

Executive

9 February 2017

**Report of the Deputy Chief Executive/Director of Customer and Corporate Services
(Portfolio of the Leader and Deputy Leader of the Council)**

Financial Strategy 2017/18 to 2021/22

Summary

1. This report presents the financial strategy 2017/18 to 2021/22, including detailed revenue budget proposals for 2017/18, and asks Members to recommend to Council approval of the proposals. Following on from consultation with residents and business groups, the financial strategy delivers a balanced budget for 2017/18 with savings proposals totalling £6.0m equivalent to 5.0% of the net budget. There are separate reports on the agenda covering the capital budget and the treasury management strategy.
2. Key issues included in the proposals are as follows;
 - A proposed council tax increase of 0.7% in 2017/18. In addition an increase of 3% in line with the government's social care precept, which provides support for social care
 - Revenue savings of £6.0m in 2017/18
 - A reduction in Revenue Support Grant (RSG) of £6.3m,
 - Ensuring a financially prudent budget by addressing known budget pressures, including likely pay awards and inflationary pressures
 - Investment in key priority front line services across waste, winter maintenance, and adult and children's services
 - £1.8m additional funding for adult social care contracts
 - £1.78m to cover increased pay and pension costs across all areas of the Council

- Growth of £535k to cover unavoidable contractual price increases mainly in waste services, and also in children's services
- Growth of £52k for winter maintenance to increase the number of gritting routes
- Growth of £48k for additional resource in planning enforcement to improve performance on enforcement investigations
- Growth of £37k for additional resource in procurement to increase awareness and compliance of contract procedure rules, improve contract management across the council and reduce the level of council spend which is not covered by existing contracts
- Growth of £51k to increase the contingency budget
- One off investment of £345k to fund the continued development of the Local Plan
- Use of £156k one off funding from Leeds City Region to be used to support cultural and sporting events, including cycling
- A release of one off funding in earmarked reserves of £676k to fund transport improvements, £200k to support mental health and £400k to support financial inclusion
- A net revenue budget of £119.659m, which will be funded by:
 - i. Council tax income of £81.6m
 - ii. Government grant of £8.6m
 - iii. Retained business rates of £27.3m
 - iv. One off income of £2.1m
- Alongside these proposals, elsewhere on the agenda the Capital Strategy Report details significant capital investment in highways, ICT and housing, which together with the revenue budget proposals ensure continued investment in key frontline service delivery, and supports the councils key priorities.

Recommendations

3. Members are asked to approve the average rent decrease of 1.0% to be applied to all 'social housing rents' for 2017/18, as required by legislation. This is shown in table 13 and described in paragraph 146.
4. Members are asked to approve the average rent increase of 2.0% to be applied to all rents which fall outside the definition on 'social housing rents' for 2017/18, as described in paragraph 148.

Reason: to ensure the ongoing financial stability of the HRA and allow work on improving the quality of the council's affordable housing to continue.

5. Members are asked to consider the appropriate levels of council tax that they wish to see levied by the City of York Council for 2017/18. In doing so they should pay due regard to factors such as;
 - Expenditure pressures facing the council as set out in the report
 - Impacts of savings proposals set out in annex 2
 - Medium term financial factors facing the council as outlined in the report
 - Projected levels of reserves as set out in the report
 - Statutory advice from the Deputy Chief Executive/Director of Customer and Corporate Services
6. In light of the considerations outlined in the paragraph above, Members are asked to recommend to Council approval of the budget proposals as outlined in this report. In particular;
 - The net revenue expenditure requirement of £119.659m
 - A council tax requirement of £81.630m
 - The revenue growth proposals as outlined in the body of the report
 - The 2017/18 revenue savings proposals as outlined in annex 2
 - The fees and charges proposals as outlined in annex 4
 - The Housing Revenue Account (HRA) budget set out in annex 5 and the HRA savings proposals set out in annex 6

