

Annex B

Analysis of Key Corporate Risk 1 – Financial Pressures

1. As requested at the last A&G meeting, this Annex provides a more detailed analysis of KCR1, Financial Pressures.
2. The description of this risk is as follows; The ongoing government funding cuts will continue to have an impact on council services. Over the course of the last 4 years there has been a substantial reduction in government grants leading to significant financial savings delivered. The expectation is that £16m savings will be required over the years 17/18 to 19/20. 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. In the last decade we've achieved efficiency savings of more than £100m through careful management of our resources.
4. The 4 year settlement over the period from 2016/17 to 2019/20 includes a reduction of £19m in the Settlement Funding Assessment (SFA). The expectation is that £16m of savings will be required over the years 2017/18 to 2019/20. 2017/18 savings were £5.9m and savings of approximately £10m will be required from 2018/19 to 2019/20.
5. The scale of savings that will be required in the future will be driven by the outcomes of the devolution agenda, alongside the extent to which spending pressures affect the council.

Increased service demand and costs

6. Adult Social Care services are facing significant challenges to make care and support sustainable for the future. A growing, ageing population with increasingly complex conditions are putting pressure on services. For example; demographics show that there are 2,700 older people in York with dementia, this is

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set to grow by 30% to around 3,500 in the next 10 years. Across York 14,000 older people live alone, this is set to grow to 16,000 by 2027 and there are an estimated 2,500 people over 65 providing 20 hours or more unpaid care each week. By 2025, it is estimated that that this level of care provided by older people will increase by 16%. These are just some of the challenges that the social care market faces in York.

7. In addition rising costs such as landfill tax and inflation are driving costs up.

Financial Pressures on other partners that impact on the council

8. This represents the most significant financial risk to the Council because of the increased use of the Better Care Fund (BCF) to encourage the integration between health and adult social care. The total BCF pooled budget for use across the health and social care sector in York is £15.3m in 2017/18, of which £7.8m 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 affect on the council's finances.
9. In addition, this needs considering in the wider context of the health and social care economy in York as both the health commissioner (Vale of York Clinical Commissioning Group) and main provider (York Teaching Hospital NHS Foundation Trust) are currently carrying significant deficits. With the CCG projecting a £44m deficit by the end of 2017/18 and the hospital already reporting an in year deficit for 2017/18 of £14m. Their challenging plans to address these deficits may well impact on the future level of funding available for social care services.

Implications

10. The implications for the Council include;
 - Potential major implications on service delivery
 - Impacts on vulnerable people
 - Spending exceeds available budget

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Controls

11. The controls in place include;

Regular Budget monitoring

12. 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.
13. To help mitigate the significant risks identified above in relation to other partners, council officers maintain a close working relationship and on-going dialogue with health colleagues, particularly the CCG where joint responsibility for the BCF lies. 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, CCG and other local health bodies.

Effective Medium Term Planning and Forecasting

14. A vision for the city in 2030 was approved at Executive in July 2016. The key elements of the vision describes how the city will be in terms of the place, its people and the council, with sustainable growth providing the means to ensure all residents can fulfil their potential. This was summarised as ‘The Council will secure the future of York as a prosperous, progressive, and sustainable city, giving the highest priority to the wellbeing of its residents, whilst protecting the fabric and culture of this world-famous historic city’.
15. 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 2017.

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16. The medium term strategy focuses on delivering efficiencies across all areas and a significant amount of savings will be delivered by restructuring services. Ensuring that there is the capacity to invest in key priority areas is a critical part of the budget deliberations.
17. The 2017/18 to 2021/22 Financial Strategy report also sets out the strategic direction towards achievement of savings proposals for each directorate over the 3 year period from 2017/18 to 2019/20. This includes the directorate approach to protecting priority areas, safeguarding key statutory services and further details of the type of savings or efficiencies under consideration for the medium term.
18. This strategic approach ensures that any cross cutting implications are taken into consideration and savings in one particular area do not impact on other budgets in an unintended way.

Chief finance officer statutory assessment of balanced budget

19. 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

20. 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.
 - Consideration of reductions in grant funding.

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- Ensuring that the budget is robust and prudent and is based upon the strategic financial advice of the Deputy Chief Executive/Director of Customer and Corporate Services as 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

21. The finance service vision is 'to be a high performing service that adds value to the Council through robust financial planning and modelling in a time of reducing resources and increasing demand.' The service works in partnership with all Council services to achieve our objectives.
22. 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.
23. 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.
24. As set out in the Finance Service Plan, the key areas of focus over the current year include:
 - Development and delivery of training programmes covering finance, procurement and risk management
 - Support a robust planning and monitoring process to deliver the savings required
 - Ongoing development of the Medium Term Financial Strategy

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- Supporting the council's programme of major projects
- Working with Health partners, particularly the CCG on integration with social care and delivering Better Care Fund

Efficiency Plan agreed by Executive June 2016

25. In 2016 the government confirmed the replacement of the annual local government finance settlement with a multi-year settlement, and set out the principles for maximum council tax increases over a multi-year period.
26. On 30 June 2016 Council approved the recommendation to publish a 4 year Efficiency Plan to enable the council to take advantage of the 4 year settlement to improve stability and aid medium term planning. The government have confirmed that any council taking up the offer will not see a reduction in the settlement figures already announced.

Financial Strategy 2017/18 approved

27. Approval of the Financial Strategy 2017/18 to 2021/22 provides assurance that a legally balanced and prudent budget is set for the financial year 2017/18, ensuring continued investment in key frontline service delivery whilst supporting the councils key priorities. In addition, the Financial Strategy sets out the strategic direction towards the achievement of medium term savings.

Outstanding Actions

28. The development of the Financial Strategy 2018/19 to 2022/23 is due to be completed by January 2018. Work on this action has been underway for several months as part of the annual budget setting process. The Financial Strategy 2018/19 will be approved by Council on 22 February 2018.

Risk Rating

29. The gross risk score is 20 (likelihood probable, impact major). After applying the controls detailed above the net risk score is reduced to 14 (likelihood possible, impact moderate).