

**Report to the
Value for Money and Overview Scrutiny Commission
– 24/11/2023
Cabinet – 27/11/2023
Audit Committee -27/11/2023**

Wards All

Medium Term Financial Plan – Update Report

Report of the Director of Finance and Transformation (Section 151 Officer)

This item is not exempt
Therefore exempt reasons are not applicable
Ref – 0065/23

1. Purpose of the Report and Summary

- 1.1 To update Members on the latest Medium Term Financial Plan (MTFP) projections for the period 2024/25 to 2026/27 and outline a financial strategy which will inform the detailed formal budget proposals to be considered by Council and Cabinet in February 2024.
- 1.2 The 2023/24 budget was approved at February 2023 Council and sought to reflect the anticipated costs for the year following the very significant cost increases during 2022/23. Inflationary pressures continue to impact on the Council's financial projections, and the outline strategy was updated in July 2023 to reflect the additional pressures identified within the 2022/23 outturn position.
- 1.3 The latest MTFP projections set out in this report, subject to confirmation of funding in the Local Government Financial Settlement expected in December, do not vary significantly from the July position and continue to reflect balanced positions in 2023/24 and 2024/25, allowing broadly for the continuation of current service levels. This position is reliant on the delivery of efficiency savings in 2024/25, agreed in February 2023, which are included in this report for information. However, although the 2024/25 budget remains deliverable in line with the Council's established financial strategy of controlling costs and delivering service efficiencies in considered steps, which has delivered balanced budgets in recent years, looking forward to future years the scale of the forecast deficits suggest that this will not be possible from 2025/26 unless the Government provide additional financial support.
- 1.4 Whilst the scale of the future deficit is very uncertain, based on latest cost assumptions, without additional funding being provided by the Government, the Council will be faced with very challenging decisions when setting the 2025/26 Budget. Given the savings and efficiencies achieved by the Council

over recent years it is unlikely that further material savings will be deliverable without impacting significantly on service delivery. As reported widely in the media, the prospect of potentially having to make unprecedented decisions regarding budget cuts during the course of 2024 is a scenario faced by many Councils and an inevitable consequence of the real terms cuts in funding, and increasing demand, impacting on the sector over the last 12 years.

- 1.5 Planning for 2025/26 is inevitably uncertain, not least because there must be a General Election before January 2025. The Government have provided no detailed funding information beyond an outline for 2024/25 and it is possible the Chancellor's Autumn Statement scheduled for 22 November, the expected Local Government Financial Settlement expected late December and the anticipated Comprehensive Spending Review during 2024 may provide a more solid basis for future planning. However, the election timelines, coupled with the well documented challenges a new Government will face in terms of balancing the public purse at a national level, mean that Councils can only base their plans on current intelligence and an assumption that a material increase in the funding provided from Government to support 2025/26 is currently very unlikely.
- 1.6 The Council has been successful in balancing budgets over the last decade and maintaining reserves at an adequate level. However, this has only been achieved through significant staffing reductions, c1500 posts, and savings approved by Council of c£150M. As a result, there now remains little scope to make further efficiency savings and as such cost reductions of the scale potentially envisaged from 2025/26 will inevitably impact on service delivery. Given the level of uncertainty over future funding, and the continued pattern of increasing demand and cost pressures, the Council must also seek to protect reserves around current levels.
- 1.7 Given the potential risk to service delivery from 2025/26 it is important that the Council continue to lobby the Secretary of State, MP's and relevant Ministers with regard to the current financial outlook for the Council in order, hopefully, to impact positively on future financial settlements and to protect vital services.
- 1.8 It is also proposed that the Council introduce a "Best Value Service Framework" bringing together comparative cost and performance data which can then be overlaid with relative priorities. The intention would be to build the framework over the coming months such that it would be available to support the decision making and budget process for 2025/26 which will be informed by the latest funding intelligence throughout the coming calendar year.

2. Recommendations

That Cabinet:

- 2.1 Note the updated MTFP projections at section 4.
- 2.2 Approve, for consultation, the 2024/25 Budget strategy and savings as set out in the report at section 5.