- The dedicated schools grant proposals outlined in paragraphs 149 to 156
- The use of £147k New Homes Bonus funding to fund one off investment, as outlined in paragraph 73
- The use of £156k funding from the Leeds City Region Business Rates Pool to support cultural and sporting events, including cycling, as outlined in the report in paragraph 104, which will be subject to a report to the Executive during the year
- The use of £750k from the Waste Reserve to fund additional one off waste disposal costs in 2017/18, prior to the planned full operation of the Allerton Waste Recovery Park facility in February 2018, as described in paragraph 108.
- The use of £676k from the Lendal Bridge Reserve to fund transport improvements, including investigating options for cycling improvements and a cycle hire scheme, pothole repairs, and footway repairs, as described in paragraph 110, which will be subject to a further report to the Executive
- The use of £630k from the York Financial Assistance Scheme (YFAS) Reserve to support financial inclusion and investment in mental health, which will be subject to further reports to the Executive or the Executive Member as described in paragraph 111.

Reason: To ensure a legally balanced budget is set

7. The effect of approving the income and expenditure proposals included in the recommendations would result in a 3.7% increase in the City of York element of the council tax, 3% of which would relate to the social care precept. It is intended that the total council tax increase including the parish, police and fire authority precepts, will be agreed at the full Council meeting on 23 February 2017.

Background

National Context and Funding Issues

8. York has the 7th lowest band D council tax, the 4th lowest spend per head of population and the 9th lowest government funding per head of any

unitary council in England. Annex 10 includes the relevant background data from all unitary authorities.

9. All aspects of the public sector are continuing to face challenging times. In recent years the council has had to deal with large reductions in funding, combined with a range of significant pressures.
10. Figures from the government for the years 2017/18 to 2019/20 confirms that central government support to local authorities will continue to reduce over those years. Since the council has signed up for the 4 year settlement deal these amounts are not expected to change.
11. The settlement funding assessment (SFA), comprises revenue support grant (RSG) and a business rates baseline. The RSG for 2017/18 is £8.6m. This corresponds to a loss of £6.3m or 57%, compared to the RSG funding received in 2016/17. It is anticipated that RSG will be nil or at a minimal level by 2019/20.
12. Further details of the settlement figures and medium term outlook are provided later in the report.
13. In relation to council tax, the proposals in this report are predicated on a council tax increase in 2017/18 of 0.7%, plus an additional increase of 3% in line with the government's social care precept. Further information on council tax and the social care precept is included later in the report.

Local issues and challenges

14. Locally demand for council services continues to increase, with an ageing population and increased complex needs in respect of elderly care. There are also significant challenges in the health sector, including challenging financial positions for health partners which are in turn a significant financial risk to the council. Rising costs such as landfill tax and inflation are driving costs up, and there is continued pressure on many of the council's income budgets.
15. There are also potential risks associated to welfare reform, in particular in relation to council tax support, which is now funded locally. Whilst devolution of business rates presents opportunities for the council, there are also associated risks with business rates appeals. The council also has a number of major capital projects which have potential risks in terms of the revenue budget, and are considered in further detail elsewhere in this report.

16. In shaping the budget these issues have been carefully considered to ensure we set a budget that is both prudent and protects vulnerable people. Ensuring that there is the capacity to invest in council priorities has been a critical part of the budget deliberations.

Council Priorities

17. The Council Plan for 2015/19 is based on our statutory responsibilities and the priorities of our administration. The plan is built around three key priorities:
- **a prosperous city for all** - where local businesses can thrive and residents have good quality jobs, housing and opportunities
 - **a focus on frontline services** - to ensure all residents, particularly the least advantaged, can access reliable services and community facilities
 - **a council that listens to residents** - to ensure it delivers the services they want and works in partnership with local communities.
18. The plan was formally approved by Council on 8 October 2015 following consultation with residents, businesses and staff.
19. A vision for the city in 2030 was approved at Executive in July 2016. The key elements of the vision describes how the city will be in terms of the place, its people and the council, with sustainable growth providing the means to ensure all residents can fulfil their potential. This was summarised as “The Council will secure the future of York as a prosperous, progressive, and sustainable city, giving the highest priority to the wellbeing of its residents, whilst protecting the fabric and culture of this world-famous historic city”
20. The budget reflects the Council priorities with significant revenue and capital investment in a number of critical areas, or protection to existing spending, as set out in both capital and revenue reports. Specific examples of revenue investment include;
- Financial Inclusion –Additional support to the financial inclusion steering group (FISG) and debt advice support
 - One Planet York – Investment of £50k into an energy storage feasibility study which will identify short and long term opportunities for the wider use of energy storage in York and to facilitate the implementation of energy storage devices in association with renewable generation and electric vehicle charging

