Gateshead Council

2019/20 – 2023/24

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 2019/20 to 2023/24 which will help ensure resources are aligned to the outcomes in the c**ouncil's new strategic approach "Making Gateshead a Place Where Everyone Thrives". **The MTFS sets the financial context for the c**ouncil's resource allocation process and budget setting.

1.2 The council is operating in an ever-changing policy landscape. The levels of uncertainty and the impact of government decisions are significant. The challenging local context of austerity and increasing demand on council services has compelled the council to refocus on what matters most.

1.3 The likely continuing requirement and scale of budget savings, over and above the £157m already taken from budgets since 2010, represents an increasing challenge for the council.

1.4 Central government's continued commitment to reduce the overall levels of public debt would indicate significant reductions in grant funding are likely to continue over the medium term. Furthermore, the government aim through funding reforms is to significantly reduce reliance on central grants and move local authorities to be self-financing. Councils will rely more on income from council tax, local business rates, fees and charges, trading income as well as contributions towards service costs from third parties. This will be particularly challenging for council's like Gateshead with the greatest need for services to meet local demands. There will be more pressure on the income the council gets from council tax and business rates to fund vital services. In order to strengthen its financial position, the council will have to consider other ways to generate income and be self-sufficient.

1.5 Reviewing the MTFS remains essential to ensuring the council's medium term financial sustainability. The council has responded to the financial challenges in a planned way through an approach based around four inter-related areas: economic growth, income generation, managing demand, and identifying savings/efficiencies. The council will have to make very difficult choices in the years ahead about which services to prioritise. A new strategic approach Making Gateshead a Place Where Everyone Thrives was agreed in March with the council's purpose and beliefs in mind, along with what matters most to the people of Gateshead. To avoid cuts to services, the council 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 against a back drop of reducing public spending.

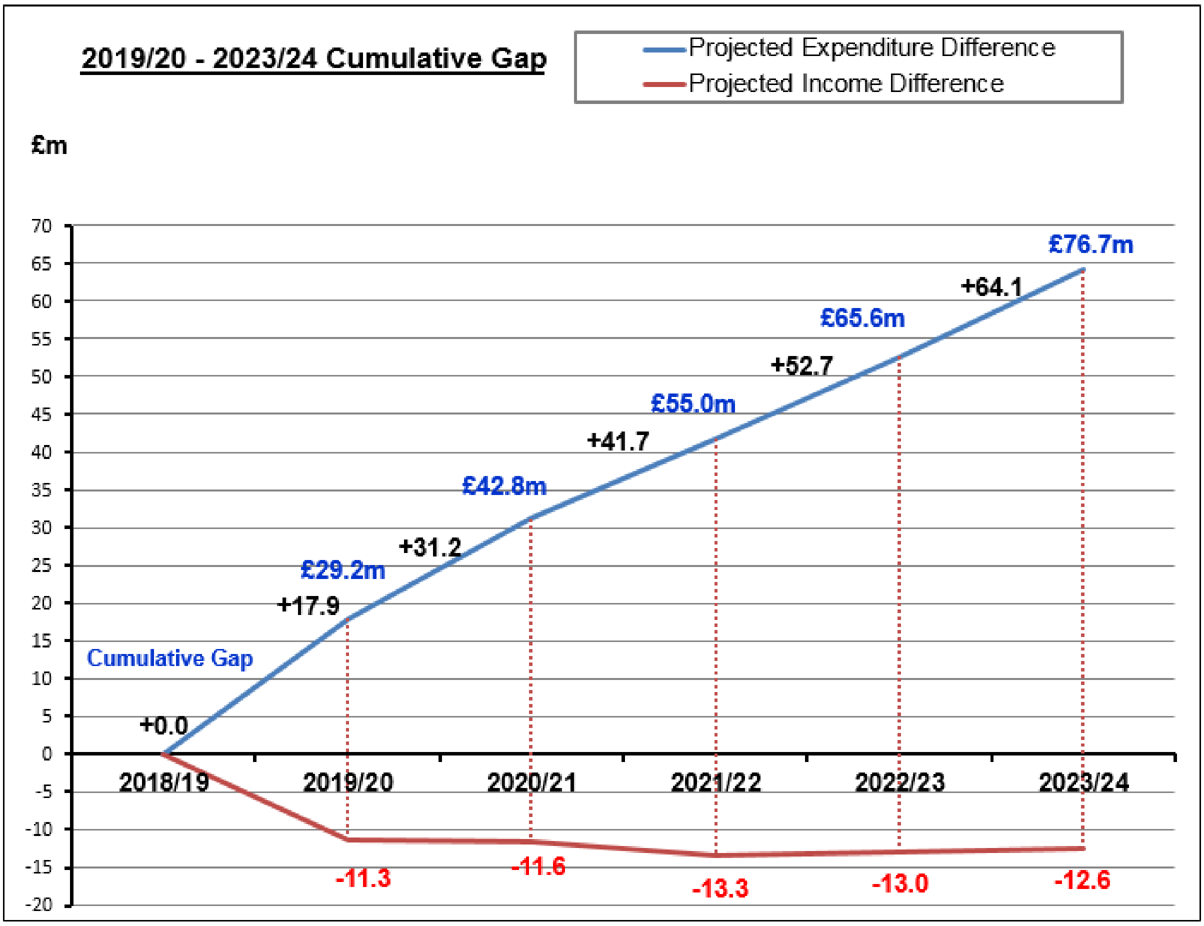
1.6 Within the 2018/19 settlement the government provided some details of indicative funding up to 2019/20 which gives a high-level indication of revenue support grant funding. However significant uncertainty still exists in respect of likely funding levels in relation to other grants over the period as well as instability that arises from the volatility of business rates funding and the implications of the potential move towards a new funding regime of 75% rate retention. Further implications arising from the UKs decision to leave the EU are yet to be seen over the next few years.

