infant mortality.
- Meeting the needs of the increasing numbers of children and young people with complex disabilities and mental health needs.
- Tackling child and family poverty.
- Ensuring children and young people lead healthier lifestyles. A key element of the government's proposed health reforms is the transfer of public health responsibilities to local authorities in 2013.
- Becoming an excellent commissioner that identifies need, ensure best value and best quality across all social care and education providers.
- Supporting schools to ensure children and young people perform well at school.
- Ensuring all services to schools are included within the Council's buy back offer to those secondary schools transferring to academies.
- Ensuring young people post 16, access high quality education, training or employment.
- Implementing provision for children with Special Educational Needs.
- Provide for pupils with additional needs to access mainstream education.

Local Environmental Services

7.39 Local Environmental Services' turnover is in excess of £90m per annum, which is made up of trading accounts and budgets covering Construction Services, Transport, Building Cleaning, Civic Catering, School Catering, Facilities Management, Community Protection, Waste Services, Grounds Maintenance and Highways Maintenance. These are supported from the Council's Revenue Budget, which amounts to £56m gross and £27m net.

Challenges and priorities for the service include:-

- Continuing to lead the South Tyne and Wear Waste Management Partnership and improving waste and recycling services through working in collaboration.
- Maintaining the Council's highways infrastructure and street lighting.
- Ensuring a Safer Cleaner Greener Gateshead by maintaining and improving standards within parks, streets, allotments and open spaces.
- Further establishment of the Facilities Management function to coordinate all Facilities Management related activity across the Council's real estate.
- Deliver effective neighbourhood enforcement through an integrated approach, which contributes to community protection.
- Managing and reviewing the environmental performance of the Council's fleet vehicles.
- Delivery of Primary Capital, Civic Centre Refurbishment, Disability Discrimination Act works for Schools, Public Buildings and The Gateshead Housing Company.
- Secure work with the Council's partners for major regeneration programmes and in private and public sector markets in neighbouring areas.

- Managing the reduction in workload due to the end of the Decent Homes contracts.

Central Services

7.40 The net budget for Central Services is £24.3m. Central Services supports the delivery of Council wide priorities and services. It aims to ensure Council policies and projects are effectively developed and delivered and that Council activities are within the Council's powers, Services are value for money, and funding opportunities are maximised. It also aims to ensure that risks to the Council are managed or reduced.

Challenges and priorities for the service include:-

- Delivering Vision 2030 and the Corporate Plan at a time of change and reducing resources.
- Continue to facilitate change and service improvement to drive performance, consolidate functions and reduce unnecessary process and inefficiency through review of Front and Back Office functions.
- Provide advice and intelligence to drive creativity and new ideas for the development of Council policies and services.
- Continue to provide advice and support for the Council's core governance and democratic functions and ensuring the Council complies with its statutory duties and takes advantage of its powers within the local government framework.
- Developing and supporting the Council's corporate policies, plans and priorities including projects such as the Town Centre and the Gateshead Trading Company.
- Ensuring financial sustainability, effective risk management and the best use of resources to deliver value for money.
- Helping to deliver efficiencies through the use of new technology, improved procurement and optimum asset management.
- Managing and developing the Council's workforce through a comprehensive human resources and learning and development framework to meet the Council's changing needs.

8 Fees and Charges

8.1 The Council currently raises in the region of £38m from fees and charges, excluding housing rents. Many of these are still relatively low in some areas compared to neighbouring authorities. To ensure that fees and charges contribute towards the delivery of Vision 2030, a fees and charges policy framework has been developed based on an agreed set of principles.

8.2 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. During 2011-12, each service has undertaken a fundamental review of fees and charges and the outcome of this review will inform the strategy on increases to fees and charges for 2012/13 onwards.