- Transport – Investment of £676k to fund transport improvements, including investigating options for cycling improvements and a cycle hire scheme, pothole repairs, and footway repairs, £80k in subsidised bus routes following a decision to maintain routes and £52k to fund additional winter maintenance routes
- Waste - £620k investment in 2017/18 to address budget and inflationary pressures
- Children’s services – key statutory budgets are protected as outlined in annex 3, building on the additional investment of £1.9m that was made in children’s social care in 2016/17
- Adult social care – Development of the new operating model as outlined in annex 3, investment of £1.2m in the older persons accommodation programme, one off investment of £200k in mental health, revenue investment in 2017/18 of £1.8m for specific increases in costs of care/other contracts (on top of other pay and pension costs).

21. Additional capital investment totalling £36.14m in relation to Transport, Housing, Economy, Heritage and key front line services such as Highways are outlined in the capital report.

Medium Term Financial Strategy

22. By 2019/20, the council will be self funded from council tax and business rates. Therefore, a successful economy is critical to the council’s financial future, with strong and growing business rates.
23. Inevitably, savings will need to be found during that period to deal with further reductions in funding and growth pressures. This is covered in more detail later in the report.
24. The medium term strategy focuses on delivering efficiencies across all areas and a significant amount of savings will be delivered by restructuring services. Ensuring that there is the capacity to invest in key priority areas was a critical part of the budget deliberations.
25. Annex 3 sets out the strategic direction towards achievement of savings proposals for each directorate over the 3 year period from 2017/18 to 2019/20. This includes the directorate approach to protecting priority

areas, safeguarding key statutory services and further details of the type of savings or efficiencies under consideration for the medium term.

26. This strategic approach ensures that any cross cutting implications are taken into consideration and savings in one particular area do not impact on other budgets in an unintended way.

Consultation

27. The council has been working with residents and businesses to identify the services that matter most to them and to understand their priorities for spending the council budgets.
28. In order to collect a variety of views, an online consultation delivered through the council website has been open during December and January, and has been promoted through social media, resident and business forums and through all council publications and communication channels.
29. 24 businesses and 1,315 residents responded to the consultation and the key messages from the consultation were;
 - 811 Residents (62%) were more in favour of increased council tax levels than increasing fees or charges or providing fewer services
 - 10 Businesses (42%) were more in favour of increased council tax levels than increasing fees or charges or providing fewer services
 - 310 Residents (25%) were not in favour of an increase in council tax for the social care precept but 466 (37%) were in favour of a 3% increase
 - Businesses were split regarding the question of an increase in council tax for the social care precept with 6 Businesses (32%) not in favour of an increase and 6 (32%) were in favour of a 3% increase
 - Residents and Businesses prioritised the following areas to have their funding increased; road and footpath maintenance, adult's social services and children's social care services.
 - Residents and Businesses prioritised the following areas to have their funding decreased; sport and leisure facilities, theatres and museums and funding for public transport.

30. All views and data gathered during the consultation will in due course be published on the York's open data platform www.yorkopendata.org
31. These consultation results have been used to inform the budget, prioritising in particular investment in highways (as detailed in the capital report) and protecting services for vulnerable people in children's and adult's social care. The council's strategy regarding leisure, theatres and museums has been to move these to more sustainable funding models, with reduced reliance on council contributions. This approach continues, though the council has recognised that this does require some capital investment to reach this position.
32. The council has a statutory duty to consult businesses on the council's expenditure plans. The consultation was publicised through York business networks and forums including Make It York, The Business Improvement District, York Chamber of Commerce and the York Federation of Small Businesses. The council will use these forums to announce the publication of this report on 1 February and will report any further feedback received by businesses to the Executive.