1.7 The funding estimated to be received from government and from council tax and business rate payers over the next five years is not sufficient to cover current level of spend plus new budget pressures. Local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Therefore, to legally balance the budget the council must make spending plans affordable by matching it to the estimated funding available over that time. The gap between the two amounts is referred to as the "funding gap". Thus, the funding gap is a combination of the council's best estimate of the future budget needed to cover rising cost pressures and demands for services alongside a reduced amount of income. Action is required now to enable the council to satisfy the legal requirement to balance the budget both next year and in future years.

1.8 Although there exists a great deal of uncertainty, overall it is now estimated that the council will need to close a funding gap of £76.689m to 2023/24. This funding gap can be summarised as follows (there may be slight differences due to rounding's):

2018/19 £m	Indicative Budget Forecasts	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
217.116	Estimated Base Budget	221.382	234.685	245.198	256.128	267.598
(203.466)	Estimated Funding Resources	(192.159)	(191.898)	(190.138)	(190.508)	(190.908)
13.650	Cumulative Funding Gap	**29.223**	**42.787**	**55.060**	**65.619**	**76.689**
13.650	Annual Funding Gap	29.223	13.564	12.272	10.560	11.070

1.9 The funding gap over the medium term can be further analysed to identify separately increasing cost pressures on expenditure (+£64m) at the same time as the impact of reductions in funding on income (-£13m) This can be presented graphically as follows:



1.10 The council 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 will continue to have significant revenue and capital budgets to deliver services consistent with the delivery of priority outcomes of “Making Gateshead a Place where Everyone Thrives”. The 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 council priorities. The Strategy describes the financial direction of the council for financial planning purposes and outlines the financial pressures over a five-year period but is reviewed annually to reflect the dynamic nature of local government funding.

2.2 The MTFS establishes the likely level of revenue resources available to the Council over the medium term and also estimates the financial consequences of the demand for Council services. It improves financial planning and strategic financial management through providing the financial context within which the Council budget will be set.

2.3 The review also allows for consideration of the council's reserves policy and level of reserves to ensure there is adequate protection against unforeseen events.

The Principles of the MTFS

2.4 The principles underlying the MTFS 2019/20 to 2023/24 are as follows:

1) The overall financial strategy will be to ensure that the council's resources are directed to the priority pledges set out under the thrive agenda framework through strong economic growth, increased income generation, reducing costs and managing demand. 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) The council will consider a range of delivery mechanisms and funding sources to support capital investment to deliver thrive priorities, including the use of prudential borrowing, and will ensure that the full costs associated with financing the investment are taken into account when investment decisions are taken.

7) 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.

8) The council will focus on income generation to support the delivery of council priorities and this will include the development of trading opportunities.

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 the thrive framework and demand for services.

3. Financial Context

3.1 The financial outlook for local government and public services as a whole remains challenging. Local government have faced significant funding reductions and these are highly likely to continue into the future. The first Spring Statement was presented to parliament on 13 March by Chancellor Philip Hammond. The Chancellor highlighted recent upturns in economic estimates but had undertones of caution needed for the years to come. Public Sector Net Borrowing was forecast to reduce at a steeper rate signalling further years of austerity. The Autumn Budget will include an overall path of government spend for 2020 and beyond and a detailed Spending Review is planned in 2019.

3.2 There are acute problems nationally in funding the increasing demands of both adults and children's social care. Adult social care is a vital public service that promotes wellbeing and independence and helps support some of our most vulnerable people. There also continues to be a growing strain on children's social care budgets. Early intervention can help limit the need for children to enter the social care system, lay the groundwork for improved performance at school and even help to ease future pressure on adult social care by reducing the pressure on services for vulnerable adults. Councils are struggling to invest in this vital early help and support, as a result of the severe funding reductions. Nationally the care and support system remains under enormous pressure.

3.3 Lack of clarity over the value and future of social care funding continues to hinder the ability to plan effectively. In the March 2017 Budget, the government said that it would publish a Green Paper on social care during the summer of 2017 to allow a public consultation to be held. It was then stated it would be published before the 2018 Parliamentary summer recess setting out proposals to ensure that the care and support system is sustainable in the long term. More recently the paper has been delayed again and government now intends to publish a social care Green Paper in the autumn around the same time as the NHS plan. There will also be a review of the current functioning and structure of the Better Care Fund to make sure that it supports the plan.

3.4 The UK's date to leave the EU has been confirmed as Wednesday 29th March 2019, all assumptions will be revisited regularly and the financial impacts to the Council's MTFS will be reconsidered in light of any changes to the general economy.

