

Meeting:	Executive
Meeting date:	12/09/2024
Report of:	Debbie Mitchell, Director of Finance
Portfolio of:	Councillors Katie Lomas and Anna Baxter, Executive Members 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 2025/26 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 few 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 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 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 £30m over the next 3 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 three 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 also 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 2025/26 budget until Executive and Full Council in February 2025.

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. Recent uncertainty regarding the funding position and the short term nature of funding settlements has made long term planning difficult, meaning the Council will need to be flexible in its approach to financial planning.
12. However, in recent weeks the new Government has begun to outline some of their plans in relation to public spending. There will be a Budget on 30th October which will announce taxation and spending plans. A full multi-year spending review covering at least 3 years from 2026/27 will be announced in Spring 2025.
13. The Chancellor has published an audit of spending pressures across the public sector which has found £22bn of unfunded pressures. This has led to several savings being announced, including a decision to not proceed with adult social care charging reforms.
14. The figures outlined in this report do not take into account the potential for any additional funding. Whilst it is accepted that the overall budget gap could therefore reduce should further funding become available, it is vital that we continue to plan for significant reductions in our expenditure. Given the recent announcements made by the Chancellor and her view of the national finances, it is clear that further savings will be needed in public spending, including within local government.
15. Budget reductions of £10m are needed in 2025/26 to allow for known costs, such as inflation and the national pay award. All Members will be aware that the Council has had to make significant budget savings over recent years as shown in the table below.

Year	Savings £m
2024/25	14,258
2023/24	6,633
2022/23	7,870
2021/22	7,892

Consultation Analysis

16. Starting in May 2024, the council is currently undertaking a comprehensive budget consultation which is due to conclude in December 2024, prior to more formal public participation in Executive in January 2025 and Council in February 2025.
17. By following a staged approach, the council is iteratively building an understanding of both the impact of proposals on different demographics and community groups, together with how partners, businesses and residents can work together to deliver our shared ambitions for the city.
18. The stages the budget consultation is following is below, with the first two phases completed and the third due to start later in October:

¹What	When	Purpose	Consultation activities
Stage 1 - Corporate Improvement Framework	May to June 2024	<p>To understand how to be a more efficient and effective organisation, informing the Corporate Improvement Action Plan and Working as One City transformation programme</p> <p>Feedback is published on the Opendata platform:</p> <p>Corporate Improvement Framework Consultation 2024/25 - Datasets - York Open Data</p>	<p>Resident online and offline consultation</p> <p>Workshops with Trade Unions, staff and partners who participated in the LGA Peer Challenge</p>

¹ [Our Big Budget Conversation – City of York Council](#)

Stage 2 - Our Big Budget Conversation - ideas	July to September 2024	To understand more about what York residents and businesses believe should be the council's priorities and where they would like to see cuts or reductions in services, with all the feedback independently assessed and published on the OpenData platform	Resident and business online/offline consultations Independently facilitated workshops with residents, community groups and businesses Workshops with partners Staff ideas hub
Stage 3 - Our Big Budget Conversation - budget proposals	October to December 2024	To understand the impact and considerations of the proposed cuts or reductions in service	Resident and business online/offline consultation
Stage 4 - Budget approval	January - February 2025.	Public participation in democratic decision making	Executive Full Council

National Context

19. 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.
20. 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.

21. 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 and the council will continue to work with the local authority sector to lobby for fairer funding.

Local Issues and Challenges

22. 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.
23. 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.
24. 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.
25. It is vital that the financial strategy supports the Council's priorities as outlined in the 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

26. The table below outlines the latest forecast and shows a cumulative budget gap of £29.5m.

	2025/26	2026/27	2027/28
Costs	£m	£m	£m
Pay & Prices	6.5	6	5.5
Cost of capital	1.8	1.9	2.0
Service growth and demographics (social care)	7.9	6.5	6.5
Total costs	16.2	14.4	14.0
Income			
Council Tax	-5.9	-3.9	-3.9
Business Rates growth	-0.4	-0.5	-1
Total funding	-6.3	-4.4	-4.4
Budget Gap	9.9	10	9.6
Cumulative gap	9.9	19.9	29.5

27. The forecast above is based on several assumptions. As referred to earlier in the report, whilst there are indications that the new Government will carry out a spending review and provide multi-year settlements, the national economic picture continues to be unpredictable, and several factors can influence the Councils finances. Any variations from the assumptions used will have an impact on the overall resources available to the Council.
28. At the time of writing, the 2024/25 pay award has not been agreed. An assumption of 5% was made in the budget. For the period ahead a lower rise has been assumed (in line with reducing inflation) of 3%. An allowance has also been made for energy and other contract inflation of 3%.
29. 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 again for 2025/26. Whilst the MTFS currently assumes a lower increase in future years, it is acknowledged that rises could continue at the higher level.

30. 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 the current cost control measures in place across the Council will continue. This 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.
31. Officers will continue to closely monitor any Government funding announcements and incorporate the impacts into the financial strategy, as well as reviewing the growth assumptions to minimise these where possible.
32. The strategy for identifying options to close the budget gap over a three year period will include:
 - Prioritisation / service cuts. Given the scale of the financial challenge, it will be necessary to make cuts to some services. It is therefore important to understand that some services may need to reduce or stop completely.
 - A continued focus on organisational efficiency, including restructuring and integrating services to remove duplication and overlap, exploiting the use of technology where possible and appropriate.
 - Developing the capacity to drive transformation across all areas of the Council, including investing in core corporate services to deliver savings. It is vital that we can both transform **and** reduce levels of service provision, so that remaining services continue to be as high performing as possible.
 - A focus on early intervention / prevention solutions that proactively reduce demand on statutory services.
 - A focus on working closely with city partners to explore new and innovative operating models, such as community asset transfer or building community wealth through delivering shared social value outcomes across the council and partners.
 - A focus on securing external funding.
 - An ongoing review of the assumptions used in the MTFs to ensure they are not overly cautious but are realistic and updated regularly to reflect any changes in Government funding.

33. This overall strategy for closing the budget gap will therefore be delivered through a combination of service cuts, cost reductions and efficiencies alongside securing additional external funding. The work that has already begun on shaping a series of service reviews, bringing together an overarching programme of work across the organisation known as the Working as One City Programme will continue. The overall aim of this programme will be to drive change and provide the best outcomes within the overall funding available. This approach will ensure the Council can meet financial savings targets whilst also delivering improved services.

Organisational Impact and Implications

34. **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.
35. **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.
36. **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.
37. **Procurement**, there are no direct implications arising from the budget planning process.
38. **Health and Wellbeing**, there are no direct implications arising from the budget planning process.
39. **Environment and Climate action**, there are no direct implications related to the recommendations.
40. **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.
41. **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.

42. **Data Protection and Privacy**, there are no implications related to the recommendations.
43. **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.
44. **Economy**, there are no direct implications related to the recommendations.

Risks and Mitigations

45. 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

46. All

Contact details

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Background papers

None

Annexes

None