

AGENDA SUPPLEMENT

Council

To: Councillors Ayre, Baxter, B Burton, J Burton, Clarke, Coles, Crawshaw, Cullwick (Lord Mayor), Cuthbertson, Douglas, Fenton, Fisher, Healey, Hollyer, Hook, Kelly, Kent, Kilbane, Knight, Lomas, Mason, Melly, Merrett, D Myers, Nelson, Nicholls, Orrell, Pavlovic, Pearson, Ravilious, Rose, Rowley, Runciman, Smalley, Steels-Walshaw, Steward, K Taylor, Vassie, Waller, Wann, Warters, Waudby, Webb, Wells, Whitcroft, Widdowson and Wilson

Date: Thursday, 22 February 2024

Time: 6.30 pm

Venue: The Citadel, Gillygate, York, YO31 7EA

The Agenda for the above meeting was published on **14 February 2024**. The attached additional documents are now available for the following agenda item:

- 8. Recommendations of Executive on the Council's Financial Strategy 2024/25 to 2028/29, Capital Budget 2024/25 to 2028/29, Capital Financing and Investment Strategy and the Treasury Management Strategy Statement and Prudential Indicators for 2024/25 to 2028/29** (Pages 1 - 6)

To consider the recommendations made by the Executive, at their meeting on 25 January 2024, in relation to:

- i) The Financial Strategy 2024/25 to 2028/29 (Revenue Budget)
- ii) The Capital Budget 2024/25 to 2028/29
- iii) The Capital Financing and Investment Strategy
- iv) The Treasury Management Strategy Statement and Prudential Indicators 2024/25 to 2028/29.

These recommendations are set out in the attached report and will be moved by the Executive Leader.

Please note you can view the Executive Budget Agenda 25 January 2024 here:

<https://democracy.york.gov.uk/ieListDocuments.aspx?CId=733&MIId=13934&Ver=4>

This agenda supplement was published on **23 February 2024**.

Statutory Advice from the s151 OfficerIntroduction

1. 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 this document. This section also addresses the key risks facing the council in relation to current and future budget provision. The following paragraphs outline my assessment of the budget proposals outlined in this report, including reserves and general robustness of the process. Section 25 (2) of the 2003 Act requires the council to have regard to this assessment in approving the annual budget and setting the council tax.

Robustness of proposals and process

2. The preparation of a budget relies on estimates, which are made at a point in time, and clearly there are a number of factors that can influence actual expenditure throughout the year. However, there are processes in place to ensure that assurance can be given that this budget has been constructed using the best available information and assumptions at the time of preparation. These include:
 - regular budget monitoring to ensure known pressures are reflected
 - involvement of directorate management teams in development of the proposals
 - regular scrutiny of the proposals by Executive members.
3. Considerable reliance is also placed on budget managers having proper arrangements in place to identify issues early, project the likely demand for services, and consider value for money and efficiency.
4. In order to provide assurances that the budget estimates are robust the following factors have been considered:
 - overall funding available including specific grants and other funding available from central government, along with locally raised income from council tax and business rates,
 - progress made in delivering 2023/24 savings
 - whether the budget decisions outlined in this report are achievable
 - the current and anticipated budget pressures arising from services such as social care
 - the forecast impact of inflation and pay awards
 - the financial sustainability of the council and the effectiveness of the financial management arrangements in place

- the affordability and sustainability of the capital investment plans outlined in the capital programme report elsewhere on this agenda and the revenue impact of this expenditure
5. In addition, the council has a demonstrable track record of delivering budget savings and has sound financial management procedures in place. This has been recognised by favourable audit reports in respect of financial management and processes and overall the financial planning process is sound and effective.
 6. A range of pressures have been identified and built into the budget presented in this report, including a contingency sum of £500k as in previous years. There are also significant savings, reflecting the scale of the challenge facing the council. There should be no understatement of the scale of this challenge that continues to face the council, given the general upward cost profile of adult care and children's services and the significant inflationary pressures being experienced across all areas of expenditure.

Risks

7. The report outlines the key risks to the 2024/25 budget, and these are considered further in the following paragraphs.
8. Continued increasing costs across all areas of spend remains an area of concern. Whilst inflation levels are reducing, this only means that prices are not increasing as much – they remain at the previously high levels. Given the Council's significant capital programme, rising costs are to be expected and may result in some schemes being delayed or costing more than estimated. The current financial challenge means that we are not recruiting to vacant posts unless absolutely essential to do so. This will result in difficulties in achieving some Council Plan priorities.
9. A key risk facing the council is the number of complex capital schemes it is currently undertaking, and which are still at relatively early stages of development. Should schemes not progress to full completion there remains a risk that costs currently assumed to be capable of being capitalised must be written off to revenue. This risk has materialised in 2023/24 with abortive costs for a new multi storey car park needing to be written off in the year. There are also increased borrowing levels resulting in increased revenue costs of debt in coming years. This is highlighted in the medium term plan figures.