9 Capital and Prudential Borrowing

- 9.1 The revenue implications of the Council's capital programme are considered as part of the process for setting the programme. The revenue impact also needs to be reflected in the MTFS, in particular the costs associated with the level of prudential borrowing required to support investment.
- 9.2 Prudential borrowing allows local authorities to borrow to fund capital expenditure provided it can be demonstrated that it is affordable. The Council needs to ensure that an agreed revenue income stream is identified to meet the additional cost of borrowing, or that adequate provision is made within the Council's reserves to meet these costs in the medium term.
- 9.3 The projected capital programme for 2011/12 is approximately £115m. The current capital programme, covering the period to the end of 2013/14, was set at a significantly reduced level to take account of the reductions in available external funding, the increased pressure on the Council's resources and the fact that several major schemes such as Building an Active Future, Building Schools for the Future and Decent Homes are nearing completion.
- 9.4 The capital programme is currently being reviewed and prioritised along with a number of proposed additional capital schemes to ensure the Council continues to deliver Vision 2030. An assessment of the associated revenue costs to support further investment is taken into account as part of the process of setting the programme and provision for this is included within the MTFS.
- 9.5 Based on the current commitments within the three year capital programme for 2012/13 to 2014/15, the capital financing costs falling on the General Fund will increase by £3.3m in 2012/13 with further rises of £0.4m in 2013/14 and £7.2m in 2014/15 (excluding housing schemes).

10 Reserves

- 10.1 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.
- 10.2 In establishing reserves, the Council must comply with the Code of Practice on Local Authority Accounting in the United Kingdom. The Strategic Director, Finance and ICT is required, as part of the budget setting process, to provide a statement on the adequacy of reserves.

Reserves Policy

- 10.3 The Council's policy on reserves is as follows:
- The Council will maintain its general reserve at a minimum of 3% of its 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 of earmarked reserves will be in line with the principles set out in the MTFs and reviewed annually.

Review of Reserves 2011/12

- 10.4 A review of all strategic reserves is undertaken twice a year in line with the CIPFA guidance on Reserves and Balances (LAAP Bulletin No 77 November 2008) and the requirements of the Code of Practice on Local Authority Accounting.
- 10.5 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.
 - A risk assessment of each reserve.
 - The reviewed level of reserve following this risk assessment.
- 10.6 At 31 March 2012 the Council's reserves are expected to be £27.4m. Of this sum, £13.0m is held in schools reserves and developer contributions leaving £14.4m usable reserves.
- 10.7 Meeting the principle that 3% of the net revenue budget should be held to cover any major unforeseen expenditure, including in-year overspends, requires £6m to be set aside in a General Reserve leaving £8.4m as earmarked reserves held for specific liabilities.
- 10.8 Given the pressure on the Council to find budget savings and the effect this will have on the number of posts that can be funded, it is proposed that a number of reserves should be reallocated and a new reserve created to support workforce management. These can be summarised as follows:-

Reserve	£000
Pensions (10.9)	-208
Cultural Development Reserve (10.13)	-265
Economic Downturn Reserve (10.16)	-1,368
Workforce Management Reserve (10.17)	+1,841

- 10.9 Pensions (£0m at 31 March 2012)
This reserve has been used to smooth past increases in pensions contributions. The Council recognises that this is not sustainable in the long term and reliance on this reserve will end as the reserve is almost fully utilised during 2011/12. It is proposed that the balance is transferred to the new Workforce Management reserve.
- 10.10 Insurance (£3m at 31 March 2012)
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 £3m is still the appropriate level for the Insurance Reserve to avoid a major impact on the revenue budget in any year.

10.11 Grant Clawback (£1.4m at 31 March 2012)

The reserve is for grant received which may need to be repaid. The reserve exists to mitigate the risk of potential clawback of funding following European Audit of ERDF grant claims.

10.12 Gateshead Development Pool (£2m at 31 March 2012)

The reserve was established following the sale of shares in Newcastle International Airport Ltd when the Council agreed to use the proceeds of the airport capital receipt to set up Gateshead Development Pool. It has been used successfully to deliver a number of Council priorities since 2002. Since then, the proceeds of the one-off Airport dividend and LABGI receipt have been added to the Development Pool. As well as the Council agreeing to use this reserve to support the delivery of new and refurbished leisure centres, a revised set of principles for the further use of the reserve were agreed in 2007.

A significant proportion of this reserve has been used to support the redundancy scheme in 2010/11 and 2011/12. The remaining amount in this reserve can support Ward Based schemes and the Local Community Fund for a further two years, subject to review as part of the Council's spending proposals. The MTFS also proposes a strategy to replenish this strategic reserve.

10.13 Cultural Development Reserve (£0m at 31 March 2012)

This reserve was initially set up from interest earned from investing the airport capital receipt and was used to support cultural initiatives within the Borough. It is proposed that the residual value is transferred to the new Workforce Management reserve.