- 2.3 Note the forecast deficit position relating to 2025/26, and the significant financial risks faced by the Council as at section 6.
- 2.4 Continue to lobby Government Ministers, MP's and relevant Ministers to press for additional funding in order to protect vital services
- 2.5 Approve the development of the Council's best value framework to support 2025/26 budget planning as noted at section 6.
- 2.6 Note that reports regarding the detail of the 2024/25 General Fund Revenue Budget, Capital Programme and Housing Revenue Account, will be presented to Cabinet, Scrutiny and Council in February 2024 for approval.

3. Reasons for Recommendation

- 3.1 The Council needs to ensure that it has an up to date and realistic plan for managing its finances in the medium term. That plan includes within it the resources that are available to provide or commission services, and also outlines the ongoing or new actions that are needed to ensure that financial viability is maintained.

4. Background

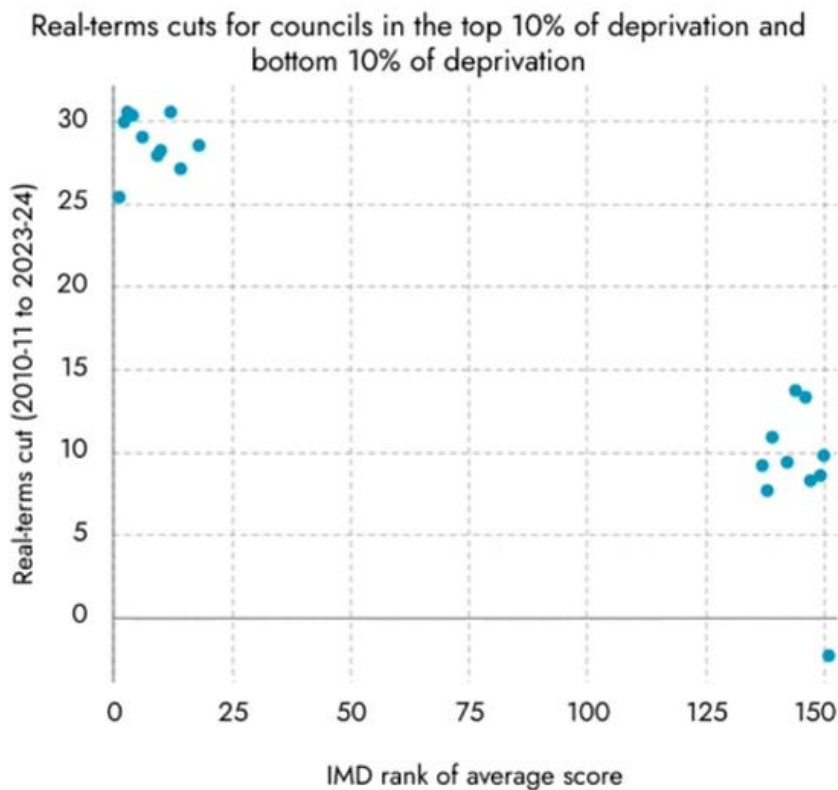
- 4.1 The Council has successfully maintained its financial stability through both "austerity" and the COVID pandemic. However, this has only been achieved through the identification, approval and delivery of significant savings (c£150M pa) and a substantial reduction in staff headcount (c1,500).
- 4.2 Reserves have been maintained throughout this period at adequate levels, given the Council's risk exposure, with the General reserves bolstered to £21M and earmarked reserves forecast to be at around £18M at 31 March 2024. Subject to the Local Government Settlement, expected late December, and the delivery of the previously approved savings, it is envisaged that Reserves can be maintained at similar levels through to March 2025
- 4.3 However, the financial outlook for Hull from 2025/26 is very challenging. Although the Government have not provided any firm details of their public sector spending plans beyond 2024/25, and there is an election due by January 2025, the indications are that the current Government intend to continue the squeeze on Council funding. Hull is not an exception, as many Councils nationally have publicised their financial distress and concerns regarding both short and medium-term financial sustainability and the various representative bodies, including SIGOMA (Special interest Group of Metropolitan Authorities) have also presenting the case for additional investment to the Government. Indeed, the LGA have launched a campaign to protect Council services and seek additional Government funding for the sector.

