

Annex B

Analysis of Key Corporate Risk 1 – Financial Pressures

1. This Annex provides a more detailed analysis of KCR1, Financial Pressures.
2. The description of this risk is as follows; The ongoing funding of local government will continue to have an impact on council services. The expectation is that £23m savings will be required over the years 26/27 to 28/29. The council needs a structured and strategic approach to deliver the savings in order to ensure that any change to service provision is aligned to the council's key priorities. In addition, other partner organisations are facing financial pressures that impact on the council.

Risk Detail

Reduction in government grants leading to the necessity to make savings

3. Since 2015 we've delivered savings of more than £78m.
4. The 2025/26 Local Government Finance Settlement was again for just a one year period. Whilst additional funding was allocated to social care, the funding remains insufficient to meet the increased costs of demand and complexity being seen. This means savings needs to be found in other areas.
5. Changes in the way Local Government is funded have masked the reductions in funding for Councils since 2010/11. However, when comparing Core Spending Power (the measure used by Government) whilst this has increased by 22% since 2010/11, in real terms and mainly due to inflation, there has been a reduction in spending power of 11.7% for York.
6. The scale of savings that will be required in the future will be driven by the outcomes of the forthcoming spending review alongside the extent to which spending pressures affect the council.

Election of new government results in changes to local government settlement.

7. The 2025/26 settlement signalled a change in funding towards authorities with higher levels of deprivation and less ability to generate income from council tax. A new Recovery Grant was introduced, none of which was allocated to York.
8. The Government has consulted on Local Authority Funding Reform, seeking view on the approach to determining funding allocations and ways in which the demands on Local Government can be reduced.
9. Whilst this review has been long awaited, the continued uncertainty and lack of information about future years funding settlements remains an area of risk to the Council.
10. The consultation is clear that there will be a full business rates baseline reset. This could have significant implications for a high growth authority such as

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York. Whilst there will be transitional arrangements, the broad outcome expected is that Councils will lose most, or all of the business rates growth built up since 2013/14.

11. Considerable uncertainty about the future method of allocating funding remains.

Increased service demand and costs

12. The Council is continuing to see significant financial pressures because of inflation and increased demand for our services. There remain underlying budget pressures across both adult and children's social care, despite the allocation of growth each year. All services across the Council are operating in an extremely challenging environment.
13. Demand for services continues to increase with an ageing population and with increased complex needs in respect of social care. There are also significant challenges in the health sector, including challenging financial positions for health partners, which in turn constitute a financial risk to the Council.
14. The national census in 2021 predicts that 8.27% of York's population will be over 75 years old and has raised from 7.58% in 2011. At this level York's over 75-year-old population is higher than both the national (7.84%) and regional (7.89%) comparators. POPPI, a measure of older people provided by central government, is predicting a 28% rise in the number of people aged 80-84 in York between 2023 and 2027, resulting in further demographic pressures.
15. Nationally there is significant pressure on budgets in children's services. Whilst some additional funding has been allocated to social care as part of the provisional 2025/26 settlement, it does not cover the increased costs being incurred across the sector.
16. Inflationary pressures continue to be seen across all areas of the Council, most notably in the cost of capital projects.

Financial Pressures on other partners that impact on the council

17. This represents a financial risk to the Council because of the continued integration between health and social care. The total BCF pooled budget for use across the health and social care sector in York is £25.4m in 2024/25, of which £14.0m is allocated to adult social care services. Clearly any future reduction in either the overall BCF or the proportion allocated to social care would have a material effect on the council's finances.
18. In addition, this needs to be considered in the wider context of the health and social care economy in York. The NHS has recently reorganised how it commissions services moving from Clinical Commissioning Groups to broader Integrated Care Systems with developing structures and budget delegation. CYC sit within the Yorkshire & Humber Integrated Care System which is carrying a £240m deficit (per the 2023/24 audited accounts).

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19. They are still going through the process of deciding what budgets will be held at a local level and what will be delegated to York Place Integrated Care Board, the body aligned to the Council's boundary and population. Irrespective of whether Health budgets are held locally or centrally, their challenging plans to address deficits may well impact on the future level of funding available for social care services.
20. York and Scarborough Teaching Hospitals NHS Foundation Trust operate York Hospital within the city boundaries. They reported a £15.7m in year deficit for 2023/24 in their annual accounts and continue to face significant financial and operational pressures; actions to address these may also impact on the Council's finances and resources

The spending review is one year only for 2025/26

21. As outlined in paragraph 4 above, the finance settlement was again for just one year. With a series of one year settlements over recent years, and the forthcoming spending review expected later in 2025, forecasting beyond 2026/27 with any certainty is virtually impossible. This lack of long term funding announcements creates uncertainty which in turn hinders any attempt at medium or long term financial planning

Lasting financial impact of the pandemic on the economy as a whole

22. The Council's main sources of funding are Council Tax and Business Rates. A downturn in the economy could result in empty business premises, which in turn will have a direct impact on the Council's finances. Fewer businesses mean fewer jobs which would ultimately result in more unemployment and therefore more residents needing help in paying their council tax.
23. The Council continues to provide support to our most vulnerable residents through the York Financial Assistance Scheme (YFAS), providing food and fuel vouchers.