10.14 Bridge Maintenance (£0.9m at March 2012)

This reserve was established to meet the costs of future bridge maintenance work in partnership with Newcastle. The reserve exists to mitigate the risk of insufficient financial resources being available for both planned and reactive maintenance for these key structures, in particular the Gateshead Millennium Bridge which is the sole responsibility of the Council.

10.15 Developer Contributions (£1.6m at 31 March 2012)

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 106 agreements. The movement on the reserve will fluctuate depending on the level of regeneration and the use of the contributions to support regeneration schemes such as play areas in areas of new housing.

10.16 Economic Downturn Reserve (£0m at 31 March 2012)

This reserve was established at the end of 2008-09 to mitigate against the potential impact on the Council's budget during the economic downturn and to fund short-term initiatives in the Council's Ten Point Plan. The reserve will be partly utilised during 2011-12 to support the Ten Point Plan. As a result

of the review of reserves, it is proposed that £1.368m be reallocated to the new Workforce Management reserve.

10.17 Workforce Management (£0m at 31 March 2012).

Following the review of reserves, it is proposed that a Workforce Management reserve is established to primarily support the cost of the Council's redundancy scheme and the Strain on the Fund for employees who leave the Council between the ages of 55 and 60. Timing of the use of this reserve will be dependent upon the agreement of a revised redundancy policy but it's likely to be fully utilised by the end of March 2012.

10.18 General Fund

This reserve is made up of a General Reserve and Schools reserves.

10.19 General Reserve (£7.0m at 31 March 2012)

The General Reserve acts as a contingency and allows the Council to meet any unforeseen expenditure without destabilising the budget in the short term. It has been assessed at a minimum of 3% of net revenue budget (excluding schools), which is currently £6m in line with the Council's reserves policy and MTFS principles. The proposals in Section 10.23 reflect the previous MTFS which recommended using the General Reserve in 2012/13 to support revenue expenditure. Whether this can be achieved is dependent on the level of redundancy payments in 2011/12 and 2012/13. Beyond 2012/13, the budget will need to be balanced without any contribution from the General Reserve in line with one of the principles of the MTFS.

10.20 Budgeted use of this reserve during 2011/12 was £2.5m, with an expected value at March 2012 of £13.5m. The quarter two revenue monitoring position at September 2011 was reported to Cabinet on 1 November 2011. This outlined that the projected outturn is a £8.5m over spend which would reduce the projected value of this reserve to £5m at 31 March 2012. However, for the purposes of medium term planning, an estimate of £6.5m overspend has been included which reflects the inclusion of unbudgeted income, ongoing action planning to address variances and costs associated with workforce management, giving a revised balance for the General Reserve of £7m at 31 March 2012.

10.21 Schools Reserves (£10.9m at 31 March 2012)

Use of this reserve is ring-fenced to schools use and there is a duty to report planned use to the Schools Forum.

10.22 Dedicated Schools Grant (£0.5m at 31 March 2012)

The Dedicated Schools Grant is ring fenced for schools use and cannot be used for other priorities within the Council. The brought forward reserve of £0.5m will be used to contribute towards the cost of equal pay settlements for schools employees.

Reserves Summary 2012/13 to 2014/15

10.23 The following table illustrates the planned use and replenishment of all usable reserves over the life of the MTFS.

Usable Reserves	Balance 31.3.12 £000	Balance 31.3.13 £000	Balance 31.3.14 £000	Balance 31.3.15 £000
Pensions	0	0	0	0
Insurance	3,000	3,000	3,000	3,000
Grant Clawback	1,375	1,375	1,375	1,375
Development Pool	2,047	3,287	4,527	6,527
Cultural Development	0	0	0	0
Bridge Maintenance	920	920	920	920
Developer Contributions (Ring fenced)	1,597	1,597	1,597	1,597
Dedicated Schools Grant (Ring fenced)	526	0	0	0
Economic Downturn	0	0	0	0
Workforce Management	0	0	0	0
Strategic Reserves	9,465	10,179	11,419	13,419
General Reserve	6,994	6,994	6,994	6,994
Schools LMS reserves (Ring fenced)	10,891	10,891	10,891	10,891
Total	27,350	28,064	29,304	31,304

10.24 Movement on reserves reflects both budgeted use to support the Council's spending plans and one-off use to support the Council's strategy on workforce management.