4.4 The table below, data produced by SIGOMA, summarises the movement in Core Spending Power (CSP) since 2010 and highlights the loss of £111m in CSP for Hull between 2010 and 2023, a real terms percentage cut of 27.9%. Although significant reductions were faced across the whole local government sector, Hull and similar authorities, which have a high level of need but suffer from relatively low property values and economic growth, have continued to suffer disproportionately from the cuts in funding.

Table 1 Core Spending Power

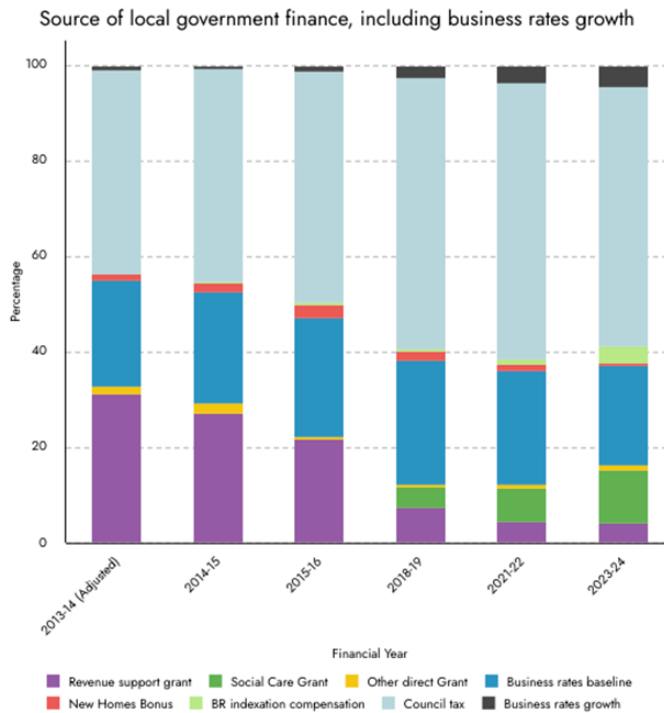
Local Authority	CSP cut since 2010-11	Percentage real terms cut	£ per dwelling real term cut
	£m	%	£ per head
Kingston Upon Hull	-110.9	-27.9	-898.91
England	-14,398.2	-19.4	-567.22
SIGOMA Total	-4,755.4	-25.0	-762.60

4.5 The disproportionate impact of the funding cuts is also illustrated on the graph below which maps the scale of real term cuts against the level of deprivation and highlights the difference between the most deprived authorities, which have suffered the deepest cuts, and more affluent areas.



Source SIGOMA Key Cities

4.6 The following graph also highlights the shift in funding from Government Grant to local raised Council Tax and Business Rates. On average Council Tax generates 47% of Council funding but for Hull this is only 26% as a result of relatively low property values – 86% Band A and B.



Source SIGOMA Local Government Financial Distress

5. MTFP / Budget Planning

5.1 The financial strategy of recent years has centred on the controlled reductions in the cost base over time, such that changes in services can be managed in a considered manner and financial stability maintained with the use of one off resources, allowing for a smooth profile of cost reduction and the protection of the Council’s reserves.

5.2 The in year 2023/24 position is the subject of the Second Formal Monitoring Report elsewhere on this agenda. This report highlights a number of variations against budgets but provides overall for a broadly neutral outturn at 31 March 2024 assuming no material variations in expected cost or patterns of demand.

5.3 Looking forward the current strategy can be maintained for 2024/25 but, based on current assumptions, this will not be a viable approach from 2025/26.

5.4 Latest MTFP forecasts for 2024/25 and beyond, are shown in the Table below. They remain in line with the updated position reported to Members in July and reflect:-

- additional costs for Childrens and Adult Services compared to those included within the 2023/24 Budget
- revisions to the pay and energy budgets
- updated NNDR forecasts

Table 2 MTFP Updated Deficit Position

Forecast Deficit	2024/25	2025/26	2026/27
	£000's	£000's	£000's
As at February 2023	3,000	6,000	7,543
As at July 2023	-	6,000	7,543
Further inflationary pressures	-	1,876	1,895
MTFP update November 2023	-	7,876	8,895