Increased severity and frequency of climate hazard events (e.g. flooding)

24. Whilst York is used to dealing with flooding, and has a well organised response to flooding events, changes in the climate may increase the frequency of these events. Responding to flooding has a cost in staff time and resources to deploy barriers, signage, etc. This also takes staff time away from other business as usual activity. It follows therefore that more flooding events will increase costs to the Council and potentially impact on service delivery to residents.

Inflation falls slower than anticipated or starts to rise again

25. The impact of inflation continues to be felt across all Council services, particularly with increasing energy and materials costs. Additional provision has had to be made in budgets over the last 2 years to cover these rising costs. The increased cost of employer's national insurance contributions has added to the cost of external contracts, particularly in social care.

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26. Any further inflation increases will see the need to add further growth into the Medium Term Financial Strategy, resulting in an increased budget gap and the need to make more savings.

Increased risk of UK recession

27. The impact of this risk is covered within the impact of inflation and the impact of the financial impact of the economy in that a recession would increase unemployment. The main impact on the council being a reduction in income from council tax, business rates and potentially car parking. There would also be an increase in the number of residents needing support.

General cost pressures due to impact of Ukraine conflict.

28. The impact of this risk is covered within the impact of inflation, increased service costs, inflation and increased risk of recession.

UK Bank of England Interest rate expected to remain high until late 2024

29. This mainly impacts the cost of borrowing to support the capital programme. Higher interest rates mean that capital schemes cost more to deliver, with the result that schemes may need to be stopped or scaled back to remain affordable.

Implications

30. The implications for the Council include;
- Potential major implications on service delivery, including increased costs and reduced delivery
 - Impacts on vulnerable people
 - Spending exceeds available budget
 - Inability to financially plan beyond the current financial year
 - Reduced funding from key income sources

Controls

31. The controls in place include;

Regular Budget monitoring

32. Monthly in year budget monitoring takes place within Directorates and is reported to Directorate Management Teams (DMTs) and Council Management Team (CMT). In year budget monitoring is reported to Executive quarterly. This provides assurance that budget pressures are being monitored and managed to ensure that the council expenditure is kept within approved budget limits.
33. To help mitigate the significant risks identified above in relation to other partners, council officers maintain a close working relationship and on-going

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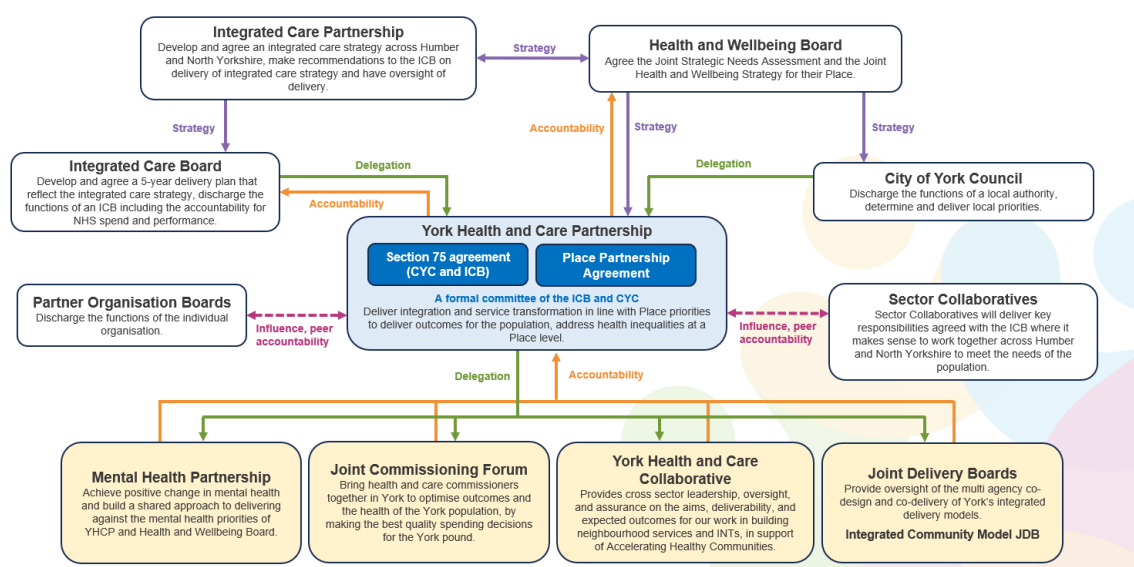
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dialogue with health colleagues, particularly York Place Integrated Care Board (ICB). This operates for commissioning, service delivery and through joint lead finance officer meetings. Ultimately it is the responsibility of the Health & Wellbeing Board to approve the BCF expenditure plans each year, with the board comprised of members and officers of the council, ICB and other local health bodies.

34. The York Health and Care Partnership has also been established as a formal committee with a s75 agreement being developed to pool and align budgets. The chart below describes the governance arrangements for the various boards and fora that feed in to and from the partnership. The pooled budget will be monitored by the partnership Board with members tasked with taking corrective action for overspending areas and considering how to invest any underspends that may arise.