3.5 The council is operating within a context of unprecedented pressure on local authority budgets. Medium term financial planning is taking place against a background of significant funding cuts for local government alongside government plans for major local government finance reforms. This environment will continue to challenge the ability of the council to respond to the needs of Gateshead residents and the wider community.

4. Local Policy Context

4.1 The challenging local context of austerity and increasing demand on council services has compelled the Council to refocus on what matters most. With two years left on the lifespan of the current Council Plan 2015 to 2020, the opportunity was taken to undertake a mid-term review to ensure the council continues to get the best outcomes for local people and remains a viable and sustainable organisation into the future, despite the challenging policy and budgetary context. During the year, the council launched its new strategic approach **Making Gateshead a Place Where Everyone Thrives**, developed with the council's purpose and beliefs in mind, along with what matters most to the people of Gateshead. The new strategic approach provides a framework to demonstrate how the Council will work and make decisions in the future which will be policy and priority-led.

4.2 Making Gateshead a Place Where Everyone Thrives is aligned to the timeframe of the council's Medium Term Financial Strategy (MTFS) and is predicated on the following council pledges:

- **Put people and families at the heart of everything that we do**
- **Tackle inequality so people have a fair chance**
- **Support our communities to support themselves and each other**
- **Invest in our economy to provide sustainable opportunities for employment, innovation and growth across the borough**
- **Work together and fight for a better future for Gateshead**

4.3 The MTFS is central to identifying the council's capacity to deliver its priority outcomes it reflects:

- ✓ 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.

4.4 There are huge financial pressures on not just council resources, but those of partners, local businesses and residents. To deliver on the new strategic approach over the next five years, the council will need a radical rethink about how it works, how resources are spent, how the council works with partners, organisations, businesses, trade unions, employees and the local people and communities of Gateshead.

5 The Council's Current Financial Position and Outlook

5.1 **Revenue Outturn 2017/18** The agreed net revenue budget was £202.649m. The final outturn reported to Cabinet on 19 June 2018 stating an overall under spend of £1.268m after proposed movement of reserves. Whilst the outturn position is positive, it should be noted that a number of one off areas of under spend in capital financing costs and unrequired contingency as well as additional traded and investment income have contributed to this position.

5.2 **Revenue Budget 2018/19** Council agreed the revenue budget in February 2018. This was set at £203.466m and included £13.650m savings. 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. It is assumed within future sections that all past savings are fully achieved before entering 2019/20 otherwise the financial gap would increase. These will be closely monitored throughout the year.

5.3 **Future Outlook Beyond 2018** Medium term financial planning remains extremely difficult due to external economic factors the financial impacts of which are impossible to predict accurately, coupled with the timing of a new finance system that is still in the design process. There is great uncertainty in relation to the level of funding beyond 2020 due to the changes in the Local Government finance system resulting in greater risks in relation to the localisation of business rates and the local council tax scheme. The unknown impacts alongside the level of risk to finances mean that these forecasts will need to be closely monitored and potentially refreshed more frequently than usual as consequences become clear. Staying the same is not an option. The council is required to change to deliver its priority outcomes within the limited funding available.

5.4 To achieve a long term, sustainable financial position the medium term strategy and focus for service plan development over the next three to five years will be centered around;

Maximising Economic Growth - Doing all we can to support economic growth and revenue generation through increased council tax and business rates. Success in this area will enable the council to reinvest resources into activities which protect the most vulnerable.

Driving **Income Generation** such as increasing the rate or scope of fees and charges or increased trading activities.

Focusing on **Managing Demand** (particularly in social care) with a targeted approach, emphasising early intervention and prevention.

Continuing to **Drive efficiencies & Savings** through changes to the way the council works, for example, through exploiting new technology, consolidation of buildings and services, reducing complex processes.

Economic Growth

5.5 The council aims to promote a strong and sustainable local economy leading to wellbeing and prosperity for residents, communities and businesses. This will be supported by a planned approach to investment to boost local economic growth such as improving local infrastructure and wider transport links. Success in this area will enable the council to have a stronger medium and long term financial position and allow redirection of resource to activities which protect the most vulnerable.

5.6 Targeted intervention through various initiatives aimed at attracting more and better paid jobs and improving skills can possibly boost the proportion of working age residents and encourage economic growth through more people in work.

5.7 From a financial perspective the council will look to invest resources to generate economic growth that will result in increased business rates and council tax income to the Council. This will enable the council to become more financially self-sufficient and help close the funding gap. 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.

5.8 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. Enterprise Zone status at Follingsby has been secured and came in to effect on 1 April 2017 allowing business rate retention to support infrastructure investment to enable development

5.9 The 2014 to 2020 European Structural and Investment Fund (ESIF) programme continues to provide an opportunity to lever funds in to the borough to deliver our ambitions for smart, sustainable and inclusive growth. The council will continue to seek ERDF funding to support council priorities.

Income Generation

5.10 The council aims to strengthen the long term financial position through replacing government funding by increasing income sources such as increased areas of trading to generate a surplus for re-investment in priority services. This will involve a more driven commercial approach to traded service delivery and fees and charges but built upon key council principles and priorities. The council benefits from its existing strong in house traded services and the intention will be to use this platform to expand into new markets to generate increased income. The council will actively seek to maximise investment opportunities after consideration of risk and financial pay back whilst continuing to seek out and securing external funding.