Budget Strategy 2024/25

- 5.5 The 2023/24 Budget and MTFP approved by Council in February 2023 provided for a balanced position in 2023/24 with £3M deficit for 2024/25 and £6M deficit in 2025/26.
- 5.6 The updated projections shown above now provide for a balanced position in 2024/25 but build on the follow underpinning assumptions:
- On-going delivery of the multi-year savings programme approved in February 2023 (see paragraph 5.7 below)
 - Government Funding for 2024/25 to be in line with indications provided as part of 2023/24 Settlement (to be confirmed as part of Local Government Financial Settlement expected December 2023)
 - Increase in Council Tax in line with referendum limit of 5% (also to be confirmed as part of Local Government Financial Settlement)
 - Fees and Charges to be increased in line with inflation at 5%
 - 2023/34 Pay Award to be confirmed in line with employer offer (c7.5%)
 - 2024/25 Pay Award assumed at 4%
 - Re-profiling of the Capital Programme
- 5.7 As part of setting the 2023/24 Budget a programme of multi-year savings were approved in February 2023. The latest MTFP projections assumes their successful delivery. The efficiency savings required for 2024/25 (£2.3M and (£0.5M) in are shown in full detail at Appendix A.

Table 3 Efficiency Savings

	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m
Efficiency Savings agreed as part of 2022/23 Budget	5.7	2.3	0.5		8.5
Efficiency Savings agreed October 2022	2.6	(0.2)			2.4
Efficiency Savings agreed February 2023		3.0	2.3	2.0	7.3
Vacancy Freeze - As approved February 2023		3.3	2.5	1.0	6.8
Energy Reductions - As approved February 2023		0.5	0.5	0.5	1.5
Efficiency Through Technology - As approved February 2023			0.5	1.5	2
Total	8.3	8.9	6.3	5.0	28.5

The savings relating to 2023/24 are detailed in the Monitoring Report elsewhere on the agenda.

- 5.8 Directorates have made good progress in terms of delivering the required vacancy savings. Plans continue to be refined and currently identify a shortfall against each year culminating in a £0.3M gap by 2025/26 as shown in the Table below. The MTFP projections assume that the full savings will be delivered over the period and work will continue with the detail to be confirmed at budget setting.

Table 4 Vacancy Savings Plans

Difference to Cumulative Target - Service Area Level			
	2023/24	2024/25	2025/26
	£000's	£000's	£000's
CYP	-347	-144	64
ASC&PH	0	-70	-65
L&P	-104	-126	-310
Regen	94	-154	48
F&T	59	1	-1
Total	-299	-493	-263

- 5.9 Table 5 below shows that approximately 45% of plans by 25/26 relate to staffing reductions, 8% relates to Income and 27% associated to Non-Pay. A further 20% relates to reducing total staffing costs primarily through reduction in overtime and agency costs.

Table 5 Vacancy Savings Plans by Expenditure Type

Vacancy Savings	2023/24	2024/25	2025/26
	£000's	£000's	£000's
Vacant less than 6 months	613	637	628
vacant more than 6 months	750	787	732
Delay Recruitment	157	28	28
Future	243	1,383	1,573
Income	235	418	531
Non Pay	539	1,196	1,754
Staff Other	267	874	1,304
Grand Total	2,804	5,323	6,550

5.10 Whilst the initial estimated savings required around 210 FTE's to be removed from the establishment it is evident that the Council has identified other savings opportunities during the savings plan process. This overall has led to a much lower rate of post deletion than originally forecast with c125FTE now planned to be removed from budgets over the 3-year programme.

6. **Budget Strategy – 2025/26**

6.1 As shown at Table 2 above, based on current assumptions the Council is facing a material deficit of c£8M in 2025/26. Although over recent years the Council has managed to balance budgets and broadly maintain service levels, this is unlikely to be deliverable from 2025/26 without additional Government funding. The delivery of savings in the face of increasing demands to date means that the scope for further savings without impacting upon service levels has been largely eliminated.

6.2 As such it is becoming clear that without additional Government funding, the Council will be faced with making unprecedented reductions in service delivery if future years budgets are to be balanced. Although statutory requirements will inevitably limit the options available to the Council, all services, including both those with a statutory basis and/or seen hitherto as central to local government activity, will need to be subject to review in order to identify potential options.

