

## Performance and Finance Scrutiny Committee

7 September 2023

### Council Plan and Medium-Term Financial Strategy

#### Additional Note from Director of Finance and Support Services

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##### Summary

This note is prepared to be read alongside the update on the Council Plan and the Medium-Term Financial Strategy being considered by the Committee.

The report gives a review and update on the medium-term financial position for the next five years. It includes information on forecast service demand pressures, underlying financial risks, the budget shortfall over the five years and an early indication of the themes emerging for the opportunities to close the gap.

To assist the Committee's consideration of the report and, in particular, to assist the task of seeking assurance about the financial resilience and sustainability of the County Council linked to risk number 22 on the corporate risk register, this additional note has been prepared to outline the principles and tools used by the County Council for prudent financial planning.

This note may also be used by the Committee as part of its scrutiny of the draft 2024/25 budget, of which reports will be presented in November 2023 and January 2024 and can also be used for scrutiny of medium-term financial planning.

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##### 1. Background

- 1.1 It is a challenging time for all local authorities across the country in terms of financial sustainability and balancing the budget at a time of increased demand and cost of services. Within the County Council's Corporate Risk Register is CR22 - **financial sustainability of council services**. This is considered a corporate risk due to its cross-cutting nature impacting on many services, uncertain funding from central government, the volatile current economic conditions (mainly inflation and interest rates) and the impact on service delivery, and/or failure to make the required decisions to ensure the budget is balanced.
- 1.2 The Financial Management Code was published in October 2019 by the Chartered Institute of Public Finance and Accountancy (CIPFA) for full implementation from 2021/22. It identifies risks to financial sustainability and introduces a framework of assurance. The code provides guidance for good and sustainable financial management in local authorities and its application provides assurance that authorities are managing resources effectively. To be compliant, the County Council needs to demonstrate there are processes in place to satisfy the 17 principles of good financial management. Complying

with the standards is the collective responsibility of all elected Members, the Section 151 Officer and the Executive Leadership Team.

- 1.3 The County Council is compliant with the 17 principles of the Code but there is always scope for continuous improvement to further strengthen processes in place for good financial management. Each year an action plan is developed and full details are published as part of the annual Governance Statement [Annual Governance Statement 2021/22 \(moderngov.co.uk\)](https://www.moderngov.co.uk), [Financial Management Code Action Plan \(moderngov.co.uk\)](https://www.moderngov.co.uk) which is considered by Cabinet and by the Regulation Audit and Accounts Committee.

### **Principles and Tools**

- 1.4 In considering its financial position and financial sustainability, the County Council will take into account everything it does know, but in times of much uncertainty and with many inherent risks (see [Annex 5](#) of the report to Cabinet on 25 July 2023), it must also take a prudent view on how it may mitigate such risks. This approach enables the Section 151 Officer to fulfil their statutory responsibilities under Section 25 of the Local Government Act 2003 which requires the Chief Financial Officer to report to their authority about the robustness of estimates and the adequacy of reserves when Members are asked to determine the Council's budget and level of Council Tax.
- 1.5 Throughout the year, financial performance is monitored and reported. This includes:
- Quarterly performance and resources report to scrutiny committees and Cabinet – setting out the latest in year position for service performance, finance, workforce and risks.
  - Quarterly treasury management compliance reports reviewed by the Treasury Management Panel and Regulation, Audit and Accounts Committee.
- 1.6 Assurance may be provided in a number of ways throughout the year, setting the annual budget and updating the medium-term financial position, including:
- That setting a balanced budget is done within the context of the Council Plan to ensure that limited financial resources are targeted towards the Council's priorities.
  - An on-going review of the current in-year financial position, with a focus on specific areas of overspends to work on and put in place mitigations and actions plans. Any ongoing pressures that cannot be mitigated must be considered as part of future budget setting.
  - That known demand and income pressures are included as increased budget provision and based on latest data and evidence.
  - That the impact of expected inflation and interest rates are considered on the Council's cost of services, borrowing costs and investment income.
  - That, as far as possible, all risks and uncertainties are identified, that scenario planning is undertaken and that a prudent level of corporate contingency and general fund balance are set aside.

- That reserves are subject to detailed annual review and include at least a five-year forecast after any known commitments are taken into account and remain at a prudent level to manage risks, uncertainties and unknowns.
  - That any use of 'risk and uncertainty' reserves is replenished over a time period to ensure levels remain prudent.
  - That all of the above are taken into account to ensure that a balanced budget is set that is realistic and achievable.
  - That value for money is achieved across all services – that monies spent is delivering good outcomes in the most efficient way. This will include looking at how we compare to statistical neighbours.
  - That any budget reductions or increased income opportunities are fully developed and there is assurance over deliverability before the budget is set. This includes fully understanding the impact of any changes in services, that an equality impact assessment has been completed, that a delivery plan is in place and any risks to delivery are considered.
  - That the Council takes a longer-term view to setting balanced budgets. This ensures that short term changes do not have a detrimental impact on the ability to delivery long term service changes. This balance of planning for the short and long term is challenging but essential.
  - That there is shared knowledge and intelligence from across the sector for consideration of any likely impact on the Council's own financial position. This includes considering the factors that have resulted in financial instability for other authorities in recent periods and
  - Being an influential voice across the sector and with Government to lobby for and seek to protect the financial stability of the sector in future spending reviews and any changes to legislation.
- 1.7 The list above is not exhaustive but does identify most of the key principles and tools officers will consider and report to Members for assurance on the financial sustainability of the County Council and aligned to the CIPFA Financial Management Code.
- 1.8 Applying these principles is an iterative process and should be considered in light of continuous improvement, for example looking for new data and insight to inform forecasting of service demand pressures or more sophisticated modelling for scenario planning potential impact of risks.
- 1.9 The Committee is invited to discuss the main report agreed by Cabinet on 25 July as informed by this note.

**Taryn Eves**

Director of Finance and Support Services