Principles that have shaped the budget process

33. As outlined above, the council will be self funded from council tax and business rates by 2019/20. Therefore, it is critical that the council continues to support economic growth, recognising the significant financial benefits in the form of retained business rates, and creation of jobs. Ensuring that there is a strong link between the capital and revenue budgets to support the delivery of council priorities is essential. The Capital Strategy sets out significant capital investment, and details regarding some of the major capital schemes that will impact on the economy of the city.
34. At a time of significant reductions in grants and rising demand it is absolutely essential to set a prudent, stable and achievable budget. Many councils across the country are now experiencing very severe financial challenges. Whilst the challenges for this council are significant, through sound financial planning, and in year management, the council retains strong financial health. In response to a shift in demand led expenditure pressures and reductions in grant funding, the council is taking steps to enable itself, residents and communities to work together as equal partners to meet their future needs and priorities.

35. In terms of investment, the council spends a significant amount of its budget on protecting vulnerable people through its social care services. In 2016/17, the net cost of adult social care was £47.1m, 40% of the council's net budget.
36. The scale of the budget reductions required will inevitably affect all services and all residents to some extent. In considering what savings can be made we have taken long term approaches to the development of future services, which are provided in further detail in annex 3. This approach will help to protect the needs of the most vulnerable people in York.
37. The budget process adopted a risk based approach, and in particular prioritised statutory services to vulnerable adults and children, and key frontline services. For example savings across customer and corporate services in 17/18 were 7.7% of the services net budget whilst in adult social care they were 2.8%. Whilst all areas were asked to consider the long term implications of up to a 30% reduction in their net spend over the next 4 years, assessment of options, risks, and links with priorities took place in formulating the final proposals.
38. Alongside the revenue budget, set out in the separate Capital Strategy report are proposals for further major investment in a variety of schemes. These continue the councils approach to prioritise investment in the economy, housing, transport, and to invest to save. In addition, the council is continuing to make a significant investment in ICT, recognising that the need for high quality technology will be crucial to delivering services in the most effective manner in the future, particularly in relation to adult and children's services and customer services.

Budget Analysis

39. The budget setting process has taken into account the following issues, (which are considered in more detail in following paragraphs);
 - i. Consideration of the 2016/17 position.
 - ii. Consideration of unavoidable cost increases, priority areas, how to create the capacity in priority areas and creating the capacity to allow for service improvement and innovation.
 - iii. Consideration of reductions in grant funding.

- iv. Ensuring that the budget is robust and prudent and is based upon the strategic financial advice of the Deputy Chief Executive/Director of Customer and Corporate Services as s151 officer.
- v. Ensuring there is a strong link between the capital and revenue budgets and that the delivery of priorities fully considers the two budgets hand in hand.

2016/17 position

- 40. As part of the budget approved in February 2016, considerable investment was made in priority services to ensure sufficient resources to deliver statutory and priority services. The most notable example was additional funding for looked after children, with the inclusion of £1.9m growth. At a time of significant financial challenges, this was a major investment to ensure children's services were able to deliver effective services to residents, and meet statutory requirements.
- 41. As outlined earlier in the report, and in a separate report elsewhere on this agenda, the latest finance and performance report identifies a range of budget pressures with the expectation that these will be contained within the overall approved budget by the end of the financial year. However some areas identified as pressures in 2016/17 will require additional funding going forward and these include £230k investment to cover a shortfall in waste income targets, £200k investment to cover a shortfall in dividend income from Yorwaste, £200k investment to cover a shortfall in planning fee income and £80k investment to cover subsidised bus routes. These are covered further in the next section of the report.
- 42. The Better Care Fund (BCF) is a £12m pooled budget between CYC and Vale of York Clinical Commissioning Group (VYCCG), and is a government initiative to transform local health and social care services so that they work together to provide better joined up care and support. A significant proportion of the pooled budget is earmarked to be spent on protecting adult social care services. There are significant challenges in the health sector, and this brings with it significant financial risks for the council.