6.3 Although the scale of the required cuts and service reductions is likely to remain unclear into 2024/25 the current direction of travel is clear. It is therefore important that the Council continue to join the voices across the Local Government community to lobby for additional funding in order to protect service provision.

6.4 It is also vital that the Council develops a mechanism to support the decision making process in relation to the 2025/26 Budget. It is proposed that a "Best Value Framework" is developed in order to allow services to be considered through comparable cost and performance data as part of next year's budget

process which will develop in the light of changes in intelligence relating Government funding intentions.

7. Reserves

- 7.1 The Council has been successful over recent years to build up the general fund reserves, from a previous low point, through robust financial planning and management. However, current financial reserve position (c£39m), approximately 10% of revenue budget, continues to leave the council with limited financial sustainability or flexibility to respond to the scale of the challenges within the MTFP. This is not reflective of financial mismanagement but rather the scale of decline in government funding against a backdrop of ever-increasing demand as outlined within this report and seen nationally.
- 7.2 Risk and uncertainty was evidenced during the financial year 2022-23 when the Council faced extraordinary financial pressures due a dramatic increase in inflation and Council reserves were required to balance the budget.

8. HRA

- 8.1 As set out in suite of Budget reports presented to February Council, the latest HRA projections reflect a sustainable position in the short term but highlight the need for modernisation and efficiency gains in order to secure the longer-term position.
- 8.2 The updated 2024/25 projections and strategic position will be included in the budget reports presented to Cabinet in January 2024, ahead of the February 2024 Council meeting.

9. Capital Programme

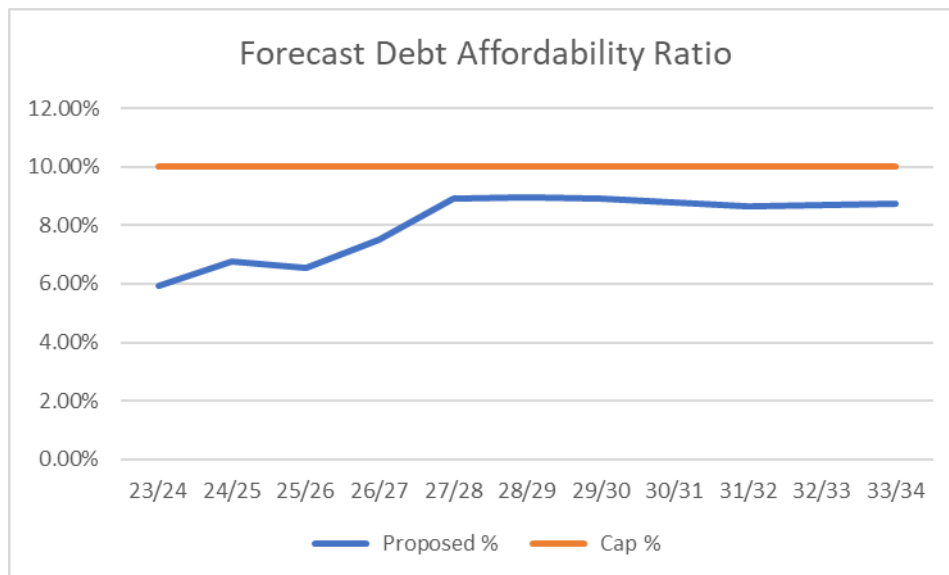
- 9.1 The Council currently has a commitment to deliver a significant Capital Programme of c£616m over the next 4 years, as included within the Capital monitoring report elsewhere on the agenda.

Table 5 Capital Programme

2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
148.937	166.495	165.280	135.449	616.161

- 9.2 The on-going focus with regard to the MTFP is managing the Council's exposure in terms of the cost and number of schemes currently in development/delivery, as the current strategic regeneration programme moves towards completion. Therefore, the future capital development programme will need to be moderated in order that the level of financial risk can be managed within acceptable parameters in an environment of increasing costs.
- 9.3 A revised Capital Programme for 2024/25 to 2027/28 will be finalised in line with the financial constraints and the priorities and requirements of the Capital Strategy, which will be presented to Council in February 2024 as part of the suite of Budget papers.

