

Report to the Cabinet

Meeting to be held on Thursday, 18 January 2024

Report of the Director of Finance

Part I

Electoral Division affected:
(All Divisions);

Corporate Priorities:
Delivering better services;

Medium Term Financial Strategy Update 2024/25 - 2026/27

(Appendices 'A' - 'B' refer)

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Brief Summary

The medium-term financial strategy provides a forecast of the financial position for the county council for the next 3 financial years. This report provides an update of the position and highlights any changes since the last report to Members in November 2023.

It has been developed working with services within the Council and benchmarking the assumptions made with other Councils and through advice from professional advisors.

The Council has a long track record of strong financial management and is in a relatively good position compared to some other Councils, however this report is written against a backdrop of considerable financial challenge and uncertainty.

The overall position reported is a forecast financial deficit of £2.908m in 2024/25 with a projected surplus of £4.892m by 2026/27, compared to the position that was reported to Cabinet in November 2023 of a forecast deficit of £14.505m in 2024/25 increasing to £18.294m by 2026/27.

This report reflects the most up to date information available including:

- Revised demand and inflation projections.
- Impacts from the government provisional financial settlement.
- Proposed mitigations.



The report highlights that relative to the 2023/24 budget the council faces the following financial pressures (shown cumulatively):

	2024/25	2025/26	2026/27
	£m	£m	£m
Pay	20.756	34.353	44.956
Price	52.701	101.311	136.532
Demand	39.003	58.067	74.277
Capital Financing	5.368	6.548	5.011
Total Pressures	117.828	200.279	260.776

The main changes since the last report to Members are summarised below:

- Increased demand across Home to School Transport, Special Educational Needs and Disabilities, and Adult Social Care.
- An increase of 10% for 2024/25 for Foundation Living Wage which was unexpected given falling inflation, which is currently sitting at 3.9% in November 2023.
- A reduction in the level of assumed increase for the 2024/25 pay award. This is based on reduced inflationary levels and benchmarking information across other authorities.
- Assumed additional Council Tax levels in 2025/26 and 2026/27, in line with Office of Budget Responsibility's assumptions contained within the provisional financial settlement.
- A net reduction in grants compared to previous forecasts following the provisional settlement.
- Increased levels of business rates following additional information relating to inflationary increases confirmed in the provisional settlement.
- Inclusion of a mitigation to utilise capital receipts to support the 2024/25 budget to support transformation expenditure as permitted by flexibilities from the government.
- Additional savings proposed as a mitigation to support the 2024/25 budget.

In line with the Council's continuing pro-active approach to financial management work was undertaken by Directorates to identify financial savings and efficiencies during the early part of this year in recognition of the remaining budget gap. This resulted in "management action" savings totalling c£23m being included in the medium-term financial strategy presented to Cabinet in November. As part of this report, policy savings totalling c£15m are included in Appendix A for consideration and approval which cover a range of services across the council.

Recent budgets have required the delivery of significant levels of savings over a number of years, aimed at providing efficiencies in costs on behalf of taxpayers, whilst still investing in priority services and protecting the vulnerable. The Council has continued to deliver these savings year on year whilst maintaining delivery of high-quality services to its residents. However, the savings agreed in the previous medium term financial strategy and budget rounds are now in excess of £164m over a four-



year period and necessitate an ongoing heightened focus on delivery to ensure financial sustainability and resilience.

The Council's transitional reserve (currently standing at £165m at the end of 2023/24) will be utilised to bridge the 2024/25 funding gap and remains sufficient to allow plans to be developed over the coming years to continue to aim for a balanced long term sustainable budget. The transitional reserve also serves a purpose going forward to allow modernisation and transformation of council services.

All reserves will be reviewed as part of the Council's forthcoming budget report including the General Reserve which currently stands at £23m representing 2.25% of net expenditure.

As stated earlier, a number of Councils across the country are experiencing extreme financial challenges and whilst this Council is not in that position it does have growing demand for its services in a number of key areas and the budget report that comes before Members in February will need to consider the Council's approach to this scenario going forward taking into account the assumptions within this medium-term financial strategy report, and the sustainability of the current position.

In summary:

- (i) The medium-term financial strategy has been updated for current expectations of levels of funding (following the provisional settlement), savings delivery, demand and inflation.
- (ii) At Cabinet in November 2023 the medium-term financial strategy showed a deficit of £14.505m in 2024/25 with this increasing to £18.294m by 2026/27. The updated position forecasts a gap of £2.908m in 2024/25, with this improving to a small surplus of £4.892m in 2026/27.
- (iii) A number of mitigating measures have been put in place during the year and new proposals totalling £14.940m are included within this report.
- (iv) The council is forecast to hold a General Reserve against unforeseen issues of £23.437m representing circa 2.25% of net budget, which is unchanged from the previously reported position.
- (v) The council is forecast to hold £165.198m of uncommitted transitional reserve at the end of the financial year. This is sufficient to meet the forecast gap for the medium-term financial strategy for the next three financial years.

Recommendation

Cabinet is asked to:

- (i) **Agree** updated budget assumptions and changes to budget requirements for 2024/25, and following years' changes, included in the revised medium term financial strategy.



(ii) **Agree to** consultation with key stakeholders on the savings proposals in Section 3.6 of this report.

(iii) **Agree** the contents of the county council's reserves position.

Detail

The detailed report at Appendix 'A' presents the county council's medium term financial strategy and reserves forecast position of the financial years 2024/25 – 2026/27.

Appendices

Appendix 'A' and 'B' are attached to this report. For clarification they are summarised below and referenced at relevant points within this report.

Appendix	Title
Appendix 'A'	Medium Term Financial Strategy and Reserves – January 2024
Appendix 'B'	Medium Term Financial Strategy Assumptions and Further Information.

Consultations

Proposals will be subject to appropriate consultation where required.

The budget consultation process will commence upon publication of this report, with responses and feedback provided as part of the Budget 2024/25 report to Full Council in February 2024.

Implications:

This item has the following implications, as indicated:

Risk management

The county council's overall approach to managing financial risks continues to be to identify and acknowledge risks early and build their impact into financial plans while continuing to develop strategies which will minimise their impact. This approach operates in parallel with the identification and setting aside of sufficient resources to manage the financial impact of the change risks facing the organisation.

All risks are clearly set out in Section 5 of Appendix 'A'. As part of the preparation of the updated medium-term financial strategy multiple scenarios have been calculated, but the report contains what is thought to be a balanced level of risks and opportunities following the publication of the Provisional Financial Settlement. It is inevitable that risks are inherent within the forecast, but in identifying where the greatest risks are, such as funding levels, demand projections and inflation (many of which are outside our control) and having an awareness as to the levels of fluctuation that could occur, a measured and balanced risk medium term financial strategy is presented. The medium-term financial strategy is a collaborative piece of work undertaken across the



county council with finance working very closely with Directorates and professional advisors for their professional opinions in relation to future year financial forecasts.

Legal

Matters referred to in this financial forecast will be subject to council consideration where appropriate.

List of Background Papers

Paper	Date	Contact/Tel
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None

Reason for inclusion in Part II, if appropriate

N/A

