

<b>Meeting:</b>	Executive
<b>Meeting date:</b>	16/11/2023
<b>Report of:</b>	Debbie Mitchell, Chief Finance Officer
<b>Portfolio of:</b>	Cllr Katie Lomas, Executive Member for Finance, Performance, Major Projects, Human Rights, Equality & Inclusion

## Medium Term Financial Strategy Update

### Subject of Report

1. The purpose of this report is to provide an update to the Medium Term Financial Strategy along with an outline of the 2024/25 budget process.
2. The report also informs Executive of the key risks and challenges, along with an overview of the main assumptions used.

### Benefits and Challenges

3. There is a clear benefit to having a medium term financial strategy that enables the Council to manage its budget within available funds. Understanding the financial outlook and the impact of finances on the delivery of the Council Plan helps to manage risk and effectively target increasingly scarce resources to key priorities.
4. The challenges continue to be the uncertainty around funding from Government alongside managing increasing demand across all services, especially within social care, and ongoing inflationary cost pressures.
5. Over the next four years the Council will see some of the most significant financial challenges we have ever experienced. The delivery of this strategy will be extremely challenging for residents, other partners, members, and officers. It is important that we do not underestimate the scale of the challenge ahead. The level of

savings required over the next four years will inevitably require reductions in service levels and may result in some services stopping completely. Robust financial management, clear priorities and a focus on cost control are all essential to ensuring our continued financial sustainability and resilience.

## **Policy Basis for Decision**

6. The Medium Term Financial Strategy covers a four year period and aims to ensure that, as far as possible, resources are aligned to the Council's priorities.

## **Financial Strategy Implications**

7. This report outlines the financial strategy, including key assumptions and identifies a budget gap of £40m over the next 4 years. It also outlines an approach to budget planning which should ensure savings are identified. This is essential to safeguard the Council's financial resilience and stability.

## **Recommendation and Reasons**

8. Executive is asked to:
  - Agree the Medium Term Financial Strategy as outlined in this report

Reason: to ensure the Council meets future financial challenges and produces a robust budget.

## **Background**

9. The Medium Term Financial Strategy sets out an overarching forecast of the financial position for the next four years. The focus is on the General Fund revenue budget as this involves the majority of the Council's day to day spending and income.
10. The report sets out the key assumptions made in respect of Council Tax, pay, other inflationary pressures and Government grants. Members are reminded that these are financial planning assumptions, and no decisions will be made on the 2024/25 budget until Executive and Full Council in February 2024.

11. The financial challenges facing Local Government are a national concern. They are significant and the Council will have to make many difficult decisions in the coming years. Uncertainty regarding the funding position and the short term nature of funding settlements makes long term planning difficult, and therefore the Council will always need to be flexible in its approach to financial planning.
12. Budget reductions of £10m are needed in 2024/25 to allow for known costs, such as inflation and the national pay award. Considering continued pressures in social care and higher inflation, the savings needed are higher than in previous years. The Council has had to make significant budget savings over recent years as shown in the table below.

Year	Savings £m
2023/24	6,633
2022/23	7,870
2021/22	7,892

## Consultation Analysis

13. Consultation to date has been with Executive Members and the Council Management Team. A formal communication plan will be put in place to engage residents, staff, partners, and businesses to discuss the Council's financial position between now and when the budget is set in February.

## National Context

14. The financial challenges facing Local Government are significant. As outlined in previous financial reports to Executive, many Councils across the country are experiencing significant financial pressures and are struggling to balance their budgets. This is a national challenge but clearly the current economic climate alongside inflationary cost pressures and increasing demand for our services continue to have a financial impact on the Council's budgets.
15. 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 6% since 2010/11, in real terms and mainly due to inflation, there has been a reduction in spending power of 28.5% for York.