- 9.4 In line with the Capital Strategy Reports as approved by Council in February 2022 and 2023, in order to ensure the affordability of the Council's future capital plans, the Council will continue with the 'cap' of 10% with regard to the level of capital financing costs as a proportion of net revenue spending. By estimating the existing revenue commitments, with regard to interest payable and MRP due, associated with historic capital expenditure and setting these against a future "affordability" limit of such costs it is possible to maintain an affordable level of future capital investment.
- 9.5 In setting an "affordability" limit there are 2 factors to be considered:
- Ratio of capital financing costs to total costs
 - Wider assessment of the Council's MTFP and risk exposure
- 9.6 With regard to the affordability of capital financing costs within the MTFP there is no room for significant increase in costs as the Council continues to face future year deficits.
- 9.7 There are, and will continue to be, many demands for capital. To ensure these capital demands are affordable the funding envelope defined over the next 4 years is linked to the affordability ratio above and linked to the latest MTFP projections. It is proposed that there are two limits; a baseline affordability ratio confirmed annually and a fixed maximum ceiling of 10% with regard to estimated costs over the medium term.
- 9.8 The base line ratio limit is designed to ensure that when the programme is approved annually the estimated aggregate capital financing costs of the historic and planned programme can be met within the limit for the next 10 years of the MTFP. It is proposed that for the period of the MTFP this planning limit is set at 9% of the net revenue budget.
- 9.9 The maximum cap of 10% represents the ceiling on capital financing costs which is deemed to be compatible with the Council's MTFP and need to manage the financial risks in line with demand and funding uncertainties and its relative low level of reserves. The headroom of 1% above the base line provides for both unexpected variations which may arise from the delivery of the capital programme; cost inflation which impact on the MRP charge and variations in interest rates, as well as the potential for additional borrowing relating to self-funding schemes. Individual self funding capital schemes may be deemed to be affordable, and therefore supportable, if costs can be offset by related income streams. However, there is a need to limit the Council's aggregate exposure to long- term borrowing as such schemes will increase the capital financing ratio and therefore such scheme approvals will need to be considered against the 10% ceiling limit.
- 9.10 Proposals regarding the revised programme are set out below. The following graph provides details of the forecast affordability ratio for the next 10 years based on the current programme and an ongoing assumed level of additional General Fund borrowing of c£20M pa to provide further capital investment from 2027/28 to 2033/34.



10. **Risks**

- 10.1 As set out in this report, the Council faces significant uncertainty in both the short and medium term. The latest forecasts indicate that the Council can deliver a balanced budget in 2023/24 and 2024/25. There remains significant financial risk in later years and, as such, it is essential that the Council's reserves position is protected as much as possible.
- 10.2 Pay Awards for future financial years are currently included within the MTFP contingency assuming 4% 24/25, 3% 25/26 and 2% thereafter, however, there is uncertainty regarding the likely award and its alignment to any future government financial settlement.
- 10.3 Local Government Financial Settlement has only provisionally notified to local government for 2024/25 and any future years settlement remains unclear. In addition, the timing of settlement announcement will be crucial to the overall financial planning process for 2025/26.
- 10.4 In addition, Local Government funding has evolved over the last decade with an increasing reliance on short term specific grant funding schemes designed to help government department deliver on their priorities.
- 10.5 This funding approach has led to a 'cliff-edge' of funding for key services as much of this funding ceases in March 2025. Currently, 165FTE are funded through grants funding pots which are anticipated to end in the next 2 years with £5.6M income being lost to the Council. Early Help, Domestic Abuse and Homelessness Prevention equate to almost 50% of the funding and 75FTE not currently funded by government beyond 24/25. Table 6 below provides a summary of directorate grant monies identified as at risk over the next 18 months, due to lack of government confirmation for future funding policy.