Governance Structure

Humber and North Yorkshire
Health and Care Partnership



Effective Medium Term Planning and Forecasting

35. The medium term planning and forecasting reflects the council priorities with revenue and capital investment in a number of critical areas, or protection to existing spending, as set out in both capital and revenue budgets agreed by Council in February 2025.
36. The medium term strategy aims to ensure that, as far as possible, resources are aligned to the Council's priorities. It continues to invest in statutory areas, including social care. Ensuring that there is the capacity to invest in key priority areas is a critical part of the budget deliberations.
37. The scale of the budget reductions required will inevitably affect all services and all residents to some extent. In considering what savings can be made we have taken long term approaches to the development of future services where possible. This included an assessment of options, risks, and links with Council priorities. This strategic approach ensures that any cross cutting implications are taken into consideration and savings in one particular area do not impact

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on other budgets in an unintended way. This approach will help to protect the needs of the most vulnerable people in York. We have again prioritised investment in statutory social care services.

Chief finance officer statutory assessment of balanced budget

38. The Local Government Act 2003 places responsibilities upon the council's Chief Finance Officer to advise the council on the adequacy of its reserves and the robustness of the budget proposals including the estimates contained in the Financial Strategy document, agreed by Council annually in February. The Chief Finance Officer will also address the key risks facing the council in relation to current and future budget provision and the general robustness of the budget process.

Regular communications on budget strategy and options with senior management and politicians

39. The budget strategy process includes several meetings over a number of months with senior management and politicians to address the following key issues;
- Consideration of the current year position.
 - Consideration of unavoidable cost increases, priority areas, how to create the capacity in priority areas and creating the capacity to allow for service improvement and innovation.
 - How to best deliver services effectively for local residents, businesses, and communities
 - Consideration of reductions in grant funding.
 - Ensuring that the budget is robust and prudent and is based upon the strategic financial advice of the s151 officer.
 - Ensuring there is a strong link between the capital and revenue budgets and that the delivery of priorities fully considers the two budgets hand in hand.

Skilled and resourced finance service, supported by managers with financial awareness

40. The finance service vision is 'to be a high performing service that adds value to the Council through robust financial planning and performance management in a time of reducing resources and increasing demand.' The service works in partnership with all Council services to achieve our objectives.
41. The main objective for the finance service is the stewardship of Council funds. The service has a lead role in the financial management of the Council's budgets, and this is underpinned by robust budgetary control and the continuous review of our key processes to ensure improved efficiency and value added services.

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42. The services the finance function support are continually changing and developing to meet the changing demands of residents, within an overall context of reducing resource and increasing demand. The reduction in resources available are driving change across the council and require the finance function to identify new ways of working, whilst maintaining the overarching requirement for the proper administration of the council's financial affairs and effective accountability of the use of public funds.

43. As set out in the Finance Service Plan, the key areas of focus include:

- Support a robust planning and monitoring process to deliver the savings required
- Ongoing development of the Medium Term Financial Plan
- Statement of Accounts
- Using the financial management system to its full potential
- Implement changes following new accounting standards
- Monitoring the progress of the Procurement Green Paper and the development of a new Procurement Strategy (delayed from 2020)
- Development and delivery of training programmes covering finance, procurement and risk management
- Supporting the council's programme of major projects
- Responding to the changing needs of customers, particularly schools
- Working with Health partners, particularly in respect of the York Alliance on integration with social care and delivering Better Care Fund outcomes

Climate change mitigation and adaptation programme

44. The Council works closely with local, regional and national partners to ensure climate change programmes are delivered with a Climate Change Strategy and carbon reduction pathway to help the city be carbon neutral and climate ready by 2030. This includes developing and delivering the climate change and adaptation action plan. The plan contains a list of over 80 potential actions covering 8 priority themes and 31 strategic objectives identified in the Climate Change Strategy.

Financial Strategy approved

45. Approval of the Financial Strategy 2025/26 to 2029/30 provides assurance that a legally balanced and prudent budget is set for the financial year ahead, ensuring continued investment in key frontline service delivery whilst supporting the council's key priorities. In addition, the Financial Strategy sets out the strategic direction towards the achievement of medium term savings.

Cost control measures are in place and monthly cost control panels are held

46. All vacancies and requests for temporary staff are scrutinised by senior officers. A regular meeting between the Chief Officer for HR and the Director of Finance is supported by data on areas such as agency staff costs and

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overtime. Other spend is also reviewed at the Procurement Challenge Panel before it is incurred.

Corporate Improvement Framework has been established

47. A Corporate Improvement Board, made up of the Council Management Team, is in place to monitor and steer the council's continuous corporate improvement journey with reports covering transformation, budget savings and progress against the council plan.

Outstanding Actions

48. The development of the Financial Strategy is a year round activity. The 2025/26 strategy was approved at Council in February and work is already underway on planning for 2026/27.

Risk Rating

49. The gross risk score is 21 (likelihood highly probable, impact major). After applying the controls detailed above the net risk score is reduced to 14 (likelihood probable, impact major).