16. As highlighted in a recent report by the Institute for Fiscal Studies, York is one of the lowest funded Councils in the country, with a national rank of 143 out of 150. If all services are included, such as NHS, Police and Schools York is the lowest funded in the country ranked at 150 out of 150. Based on 2022/23 information, this shows local government funding per person of £727 in York compared to a national average of £865. Just being funded at the national average would increase City of York Council resources by some £27m per year. The continued delays to Fair Funding Reform therefore have a significant negative impact on York.

## **Local Issues and Challenges**

17. As outlined in previous reports to Executive, 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. Whilst these are statutory services that the Council will always deliver to best of our ability, by looking for efficiencies now, we are able to preserve preventative investment that can help to control demand for services in future years.
18. 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 are in turn a financial risk to the Council.
19. Nationally there is significant pressure on budgets in children's services. Despite the National Care Review, where Josh MacAlister recommended an injection of £2.6 billion to change the trajectory of future demand and spiralling costs, very little new funding has been announced.
20. A new Council Plan 2023 to 2027, One City For All has recently been approved. Over the next four years the Council will establish the conditions that aim to make York a healthier, fairer, more

affordable, more sustainable, and more accessible place where everyone feels valued, creating more regional opportunities to help today's residents and benefit future generations.

21. It is vital that the financial strategy supports the Council's priorities as outlined in the new Council Plan. However, delivering Council priorities at a time of significant financial challenge will require a more transformational, long term approach to continue to reduce costs overall whilst ensuring resources are prioritised to where they are needed most.

## Medium Term Forecast

22. The table below outlines the latest forecast and shows a cumulative budget gap of £40m.

	2024/25	2025/26	2026/27	2027/28
Costs	£m	£m	£m	£m
Pay & Prices	9.6	7.4	7.5	6.6
Cost of capital	1.6	1.6	1.6	1.6
Demographics (social care)	2	2	2	2
Service growth	4.5	4.6	4.2	4.2
Free School Meals	0.1			
Blue Badge city centre access	0.2			
<b>Total costs</b>	<b>18</b>	<b>15.2</b>	<b>15.3</b>	<b>14.4</b>
Income				
Council Tax	-5.9	-3.9	-4.1	-4.2
Business Rates growth	-1.5	-1.25	-1	-1
<b>Total funding</b>	<b>-7.4</b>	<b>-5.15</b>	<b>-5.1</b>	<b>-5.2</b>
<b>Budget Gap</b>	<b>10.6</b>	<b>10.05</b>	<b>10.2</b>	<b>9.2</b>
<b>Cumulative gap</b>	<b>10.6</b>	<b>20.65</b>	<b>30.85</b>	<b>40.05</b>

23. The forecast above is based on several assumptions. The national economic picture continues to be unpredictable, and several factors can influence the Councils finances. Whilst inflation may have peaked, it remains high and above the 2% target set by Government. Any variations from the assumptions used will have an impact on the overall resources available to the Council.
24. Given the current level of inflation, a pay rise of 5% has been assumed in 2024/25. An allowance has also been made for energy

and contract inflation of 5%. Time will tell if the current high levels of inflation prove to be temporary, but we will continue to monitor costs closely.

25. Allowance has been made for service specific growth. In the main, this is to cover known pressures already being experienced and therefore there is limited scope to reduce this.
26. The main assumptions included within the income budgets include a modest growth in business rates income along with a general council tax increase of 2.99% plus a 2% Social Care Precept
27. In terms of a strategy to close this forecast budget gap, several strands of activity are proposed. It remains important to ensure we can effectively control our costs in year and therefore an enhanced cost control group, chaired by the Chief Operating Officer, will complement the Procurement Challenge Panel currently being created. These groups will ensure that expenditure continues to be scrutinised and challenged, helping to deliver value for money, identify opportunities to reduce costs whilst also improving accountability and visibility of spend.
28. The strategy for identifying options to close the budget gap includes:
  - Identifying and maximising external funding sources. The budget amendment agreed at July Council approved a new post focussed on grants and investment which will support the identification of additional resources.
  - A full review of all current and potential fees and charges. Whilst in some cases fees are determined by statute, in many cases the level of fees charged can be decided by the Council.
  - The continuation of the Procurement Challenge Panel will ensure that all contracts are delivering value for money.
  - A continued focus on organisational efficiency, which will include restructuring and integrating services to remove duplication and overlap, exploiting the use of technology where possible and appropriate alongside reviewing the Council's assets to identify potential for generating capital receipts.
  - Prioritisation / service cuts. Given the scale of the financial challenge, it is unlikely that it will be possible to identify £40m of savings from the items listed above. It is therefore