Managing Demand

5.11 Like many other local authorities a significant challenge facing the council is increasing demands and expectations for services at a time when funding sources are significantly reducing. In order to manage cost pressures over the medium term it is vital that plans are made to manage this demand and either reduce or stop it.

5.12 A particular area facing this pressure is in both children's and adult's social care where costs are increasing and vastly outstrip available budgets. This requires a targeted approach with early intervention and prevention strategies and working close collaboration with partners.

5.13 Other areas of demand include demands for online services, welfare and hardship support, access to public health services. This will involve implementing digital strategies, increasing capacity and skills within communities, close working with partners and volunteers to align priorities and increasing collective responsibility by encouraging and supporting local people, partner organisations, businesses and local communities to play a more active role in achieving priority outcomes for Gateshead.

Efficiencies & Savings

5.14 The scale of the budget challenge means that the council will still face further significant cost reductions through efficiencies and different methods of service provision and reductions in service provision. The scope of this will require a realignment of budgets to council spending priorities. This in turn may result in ceasing existing activities, scaling down activities or services, renegotiation of contracts or Service Level Agreements. Despite already achieving considerable budget savings to date the council will continue 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.

5.15 The council will also actively look to streamline its processes in order to support effective decision making and make the best use of available capacity. 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 working collaboratively with key partners to share costs or transfer responsibilities.

6 Looking Ahead

6.1 Future budget forecasts have been projected over the medium term. Forecasts and assumptions are outline below for information.

2018/19 £m	Indicative Budget Forecasts	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
202.649	Net Revenue Budget	203.466	221.382	234.685	245.198	256.128
	Cost Pressures:					
2.638	Base Adjustments	0.000	0.000	0.000	0.000	0.000
0.894	Inflation (General)	0.900	0.900	0.850	0.850	0.850
1.077	Inflation (Contractural inc Social Care Fees)	2.350	2.385	2.421	2.461	2.498
4.498	Corporate Council Wide (inc pay)	4.355	5.255	4.266	4.928	4.692
3.618	Demand (Social Care)	9.278	2.000	2.000	2.000	2.000
1.742	Strategic Investment (Capital)	1.033	2.763	0.976	0.691	1.430
217.116	**Total Cost Pressures**	**221.382**	**234.685**	**245.198**	**256.128**	**267.598**
	Funding Resources:					
(21.423)	SFA - Revenue Support Grant	(15.012)	0.000	0.000	0.000	0.000
(39.385)	SFA - Retained Business Rates	(39.385)	(60.117)	(60.117)	(60.117)	(60.117)
(14.770)	SFA -Top Up Grant/Equalisation	(15.098)	(30.183)	(28.024)	(27.994)	(27.994)
(86.798)	Council Tax	(87.198)	(87.598)	(87.998)	(88.398)	(88.798)
(36.724)	Other Grants (inc Public Health)	(35.466)	(14.000)	(14.000)	(14.000)	(14.000)
(3.029)	Collection Fund	0.000	0.000	0.000	0.000	0.000
(1.337)	Reserves	0.000	0.000	0.000	0.000	0.000
(203.466)	**Total Funding Resources**	**(192.159)**	**(191.898)**	**(190.138)**	**(190.508)**	**(190.908)**
13.650	**Cumulative Funding Gap**	**29.223**	**42.787**	**55.060**	**65.619**	**76.689**
13.650	**Annual Funding Gap**	**29.223**	**13.564**	**12.272**	**10.560**	**11.070**

6.2 The indicative budget forecasts show an estimated funding gap of around **£76.7m** for the five-year period 2019/20 to 2023/24.Indicative figures have been included for the following cost pressures;

- **General and Contractual inflation** the cost pressures arising from rising costs in utilities and existing contracts
- **Council Wide Cost Pressures** such as pension costs, pay awards, costs relating to changes in policy and loss of grant in year
- **Service Demand Pressures** such as children's and adults existing and future demand cost pressures
- **Revenue Costs of Capital Investment** the revenue cost arising from capital investment

6.3 Social care cost pressures are significant and more information on these has been provided below for information and context. Following an assessment of existing demand the MTFS includes provision of £5.4m in 2019/20 to reflect current demand pressures in this area.

6.4 ***Adult’s Social Care Demand Pressures*** The population is ageing: it is projected that by 2039 there will be an additional 14,400 people aged 65 or older, an increase of 38%. Within this it is expected those aged over 85 will increase by 114% to 9,700. Some of the cost pressures arising from this increased demographic are outlined below. Not all have been fully reflected in MTFS figures as to meet this challenge the council aims to control new demand and reshape the supply base with a strategic shift in resources and culture from intervention at the point of crisis towards prevention, early intervention and through use of assistive technology with targeted support for people with more complex needs. The way services are provided has to be redesigned to make available new, more creative ways of working giving people greater choice and control. This will require a change of approach from one that fosters dependency to one founded on enablement. To achieve this requires the development of a market that offers a broad range of care and support options.

- **Transforming Care Plans** - The government and leading organisations across the health and care system are committed to transforming care for people with learning disabilities and/or autism who have a mental illness or whose behavior challenges services. Too many people with learning disabilities are admitted to hospital when admission could have been avoided, remaining in hospital too long with instances of poor care remaining too common. Transforming care plans look to ensure that anyone with a learning disability and/or autism in hospital who could be supported in the community is discharged into a community setting and in addition take immediate steps to support discharges and prevent inappropriate admissions, look to see a more fundamental and long-term reshaping of services.