Unavoidable cost increases, priority areas and creating capacity

43. There is continued pressure on budgets from an increase in costs in elderly care due to an increase in demand and more complex needs. Other factors that will affect the council include inflationary increases, the additional cost of business rates for council properties following revaluation, the implementation of the apprenticeship levy in April 2017 and reduced income as a result of the retender of the Park and Ride scheme.
44. A detailed analysis of these pressures has been conducted and additional resources have been allocated for areas where it was considered essential to invest. In addition we have identified areas where there is a need for additional investment to deliver council priorities, to ensure budgets are prudent and to protect vulnerable people.
45. The following bullet points set out the areas where additional investment is being made;
 - Pay and Pension costs - **£1,780k** is included for pay and pension costs in 2017/18. An assumption of 1% is made for a pay award and an increase in the pension contribution rate in 2017/18. Capacity is also created to provide recurring funding for the Living Wage.
 - Apprenticeship Levy - **£280k** is required to cover the cost of the apprenticeship levy introduced by the government and effective from April 2017. Note that this growth does not include schools, as each individual school will be covering this cost themselves.
 - Business Rates on council properties - **£111k** growth is required to cover additional business rates costs on council properties, as a result of business rates revaluation
 - Increase in contingency - **£51k** growth is required to increase the contingency to £500k, as covered later in the report
 - Adult Social Care **£1.8m** - additional funding to provide a better funding deal for care providers (as agreed by Executive in October 2016) and to cover a general increase in adult contracts, including the new national living wage.
 - Contractual price increases **£535k** - to cover unavoidable contractual price increases mainly in waste services and children's services

- West Yorkshire Transport Fund **£73k** – to cover the increase in the contribution for 2017/18 for the West Yorkshire Transport fund. This was agreed by Executive on 24 November 2016 (Council 15 December 2016), but is subject to agreement of a detailed funding agreement.
- Procurement **£37k** - for additional resource in procurement to increase awareness and compliance of contract procedure rules, improve contract management across the council and reduce the level of council spend which is not covered by existing contracts
- Planning Enforcement **£48k** - for additional resource of 1 FTE in Planning Enforcement to improve performance on enforcement investigations
- Winter Maintenance **£52k** - to increase the number of gritting routes as agreed by Executive on 26 January 2017.
- Yorwaste Dividend Income **£200k** - to remove an existing budget pressure relating to Yorwaste dividend income which is assumed will not be received in the future
- Waste **£230k** - Although significant work has been undertaken in recent years to address budget pressures in waste, growth of £230k is required to address shortfalls in garden waste subscriptions and household waste recycling centre income targets
- Park and Ride **£600k** - growth is required to address the reduced income levels from the negotiated extension of the current Park and Ride contract for one year from February 2017
- Planning **£200k** - Growth of £200k to address the budget pressure on planning fee income targets
- Subsidised Buses **£80k** - Following a decision by Executive in July 2016 in relation to subsidised bus routes, the subsequent retender of this contract created a budget pressure of £80k for those agreed routes
- Replace one off funding **£80k**- One off grant income received in 2016/17 which was used to fund recurring expenditure of £35k on litter bins and a £45k rejected savings for design and conservation in 2016/17 in an amendment to Council.

46. There is no growth this year in respect of the impact of the capital programme. The overall growth in the capital programme proposed, combined with low interest rates, and the updated capital programme position, means that no growth is required. A reduction of £750k is proposed as a corporate saving. This results from a recommended change to the council's Minimum Revenue Provision (MRP) Policy. This is covered in further detail in the Treasury Management and Strategy report elsewhere on this agenda.

One off Investment

47. In addition to the ongoing expenditure pressures set out above one off growth totalling £911k is required. This will be funded from Transitional Grant (£764k) and New Homes Bonus grant (£147k) provided by central government.