10.25 The overall level of financial resources available to the Council is finite and therefore the continued use of reserves above a certain level cannot be sustained in the longer term without placing the Council's financial position at risk. The MTFS recognises that the Council's financial reserves are maintained at a prudent level to protect present and future Council services.

10.26 The Council's reserves will be further reviewed before the revenue budget and capital programme are agreed on 1 March 2012 and as part of the final accounts closedown in June 2012.

11 Funding

- 11.1 Formula Grant funding is illustrated in the budget forecasts outlined in Section 13. The settlement for local government provided clarity on grant funding for 2011/12 and 2012/13 only. Funding for 2013/14 and 2014/15 is based on national totals outlined in the Government's four year spending review.
- 11.2 Schools budgets and DSG have been excluded from these future figures, given that any variation in DSG must be passed on to school budgets.
- 11.3 The funding included in Section 13 does not factor in any council tax increases to meet future budget pressures but assumes that government funding for the 2011/12 freeze, equivalent to a 2.5% increase, will continue to the end of the current spending review period. In addition, funding in 2012/13 assumes a further grant to freeze council tax recently announced by the Government. Unlike 2011/12, the council tax freeze grant for 2012/13 is a single one-off payment and will not be built into the baseline meaning no further grant payments will be made over the Spending Review period. This has implications for future years.
- 11.4 If the Council decides to take up the offer of a further council tax freeze in 2012/13, the grant received of £2.1m should be used to fund one-off spending. If the income is applied to recurring expenditure it will require a council tax rise in 2013/14 of 2.5% to replace the grant or additional budget savings of £2.1m.
- 11.5 Limitations on council tax increases include capping and the proposals in the Localism Bill to hold a referendum on "excessive" council tax rises. In the current year, the government set a capping limit of 3.5% and this figure has been quoted as a likely trigger point for a referendum.
- 11.6 An increase of 1% on council tax equates to an additional £0.85m and is ultimately limited by the risk of capping or be subject to referendum.
- 11.7 The use of reserves reflect both the principles of the MTFs and the outcome of the risk assessment reported in Section 10. Further use of reserves above this level is not available.

12 Budget Guidance

- 12.1 On 22 September, the Council agreed budget guidance and the Fit For Future principles and model.
- 12.2 This included:
- Budget savings of £38m over the two years 2012/13 and 2013/14 with at least £28m delivered in 2012/13.
 - A two year approach to the budget to allow for more effective financial planning and a sustainable allocation of resources.
 - Minimum Service Levels and areas of discretionary spend to be identified to allow priorities to guide funding decisions.

- A priority for budget savings in Back Office and Front Office covering both organisation and support costs incorporating a detailed review of support cost 'Building Blocks'.
- Savings to minimise the number of redundancies to limit the associated organisational disruption and cost.

12.3 The review of the MTFS updates budget forecast models and enables the Council to determine whether budget guidance should be revisited. This is covered in the next section.

13 Indicative Budget Forecasts 2012/12 – 2014/15

13.1 Indicative budget forecast models for the period 2012/13 – 2014/15 have been produced to reflect the issues raised as part of the review of the MTFs. These are for illustrative purposes at this stage, given the uncertainty surrounding the costs of some of the financial pressures and funding levels and the recognition that further work is required to refine these figures before the budget is finalised on 1 March 2012.

	2012/13	2013/14	2014/15
		Indicative	Indicative
	£m	£m	£m
Base budget (net of schools)	204.8	189.9	199.2
Base adjustment	1.1	0.0	-8.0
Pay & Prices:			
Pay	0.0	2.8	2.8
Prices	2.0	2.0	2.0
Corporate Pressures:			
Workforce Management	2.0	-2.0	0.0
Reductions in Specific Grant	0.5	0.5	0.5
Replenish Reserves	2.0	0.0	0.0
Transfer of Public Health Responsibilities	0.0	15.0	0.0
Service Pressures	2.2	1.5	2.1
Capital Programme	3.3	0.4	7.2
Revised Base	217.9	210.1	205.8
Funding:			
Formula Grant	-97.4	-96.6	-91.4
Council Tax	-85.5	-85.5	-85.5
Council Tax Freeze Grant (2011/12 cumulative)	-2.1	-2.1	-2.1
Council Tax Freeze Grant (2012/13 one-off)	-2.1	0.0	0.0
Use of Reserves	-2.8	0.0	0.0
Public Health Funding	0.0	-15.0	-15.0
Total Funding	-189.9	-199.2	-194.0
Funding Gap	28.0	10.9	11.8

13.2 The forecast above broadly confirms the current budget guidance of delivering £38m budget savings over the next two years with at least £28m in 2012/13.