  Given the reduction in the numbers of inpatient settings and the need for greater support in the community there are likely to be significant financial burdens for local authorities. The extent of this additional burden will be dependent upon the local population and will require additional work and analysis and as such has not been reflected as yet in the MTFS demand analysis. However, based on average package costs and an estimate of the numbers of clients currently in inpatient settings and due to be discharged the additional cost is estimated to be approximately £0.6m by 2019/20.

- **Increasing numbers of Older People** - More than half of Gateshead residents aged over 65 will have problems with frailty. This is the first indication of a new or worsening health problem and can sometimes represent a tipping point in a person’s life, triggering a downward decline in independence.

  Falls account for 50% of injury related hospitalisations among people over 65 years and older. Gateshead resident’s over 65 years of age are 26.7% more likely to be admitted to hospital or suffer injury because of a fall and 24.2% more likely to suffer a hip fracture when compared to the national average for England.

  It is estimated over 2,600 people over the age of 65 have dementia in Gateshead and this is expected to increase in the future as the population ages. By 2035 this is projected to rise to 4,064. Prevalence of diagnosed dementia is increasing both nationally and locally. In Gateshead the prevalence has increased from 0.7% in 2011/12 to 0.9% in 2016/17. Providing care for people aged over 65 accounts for approximately 46% of the total spend on Adult Social Care. Approximately 6% of people in this age group are currently receiving services. If it is assumed that this correlation continues then it would result in an increase in cost of £2.4m over the MTFS period and £6.1m by 2030. However, the level of dementia prevalence is set to rise along with the prevalence of autism and this will increase costs and demand for services further still.

- **Life Expectancy** - At 77.5 years for males, and 81.3 years for females, life expectancy at birth is lower than the England averages of 79.5 and 83.1 years respectively. Life expectancy can vary across wards by as much as 9.3 years.

  Healthy life expectancy in Gateshead is significantly lower than for England: for men it is 59.1 years compared to 63.3 and for women 60.6 years compared to 63.9. Around 22% of people in Gateshead reported that their health limits day to day activities compared to around 18% nationally. (Census 2011).

  There are an increasing number of people in Gateshead with one or more of the common long-term conditions (LTCs) such as diabetes, epilepsy, heart disease, chronic pain, arthritis, asthma and chronic obstructive pulmonary disease. In 2014 there were 52,679 people of whom 8,274 had three or more LTCs. The risk of unplanned hospitalisation increases with increasing number of LTCs. This combined with the ageing population has a significant impact on health and social care locally.

- **Young Adults with Disabilities** - Providing care and support for people under 65 with disabilities accounts for 41% of the budget and a 2% increase in demand would cost approximately £0.5m. There were 525 adults with learning disabilities in receipt of social care services at the end of March 2015. It is predicted that by 2030 there will be 2% more people aged 18+ with learning disabilities with a level of need requiring statutory social care intervention. There are approximately 3,800 adults with a learning disability in Gateshead; approximately 800 are 65 or older. In Gateshead, an estimated 1,226 adults aged between 18 and 64 are believed to have an autistic spectrum disorder, as well as a further 348 aged 65 and over. Whilst the number aged between age 18 and 64 with autism is expected to remain stable in future years, the number aged over 65 is expected to increase by over 31% by 2030. There is a small reduction expected in the numbers in need of support aged 18-64 who have diagnosed mental health conditions.

- **Carers** - Census 2011 tells us that out of the population of Gateshead, 22,220 people recorded themselves to be providing unpaid care, an increase by almost 1,000 carers since Census 2001. Of these, about 1,670 are young carers (aged under 25). The number of people aged 65 or over, living in Gateshead, will be increasing in future. The majority of carers who live in Gateshead are between the age groups of 25-64 years. More carers are female (58%) than male (42%). In Gateshead a high percentage of carers live in the most deprived areas.

- **Market Stability** - The council is committed to ensuring it commissions quality services with an outcome focus and in doing so it must ensure services are cost effective. The stability of the provider market is essential to ensure services are responsive to the needs of Gateshead residents. Workforce is key to this and under the Care Act, local authorities must have regard to both the importance of ensuring the stability of the market and the importance of fostering a workforce whose members ensure the delivery of high quality services. This is against the backdrop of social care workers facing physically and mentally challenging working conditions. (National Audit Office 2018, The adult social care workforce in England). The average age of the care sector workforce is 45 with 11% of the workforce aged over 60.

Both the quality and availability of care provision is an increasing problem with a number of providers failing in the last 12 months, contracts being handed back and increasing provider concerns. Whilst work can be done with providers to provide training and upskilling of staff the price paid for care generally perpetuates low pay and poor terms and conditions of employment. To enable a change significant investment would be required in the care sector which has not yet been fully quantified.

6.5 ***Children's Social Care Demand Pressures*** Not all estimated cost pressures have been fully reflected in MTFS figures the council aims to control new demand and reshape services. Further details on pressures in children's social care are outlined below;

- **Looked after Children** (LAC) across England has increased steadily over the past seven years and it is now higher than at any point since 1985. Statistics taken from the 2017 Department for Education (DfE) Statistical First Release on children looked after in England (including adoption and care leavers) show a 5.5% increase of looked after children in England from March 2014 to March 2017 and an overall 10.9% increase when compared to March 2011.