10. A further key risk in relation to the capital programme is that some major capital projects may have short/medium term cash flow impacts. For example, York Central will result in additional business rates but will require short term borrowing prior to income being received to cover the costs. As identified in previous budget reports, the Venture Fund will be used to support early years cash flow deficits on major strategic capital projects but given the current economic outlook and higher than previously expected interest rates, this borrowing will be more expensive than previously expected.
11. The current pressures being experienced within both adults and children's services remain of concern and the ongoing action being taken will need to continue and be given a high priority. Specific attention is drawn to the national picture regarding these services, which are recognised as being under increased pressure. Whilst this council has invested in these services in recent years, the risks remain, and it is essential the council continues to make adequate budgetary growth provision to deal with the significant cost pressures these services are experiencing, along with savings programmes to mitigate pressures.
12. The budget takes account of these pressures but in light of the continued financial challenges across social care my advice is that additional 2024/25 savings of £4m should be identified over and above those originally identified within the Medium Term Financial Strategy. I believe it is highly likely that the general reserve will be needed to balance the 23/24 position and in that event, the reserve would immediately fall below the recommended minimum level and therefore identifying further savings now, will mitigate against that risk. If the outturn is better than expected, then the savings will still be required for future years and therefore I consider this a measured, prudent approach to setting the budget.
13. Clearly, there are risks in the achievement of some of the proposed savings and, in assessing this risk, I cannot guarantee that every single proposal will be achieved. I do however consider the overall package to be prudent. As outlined earlier, processes are in place to ensure the robustness of the proposed savings. A risk assessment of the individual savings proposals has been conducted and discussed with senior management. Where savings are not delivered, services are fully aware of the need to find compensating savings.
14. Some of the savings included at Annex 2 do require further work and additional reports to future Executive meetings to outline the impact of a number of service reviews that will need to take place over the early part of the new financial year.

15. Finally, there remains again the potential for significant changes to the system of local government finance in coming years. The Government published the provisional settlement on 18 December 2023. It is a one year settlement pending the general election in 2024. With the Fair Funding Review now postponed until 2025, the more fundamental changes needed in local government finances are again unlikely to take place for a number of years.
16. These changes in funding could be significant and make forecasting for 2025/26 virtually impossible. The government originally launched the Fair Funding Review in 2016 and the review has been postponed numerous times. This policy is likely to change the needs assessments of local authorities and therefore the distribution of funding between different councils, adding to the uncertainty in the years ahead.

Reserves

17. CIPFA guidance states that, in order to assess the adequacy of reserves when setting the budget, chief finance officers should take account of the strategic, operational and financial risks facing the authority and that the many factors involved when considering appropriate levels of reserves can only be assessed properly at a local level.
18. Determining the appropriate levels of balances is therefore a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions and other earmarked reserves and provisions. Based on the range of factors and risks outlined in this report it is my view that the general reserve should be a figure of £7.4m.
19. Furthermore, part of the risk management process involves taking appropriate action to mitigate or remove risks, where this is possible. This in turn may lead to a lower level of reserves being required, and it would be appropriate to consider reducing the level of balances held where appropriate action to mitigate or remove risks has been successfully undertaken. As part of the year end process, a review is undertaken and any balances that are no longer required, or that can be reduced due to action taken to reduce or mitigate the relevant risks, will be reported to Executive as part of the year end outturn report.

20. The proposed 2024/25 budget does not use the general reserve to balance and therefore reserves remain sufficient to deal with any further risks.

Summary

21. The uncertainty over recent years, following the pandemic, cost of living crisis and inflationary pressures, along with increasing demand for our services, means financial planning needs to be robust.
22. For future budget planning, further action will be needed to continue to focus resources on the highest priority services to reduce demand, as well as creating capacity to make investment in key front line services and essential capital investment. Therefore, the major financial challenge facing the council in coming years remains the need to secure further savings and for cost pressures, particularly those resulting from the pandemic, to be managed effectively. Given the current financial pressures referred to in previous paragraphs there will need to be continued careful monitoring of the achievement of the savings outlined in this report.
23. I have given careful consideration to the proposals outlined in all the budget reports on this agenda and particularly the risks associated with the proposals. Prudent and realistic assumptions have been made and the financial implications of known pressures have been included. With the savings identified in this report, I am satisfied that this report represents a robust budget on which the council can rely in setting council tax.

Updated Advice

24. In light of the additional funding allocated in the final settlement and the proposed budget amendments, I have reviewed my original statement to add in the following additional advice.
25. The additional funding for social care announced by Government in the final settlement is welcome but insufficient to deal with the challenges ahead. Identifying and subsequently delivering recurring budget savings remains the key to balancing the financial strategy.
26. Two further recommendations have been added to the Council report in relation to this additional funding. These recommendations ask Council to allocate £1.5m to existing pressures within social care and to add £76k to the existing contingency of £500k. I consider this a prudent approach to mitigate against the known risks in the budget

and am of the view that these recommendations strengthen the original proposed budget recommended to Council by Executive.

27. I have been clear in my original statement above that I am unable to guarantee all the proposed savings can be delivered. An important part of managing the risk of non delivery of planned savings is ensuring that sufficient reserves are available to mitigate against this and allow time for alternative savings to be identified.
28. Equally, the Medium Term Financial Strategy is clear both on the need for future savings to be delivered and that no formal confirmation or other guarantees have been received from Government on funding allocations beyond 2024/25.
29. Considering all these factors, I continue to advise against the use of one off reserves, or any other funding, to delay the need to identify and deliver recurring savings without a clear strategy for how we will tackle the known financial challenges. Whilst Council is only required, statutorily, to balance the budget for the year ahead, not acting now could result in an unmanageable savings target in future years, and I would caution Council against this.