13.3 In addition, there is a further gap in 2014/15 of £11.8m which will need to be addressed in the medium term although given the number of unknown variables in that year, it is proposed that the forecast is revisited during 2012 when the outcome of the local government resource review will be known.

- 13.4 The modelling above takes into consideration the pressure on the 2011/12 budget and the structural deficit in some demand led services for vulnerable people. This has been addressed by the inclusion of some permanent adjustments to the base reflecting savings in external interest, pensions costs and changes to the PFI affordability gap which Schools Forum have agreed will now be funded from the DSG.
- 13.5 In addition, the modelling reflects the need to support the cost of managing the workforce reductions in the short term which will require reserves to be replenished over the medium term to ensure the Council's financial position remains sustainable.

14 Funding Options

- 14.1 The indicative budget forecasts outlined in Section 13 show that all funding options will need to be considered to deliver a balanced budget.
- 14.2 At this stage funding options include:-
- Budget savings
 - Fit For Future Building Blocks
 - Reassessment of spending pressures and spending priorities
 - External Funding/Additional Income
 - Council tax increases above government freeze grant

Budget Savings

- 14.3 Each service has identified Minimum Service Levels (MSL's) for core services which prioritise the corporate and democratic core of the Council, the strategic capacity and the safety and safeguarding of Gateshead residents. The Council will continue to deliver these but look at doing this more efficiently. The remaining areas of the budget are those where there are some choices on how and whether they are delivered. The Council has commenced consultation on the choices in these areas.
- 14.4 Spending proposals based in the areas where there are choices will be reported to Cabinet on 29 November. These will be in response to the current budget guidance.

Fit For Future Building Blocks

- 14.5 Fit For Future is a programme to transform the Council into a more efficient and effective organisation and protect as far as possible frontline services. The Council has refined the Fit For Future programme which is now focused on a number of related work streams:
- The Councils Front Office contact with customers and effective use of ICT.
 - The Council's Back Office functions including a fundamental review of support cost 'building blocks':

- Use of Council assets
- HR employment policies
- Supplies and Services
- Fees and Charges
- Senior Management
- Travel
- Trading Services and income generation
- Commissioning services
- Business processes including reviews of service areas and performance management

14.6 Proposals arising from the workstreams will also form part of the spending proposals to Cabinet on 29 November.

Reassessment of Priorities

14.7 A further option is to reassess the current base budget and the priorities for growth, in particular the impact of the projected over spend in the current year. This will be carried out over the next few months to allow a balanced budget to be considered in March 2012.

External Funding and Additional Income

14.8 The Council has been successful in securing and delivering outcomes from external funding in previous years. 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 very different than it has been in the past.

Council Tax Increases

14.9 Only 17% of the Council's funding comes from Council Tax. Each 1% increase in council tax generates £0.85m before taking account of potential changes in council tax base. In the past council tax rises have been one of the options available to meet funding gaps.

14.10 The Government introduced a new Council Tax Freeze grant equivalent to a 2.5% increase in Council tax for 2011/12. This will continue to be paid during the period of the MTFS. In addition, the Government recently announced a further freeze for 2012/13 although crucially this is a one-off grant and has implications for future years as described in section 11. .

14.11 Limitations on council tax increases include capping and the proposals in the Localism Bill to hold a referendum on "excessive" council tax rises. In the current year, the government set a capping limit of 3.5% and this figure has been quoted as a likely trigger point for a referendum

15 Consultation and Equalities Impact

15.1 Council on 22 September 2011 agreed a budget consultation process for 2012/14 which takes account of strategic budget guidance, the Equality Act 2010 and the Government's code of practice regarding consultation.