Number of children looked after at 31 March 2010 to 2017	Number of looked after children (England)	Number of looked after children (Gateshead)
2011	65,510	349
2012	67,070	385
2013	68,070	391
2014	68,820	360
2015	69,500	344
2016	70,450	343
2017	72,670	380

Gateshead Council has circa 397 LAC (March 2018) costing on average £38,000 per child annually. Through implementation of the planned Early Help and Demand Management strategy, the aim is to safely reduce these numbers down to around 320, which would place Gateshead below the regional average (368 based on 2017 data). However, the national and local increase in safeguarding pressures are the result of a complex myriad of factors, and these pressures will likely work against the Council's efforts to reduce demand. These include:

- **Changes in LAC Age Profiles** - Although LAC nationally is on the increase, there are material differences in the age profile of LAC coming into the system. 62% of children looked after were aged 10 years and over in 2017 compared to 56% in 2012. There has been a reduction in the number and proportion of children aged 0-4 years, from 24% in 2012 to 18% in 2017. There is a higher average cost of looking after an older child compared to a younger child. To maintain and reduce the levels of older young people and adolescents becoming looked after, the new Rapid Response service commenced in January 2018 to work with those young people and their families in need or on the edge of care, using evidence based interventions to reduce the number of family breakdowns which then require a care episode

- **Population Increases** -projections suggest that the 0-17year old population in North East England will increase by 2% up until 2020, which will undoubtedly have consequences for numbers of children requiring support from children's services. By 2020, the impact for Gateshead of this alone would mean 10 more LAC, 6 more young people subject to Child Protection Plans and 5 more young people living under special guardianship and residence order arrangements. This would cost the authority at least an extra £0.500m per year by 2020 in placement and case management costs.

- **Increases in reported sexual abuse** (online and physical) of young people, linked to high profile national cases in the media, has increased awareness and the importance of reporting potential concerns. This has had the impact of increasing initial contacts and referrals from all sources into local authorities by 30% since 2008/09. In Gateshead there has been an increase of 9% in the number of referrals received in the last two years, requiring an additional 157 assessments to be undertaken per annum, costing the authority up to £55,000 per annum in Social Worker time.

- **Staying Put policy** - whereby foster children can stay with foster parents up to the age of 21 instead of age 18. National indications are that up to 50% of young people are now choosing to remain with their former foster carers post 18. This results in increased costs for local authorities to pay the carers of those young people for longer. It also places a strain on the foster carer capacity, as it reduces the availability of foster carers for new children starting to be looked after. This in turn increases the reliance on independent fostering agency placements, at a significantly higher cost. The government have also indicated this could also be expanded to those young people in residential provision up to age 25, which based on current projections for Gateshead, could cost the council an additional of £2.0m per year by 2020, with potentially an additional 96 young people aged between 18 and 25 remaining with their foster carer.

- **Welfare reform impacts on families** - mainly in terms of the increase in poverty and associated factors. In 2014/15, there were 3.9 million children living in relatively low income, 200,000 (+5%) more than the previous year. There is a projected increase in the proportion of children living in relative low income from 17% in 2013/14 to 26% in 2020/21 (HM Government, 2016). Welfare Reform has increased the prevalence of families with no recourse to public funds (NRPF), where they have no legal entitlement to financial support or assistance from the state. These are increasingly presenting to children's social care services for support (under section 17) by families with children, or by children or young people themselves who are unaccompanied or separated from their parent or legal or customary caregiver.

- **Increase in prevalence of the "toxic trio" of domestic abuse,** parental mental health and parental substance misuse within families. Research conducted by the ADCS has concluded the toxic trio was present in 65% to 80% of cases. This increases the complexity and intensity of interventions required to manage demand and keep families together.

6.6 Within the 2018/19 Local Government Finance Settlement, the government provided some indicative core funding levels up to 2019/20 including Revenue Support Grant. However, huge uncertainty still exists in respect of likely government funding levels in future years as well as the instability that arises from the volatility of business rates funding and the implications of the move towards a new funding regime of 75% rate retention.

6.7 The funding projections in this strategy are considered more applicable and based on local assumptions, these are set out below for information.

6.8 **Revenue Support Grant (RSG)** The core grant funding from government is known as RSG. Settlement figures show a further reduction in RSG in 2019. Since the drive for localisation in 2013/14 there will be a total reduction in grant of £61.7m up to 2019. The MTFS assumes zero RSG from the year 2020 in line with government announcements of the intention to remove all core grant by the end of parliament. It is assumed that RSG received in 2019/20 will be in line with the multi-year settlement figures.

6.9 **Retained Business Rates** values reflect the baseline value outlined in the 2018/19 estimated forecasts. 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 financial gap.

6.10 Since the 2017 to 2019 Parliament, the landscape for finance reforms has changed. The future of reforms became uncertain after the Local Government Finance Bill which provided the legislative framework for 100 per cent retention, fell when Parliament was dissolved and was not revived in the Queen's Speech. It was announced within the provisional Local Government Finance Settlement 2018/19 that the government aimed to introduce at least 75% business rates retention in 2020.