Table 6 Grant Funding

Service	FTE	£000
A1-City Health & Wellbeing	2.0	105
A6-Citysafe	4.4	157
B1-City Regeneration & Policy	2.0	82
B1-City Regeneration & Policy	5.0	227
B5-Major Projects	13.6	498
C1-City Customer Services	4.0	125
C3-City Neighbourhoods & Housing	87.7	2,798
Corporate	2.0	50
E1-City Children Safeguarding	7.2	226
E4-Early Help	38.4	1,324
Grand Total	166.36	5,595

- 10.6 In addition, Better Care Fund (BCF) grant income equates to approximately 340FTE. This funding forms part of the Council Core Funding Baseline and therefore has been assumed with the MTFP to continue within each financial year. It should also be noted that there is currently no firm commitment to continue with the Household Support Fund programme beyond 2023/24, which has been running at c£6m per annum.
- 10.7 Inflation and impact to the economy remains uncertain as the impact of wider factors such as the war in Ukraine and war in the Middle East, energy markets, interest rates and fragility of the social care market continue to influence council budgets.
- 10.8 In addition, more general risk factors associated to government policy continue to add uncertainty and impact to council financial planning;
- Fair Funding
 - Business Rate Retention
 - Devolution
 - Health and Social Care Funding/ Fair Cost of Care
 - Children's Services Policies (McCallister Review)
 - Local Economic Growth - NNDR
 - Wider Government Spending Policy
- 11. Comments of the Director of Legal Services and Partnerships (Monitoring Officer)**
- 11.1 The Section 151 Officer has provided the financial information in accordance with his duty under the Local Government Act 1972 to make arrangements for

the proper administration of the Council's financial affairs and to undertake prudent financial planning as the responsible financial officer. [CA]

12. Comments of the Section 151 Officer

12.1 The Section 151 Officer is the author of this report

13. Comments of the Assistant Director Organisational Development and Human Resources and compliance with the Equality Duty

13.1 The contents of the report are noted. There are staffing risks identified within the report as a result of grant funding uncertainty going forward. Any staffing issues arising in future will be addressed through prevailing Council policies. There are currently no equalities issues arising from this report. KH

14. Comments of Overview and Scrutiny

14.1 This report is due to be considered by Overview and Scrutiny Management Committee at its meeting on 24 November 2023. Any comments or recommendations agreed by the Committee will be submitted to Cabinet for consideration alongside the final report. Ref: Sc7678 [MK].

15. Comments of the Portfolio Holder for Strategic Finance – Councillor Dad

16. The real terms reduction in Government funding over the last 12 years has placed this, and many other Councils, in a very difficult position and has led to many difficult decisions needed to be made. Although it is positive that next year's budget can hopefully be balanced, if we can continue to deliver the approved savings programme, it is now evident that the Council will be faced with a very difficult challenge ahead of 2025/26 unless the Government provide additional funding. It is therefore essential that the Council continue to make the case for Hull, and Local Government more generally, in order that we can continue to protect the critical services which are vital to our residents.

David Bell

Director of Finance and Transformation (Section 151 Officer)

Contact Officer: David Bell Telephone No.: (01482) 613084
Officer Interests: None

Background Documents:

- Council Budget Report – February 2023
- Second Monitoring Report 2023/24 – Cabinet November 2023

Implications Matrix

I have informed and sought advice from HR, Legal, Finance, Overview and Scrutiny and the Climate Change Advisor and any other key stakeholders i.e. Portfolio Holder, relevant Ward Members etc prior to submitting this report for official comments	Yes
I have considered whether this report requests a decision that is outside the Budget and Policy Framework approved by Council	Yes
Value for money considerations have been accounted for within the report	Yes
The report is approved by the relevant City Manager	Yes
I have included any procurement/commercial issues/implications within the report	n/a
I have considered the potential media interest in this report and liaised with the Media Team to ensure that they are briefed to respond to media interest.	Yes
I have included any equalities and diversity implications within the report and where necessary I have completed an Equalities Impact Assessment and the outcomes are included within the report	There are no equalities and diversity implications within the report.
Any Health and Safety implications are included within the report	n/a
Any human rights implications are included within the report	There are no human rights implications within the report.
I have included any community safety implications and paid regard to Section 17 of the Crime and Disorder Act within the report	n/a
I have liaised with the Climate Change Advisor and any environmental and climate change issues/sustainability implications are included within the report	n/a
I have included information about how this report contributes to the City Plan/ Area priorities within the report	n/a
I have considered the impact on air quality, carried out an appropriate assessment and included any resulting actions or opportunities necessary to improve air quality in the report.	Yes