15.2 The Consultation is in four phases:

- Informing: Explaining the approach to the 2012/14 budget which ended on 24 October 2011.
- Consulting: Options in choices commencing 24 October 2011 until 13 January 2012.
- Engagement: Analysing preferred choices in detail from 28 November 2011 until 13 January 2012.
- Feedback: Communicating the results of consultation from 13 January 2012 until the end of February 2012

15.3 The consultation includes a detailed Comprehensive Impact Assessment (CIA) of spending proposals. The CIA builds on the positive aspects of the Equality Impact Needs Assessment process now embedded and integrated within the Council's decision making process.

15.4 The CIA is a process which analyses new and existing policies, proposals and functions to identify their impact on residents, particularly those from under-represented, marginalised or disadvantaged groups.

15.5 CIA's focus on issues relating to some of the core functions of the Council:

- Equality
- Environment
- Health and Wellbeing
- Economy
- Community Safety
- Community Cohesion
- Workforce and Assets

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. The government plans to make changes to the distributional system from 2013/14 and has commenced a review of local government funding in 2011.	Likely	High	Annual review of reserves and reserves policy to identify future resources. Settlement confirms funding for 2011/12 to 2012/13. Assumptions beyond 2012/13 based on national framework outlined in Spending Review 2010.
2. Transfer of Public Health funding not sufficient to meet responsibilities	Possible	High	Representation on Public Health Transition Working group to manage process.
3. Pay Awards and price inflation higher than assumed	Possible	Low	Central contingency budget for pay and price increases set on the basis of the best available evidence.
4. Future spending plans underestimated	Possible	Medium	Service planning process identifies future budget pressures. Operational Reviews modelling delivery linked to Council priorities and Minimum Service Levels.
5. Anticipated savings/ efficiencies not achieved	Likely	High	Regular monitoring and reporting take 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. Principle to maintain General Reserve at 3% of budget.
6. Revenue implications of capital programmes not fully anticipated	Unlikely	Low	Capital bid approval identifies revenue implications and links to Council priorities. Full analysis of revenue implications assessed and considered in scenario planning. Reduced Capital Programme.

Risk	Likelihood	Impact	Risk Management
7. Income targets not achieved	Possible	Medium	Current economic climate likely to impact. Regular monitoring and reporting and full review of fees and charges undertaken, linked to Fit for Future. Development of a Fees and Charges policy.
8. Budget monitoring not effective	Unlikely	High	Regular monitoring and reporting in line with corporate framework. Action plans developed to address problem areas.
9. Exit strategies for external funding leasing/tapering not met	Possible	Medium	Regular monitoring and reporting. Government policy to remove ring fencing provides greater flexibility. Development of External Funding Strategy.
10. Loss of principal deposit	Unlikely	Medium	Limited by the controls in the Treasury Management Strategy which focus on security of deposit rather than returns. Impact limited due to the strategy of a diverse portfolio with top rated institutions backed by government guarantees.
11. Interest rates lower than expected	Unlikely	Low	Regular review, monitoring and reporting on interest rates. Prudent assumptions on likely interest rates for 2012/13 onwards have been incorporated into the MTFS.
12. Changes to Government policy	Likely	High	Source alternative funding options Corporate pressures factored into MTFS.
13. 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 Conclusion

- 17.1 The MTFFS covers the remaining three years of the Government's spending review period. Grant funding for the first of the three years, 2012/13, has been fixed but there is still a great deal of uncertainty for 2013/14 and 2014/15.
- 17.2 This uncertainty is compounded by the Government's intention to change the way local authorities are funded. The review, which is well underway, is proposing that grant funding is replaced by business rates collected in each area from 2013/14
- 17.3 The expected cut in revenue spending power for the Council in 2012/13 is £8.035m. This is on top of £17.038m reduction in revenue spending power in 2011/12. Further grant cuts of 0.8% in 2013/14 and 5.4% in 2014/15 have been built into the review of the MTFFS based on national figures.
- 17.4 The Council has already agreed budget guidance based on savings of £38m over the two years 2012/13 and 2013/14. This guidance is threatened by a number of pressures set out in the MTFFS. These include:
- Projected overspend in 2011/12 and the ongoing implications over the medium term.
 - Funding to support an enhanced redundancy scheme as part of the Council's workforce management strategy.
 - The need to replenish reserves to protect the Council during a period of uncertainty over the future of local government funding and allow the delivery of priorities set out in Vision 2030.
- 17.5 Despite these pressures, the review of the MTFFS confirms the existing two year approach to budget guidance of the need to deliver £38m budget savings in 2012/13 and 2013/14.