6.11 The MTFS assumes that the move to 75% business rate retention is implemented in 2020. This change in funding system for local government is still being consulted on. This adds significant uncertainty into the year 2020/21 and future position. At this point it is known that Revenue Support Grant will disappear and the council will receive business rates calculated on a revised baseline. Business rate funding levels in future are highly indicative and are based on 75% of total rates plus an element of equalisation. This will need to be revisited as more information on the proposed new system comes to light.

6.12 **Council Tax** Increases would need to take into consideration the Government's referendum principles which are set out every year. A 1% increase in council tax yields approximately £0.81m. MTFS projections include no council uplifts over the period. Actual council tax increases will be decided on an annual basis taking into account financial circumstances of the council at the time and the level of resources available. Annual increases remain subject to the decision of both Cabinet and Council. The council will continue to seek ways to raise new funding by promoting a growing local economy through new businesses and new housing as well as to increase traded and investment income to help contribute to closing the financial gap alongside the consideration of possible future council tax increases.

6.13 **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. The MTFS assumes that by the end of parliament all other grants will taper off to nil to be replaced under the new funding regime under rates retention and fair funding.

6.14 **Public Health** A letter received by the Department of Health in December 2017 confirmed that the Public Health Grant ring-fence and grant conditions will remain in place until 31 March 2020. From April 2020, it is expected that the Public Health Grant will be replaced in some form by retained business rates. Without any confirmation of the future arrangements of this grant the MTFS assumes that the grant will continue albeit on a reduced basis. The amount has been estimated for planning purposes at a reduced figure but this is not confirmed nor any transitional phasing or confirmation of future of the ring fence and any mandated services following roll in.

6.15 **Treasury Management** The Council invests money with a number of financial institutions acting in accordance with the framework outlined in the Treasury Policy Statement and Treasury Strategy 2018/19 to 2022/23. The investment interest earned is used to support **the** Council's new strategic approach 'Making Gateshead a Place Where Everyone Thrives'.

6.16 **Fees and Charges** The council currently raises in the region of £20.1m from fees and charges, of which around £3.2m relate to statutory charges and £16.9m relate to non-statutory charges. It is normal practice for the council to review fees and charges annually and propose revised and new charges from 1 April each year. This will include the development of any policies in respect of discounts and concessions. As part of the annual review, all fees and charges are considered. Where inflationary increases have been proposed, these have been uplifted with the September 2017 Consumer Price Index (CPI) rate of 3%. Any impact on income budgets arising from these areas are either adjusted at the annual budget setting stage or will be consulted on as part of the budget proposal process.

7 Capital and Prudential Borrowing

7.1 The council's capital investment plans are set out in the capital programme, with the latest approved programme covering the period between the 2018/19 and 2022/23 financial years. The effective use of capital resources, including asset management, is fundamental to the Council achieving its medium and long term strategic objectives. Capital investment has a significant impact upon the local economy and helps to ensure that the council can continue to provide the best possible services and outcomes within Gateshead.

7.2 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.

7.3 The approved five-year capital programme for the period 2018/19 to 2023/24 includes a number of ambitious projects and estimates £405m of planned capital investment (excluding Housing). It is envisaged that additional projects and investment opportunities and pressures will emerge over the period as major projects, such as investment in Gateshead Quays, continue to progress towards the delivery phase. Indicative allowances have been included within the MTFS projections to support an additional £100m of borrowing in excess of the allocations within the existing approved programme over the period and this position will be reviewed as the capital programme is developed.

7.4 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.

7.5 The generation of capital receipts can help to provide resources to support additional capital investment or can help to reduce the borrowing requirement and therefore the cost to the revenue budget. The availability of capital receipts has also reduced in recent years as a result of the property market. Capital receipts totalling £6m have been included within the MTFS projections. 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.

7.6 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

7.7 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, security and resilience and ensure that the council remains fit for the future and can provide services as efficiently and effectively as possible;

- Investing in strategic infrastructure to support growth within Gateshead. This includes investment in areas such as transport infrastructure to provide an integrated transport system which meets demand and improves connectivity and accessibility as well as investment in the council's schools to help increase capacity;

- Investing in the provision of energy infrastructure to support the expansion of the 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 neighborhoods 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.

7.8 The financial planning framework provided by the MTFS will provide the context for a council investment plan that will inform the allocation of resources within the capital programme.

8 Reserves

8.1 Local authorities must consider the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. The Strategic Director, Corporate Resources is required, as part of the budget setting process each year, to provide a statement on the adequacy of reserves that is subject to an external audit review to assess value for money and a going concern opinion.

8.2 The Council keeps a level of reserves to protect against the risk of any uncertainties or unforeseen expenditure. This is considered best practice and demonstrates sound financial planning. 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 time to ride any short-term situations before returning to normal. Therefore, reserves are mainly used to;

- ✓ Manage 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 each 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 to increase.

Reserves Policy

8.3 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

8.4 A review of reserves is undertaken twice a year and covers:

- 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.

8.5 The 2017/18 Revenue Outturn position was reported to Cabinet on 20 June 2018, showing the balance of usable reserves of £55m (including ring fenced reserves of £13m)

8.6 In support of the reviewed MTFS position a full review of reserves has also been carried out and it was concluded that no further changes are required at this time. An explanation of each reserve and balances as at 31 March 2018 can be found in the council's audited statement of accounts for 2017/18.