important to understand that some services may need to reduce or stop completely.

- Continued work to review the capital programme and how this can be reduced or reprioritised in a way that helps to achieve the Council Plan whilst ensuring we invest in schemes that help to deliver long term reductions in cost.
- A detailed review of service growth to ensure that only essential items are included, linked to the procurement challenge panel and the enhanced cost control group referred to earlier in the report.
- A focus on delivering integrated early intervention / prevention solutions across the Council and with partners.
- Seeking to ensure additional capacity for complex social care cases with a view to reducing high cost external placements.
- A continued drive to minimise the use and associated cost of agency workers in the Council's workforce.

29. This overall strategy for closing the budget gap will therefore shape a series of service reviews, bringing together an overarching programme of work across the organisation. These reviews will include a review of structures, working practices, customer experience alongside areas for improvement and delivering savings. Work is ongoing to identify the priority areas for review.

30. A core internal programme team of existing staff will be established to support the reviews, engaging other support as and when required. If additional capacity is required, this will be considered as part of the overall programme.

## Organisational Impact and Implications

31. **Financial**, this report itself doesn't have any direct financial implications at this stage, but the report outlines that further significant savings are required. The ability of the Council to control its spending and future Government funding announcements will influence the level of savings that are needed.
32. **Human Resources (HR)**, there are no direct implications arising from the budget planning process. Any savings proposals with staffing implications will follow appropriate consultation and HR policies and procedures.

33. **Legal**, there are no direct legal implications related to the recommendations. The Council is under a statutory obligation to set a balanced budget on an annual basis. Any budget proposals and decisions relating to the 2024/25 budget process will be subject to future decision making processes in which legal implications will be considered.
34. **Procurement**, there are no direct implications arising from the budget planning process.
35. **Health and Wellbeing**, there are no direct implications arising from the budget planning process.
36. **Environment and Climate action**, there are no direct implications related to the recommendations.
37. **Affordability**, there are no direct implications arising from the budget planning process. Where any future budget decisions impact on residents on a low income these impacts will be recorded in the individual Equalities and Human Rights Impact Analysis referred to below.
38. **Equalities and Human Rights**, whilst there are no specific implications within this report, the budget itself will be accompanied by an equalities impact assessment and equality issues are considered at all stages of the budget process. Equality Impact Assessments will be completed for any individual budget proposals.
39. **Data Protection and Privacy**, there are no implications related to the recommendations.
40. **Communications**, the information set out in this report necessitates both internal and external communications. With ongoing interest in the current state of Local Government funding, we anticipate this report will attract media attention. A communications plan is being prepared to facilitate the communication with residents, staff, and others, that will be required between now and February, when the budget will be set.
41. **Economy**, there are no direct implications related to the recommendations.

## **Risks and Mitigations**

42. The increased demand for services and ongoing cost pressures across all services, along with the limited funding available to the Council, could mean that there are not enough resources available to support the delivery of the Council Plan. Continued overspending will weaken the Council's financial position, reducing financial stability and resilience.



## Wards Impacted

43. All

## Contact details

For further information please contact the authors of this Decision Report.

## Author

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<b>Report approved:</b>	Yes
<b>Date:</b>	03/11/2023

## Background papers

None

## Annexes

Annex 1 – Summary of potential budget reductions