Reserves Summary 2018/19 to 2023/24

8.7 The following table illustrates the estimated use, following review, of all revenue reserves over the period to March 2024;

Reserves Review MTFS

	Opening Balance	Estimated Use		MTFS PROJECTIONS				Remaining Balance
	Apr-18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Mar-24
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
General Fund								
General Reserve	(13,668)							(13,668)
LMS Budget Share Reserve*	(5,205)	1,800	1,800	1,605				0
Total General Fund Reserve	**(18,873)**	**1,800**	**1,800**	**1,605**	**0**	**0**	**0**	**(13,668)**
Earmarked Reserves								
Strategic Reserves								
Business Rates Reserve	(5,000)							(5,000)
Insurance Reserve	(3,000)							(3,000)
Grant Clawback Reserve	(1,000)		400					(600)
Workforce Development Reserve	(6,009)	200	1,000	1,000	500			(3,309)
Discretionary Social Fund Reserve	(648)	216	216	216				0
Budget Flexibility Reserve	(2,571)	2,071	500					0
Economic Growth, Culture and Place Shaping Reserve	(4,212)	1,407	935	935	935			0
Strategic Revenue Investment Reserve	(4,206)	2,000	1,500	706				0
Voluntary Sector Reserve	(475)	250	225					0
Anti Poverty Reserve	(862)	450	412					0
Ring Fenced Reserves								
Developers' Contributions*	(2,427)	886	584	479	478			0
DSG Reserve*	(1,156)	1,156						0
Unapplied revenue grants*	(1,952)	1,214	608	32	32	32	32	0
Public Health Reserve*	(2,632)	1,014	475	285	286	286	286	0
Total Earmarked Reserves	**(36,150)**	**10,864**	**6,856**	**3,653**	**2,231**	**318**	**318**	**(11,909)**
Total Reserves	**(55,023)**	**12,664**	**8,656**	**5,258**	**2,231**	**318**	**318**	**(25,577)**
Total Ring fenced*	(13,372)	6,070	3,467	2,401	796	318	318	(0)
No Ring-fence	(41,651)	6,594	5,188	2,857	1,435	0	0	(25,577)
	(55,023)	**12,664**	**8,656**	**5,258**	**2,231**	**318**	**318**	**(25,577)**

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

8.9 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.

8.10 The council accepts that while balancing the annual budget by drawing on general reserves can be in certain circumstances a legitimate short-term option it is not considered good financial management to finance recurrent expenditure in this way. Where this approach is adopted the council will be explicit as to how such expenditure will be funded in the medium to long term to achieve financial sustainability. 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.

9 Risk Assessment

9.1 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 2019/20 and beyond are based on best estimates at this time. A prudent approach has been adopted based on previous years' experience as well as using regional network contacts to inform modelling.
2. Volatility of Business Rates funding given uncertainty around impact of appeals	Likely	High	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 internal financial planning.
3. Public Health funding not sufficient to meet responsibilities	Possible	Medium	Funding confirmed for 2019/20 but not in future years. The lack of certainty of continuation of grant going forward is a significant risk. Public Health responsibilities will be rolled into the new system under the move to 75% rate retention.
4. Pay Awards, fee increases and price inflation higher than assumed	Possible	Medium	Impact of potential increases mitigated by central contingency budget for pay, price increases and care fees. Where pay awards have been agreed these are factored into the estimates.
5. Future spending plans underestimated	Possible	Medium	Service planning process identifies future budget pressures and these have informed the indicative budget forecasts. An effective budget monitoring framework is in place to identify in year and potential future cost pressures.
6. Anticipated savings/ efficiencies 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. Greater scrutiny of savings has taken place since 2017 through the revenue monitoring process. 2018/19 will see dedicated senior officer sessions on budget issues.

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.
8. Income targets not achieved	Possible	Medium	Current economic climate likely to impact. Regular monitoring and reporting takes place. Full review of fees and charges is undertaken on an annual basis.
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 CMT 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.
12. Interest rates lower than expected	Unlikely	Low	Regular review, monitoring and reporting on interest rates. Prudent assumptions on likely interest rates for 2018/19 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	Medium/ High	Best estimates of impact of government policy on funding factored into MTFS. Estimates are prudent and based on recent experience. Specific areas of uncertainty identified and subject to focussed actively, close monitoring and review. Risks of Better Care Fund are managed through the joint Council/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.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 an effective 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.
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. Regional networks such as SIGOMA , ANEC provide ability to assess and compare strategies to ensure assumptions are comprehensive.

10 Conclusion

10.1 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.

10.2 The MTFS covers five years and funding beyond 2019/20 remains highly uncertain although all indications are that austerity measures are likely to continue throughout the medium term.

10.3 The MTFS identifies a potential financial gap of £29m in 2019/20 and £55m in the next three years from 2019/20 to 2023/24. This funding gap comes on top of budget savings of £157m that have already been taken from budgets by this council since 2010.

10.4 The MTFS supports the requirement to continue a rolling programme of internal indicative budget setting and efficiency plans to bridge an estimated £76m financial gap covering the period 2019/20 to 2023/24.

10.5 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 an appropriate pace.

10.6 The council will continue to keep the MTFS estimates under more frequent 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 and future finance reforms.