- Local Plan **£345k** - Work on the Local Plan will be ongoing in 2017/18 and therefore additional budget of £345k is required to support delivery.
- Park and Ride Licence **£66k** – due to the contract retender deferral, this creates a one off pressure of £66k
- Pride in York **£150k** - In the 2016/17 budget Members agreed £300k one off funding over the two years 2016/17 and 2017/18
- Children's services **£300k** – In the 2016/17 budget Members agreed to defer a £300k saving for 2 years to 2018/19 in relation to the 'New Operating Model'
- Energy storage feasibility study **£50k** – This study is to identify short and long term opportunities for the wider use of energy storage in York and to facilitate the implementation of energy storage devices in association with renewable generation and electric vehicle charging.

48. One off 2016/17 expenditure of £410k which was funded by the 2015/16 council tax surplus is deducted from the expenditure pressures above. This included funding for the Local Plan of £350k and £60k for the Drainage Strategic Flood Risk Assessment.

Expenditure Pressures Summary

49. The expenditure pressures described above are set out in the following table;

Expenditure Pressures	2017/18 £'000
Recurring Investment	
- Pay and Pension Costs	1,780
- Apprenticeship Levy	280
- Business Rates	111
- Increase Contingency	51
- Adult Social Care Prices Contingency	1,800
- Prices Contingency	535
- West Yorkshire Transport Fund	73
- Procurement	37
- Planning Enforcement	48
- Winter Maintenance	52
- Yorwaste Dividend Income	200
- Waste Income	230
- Park and Ride Income	600
- Planning Fee Income	200
- Bus Subsidy	80
- 16/17 recurring expenditure	80
One off Investment	
- Local Plan	345
- Park and Ride Licence	66
- Pride in York	150
- Children's Service new operating model	300
- Energy Storage Feasibility Study	50
Total Expenditure Increases	7,068
Removal of one off expenditure from prior year	-410
Total Net Expenditure Changes	6,658

Table 1 – Summary of expenditure pressures

Grant Funding Changes

50. Table 2 shows the components that make up the council's change in grant funding.
51. The first line of Table 2 shows the £6.310m reduction in RSG that the council receive from central government as part of its continued programme of local government funding cuts. The 2017/18 figures can be assumed to be the final figure.
52. The second line of Table 2 shows the net change in specific grants. The most significant reduction in specific grants will be applied to Education Services Grant, which funds central services provided to schools, with an estimated reduction of £514k. Public Health Grant will reduce by £208k. In total, specific grants are estimated to reduce by £880k in 2017/18.
53. However, one off grant income received will offset the reduction. The council received a transitional grant of £764k which is a non ring fenced one off grant. This grant will not be available in future financial years.
54. In addition, the council received a social care grant of £735k which is a non ring fenced one off grant. It is expected that additional Better Care Funding (BCF) of £1.7m will be received in 2018/19 which would replace the two one off grants. However it should be noted that there are risks of the council receiving this given continued pressures in the health sector, as outlined earlier in the report.
55. In summary, for 2017/18 the council has reduced grant funding available of £5,691k compared to that received in 2016/17.

	2017/18
Funding Changes	£'000
- Reduction in RSG	6,310
- Net change in specific grants	-619
Net Funding Changes	5,691

Table 2 – Grant Funding changes

Council Tax Funding Changes

56. Table 3 shows the net changes to council tax funding.

57. The first line in Table 3 shows the 3.7% increase in council tax which will generate additional income of £2.85m on the existing taxbase.
58. A further £1.7m council tax is generated due to an increase in taxbase as shown in the second line of Table 3. The taxbase is calculated by the Deputy Chief Executive/ Director of Customer and Corporate Services each year and represents the total number of Band D equivalent properties in the city. In 2017/18, this has grown by approximately 1,300 properties due to a number of factors including new homes and changing patterns in the number and types of discounts taxpayers are able to receive or apply for.
59. The third line is the collection fund surplus of £1.633m from 15/16 which was used in the 2016/17 budget and falls out this year.
60. The fourth line is the collection fund surplus from 2016/17 of £2.097m. The council tax collection fund surplus for the full year 2016/17 is estimated on 15 January 2017, based on current year actual figures. The surplus is a result of an increase in taxbase, compared to estimates made last year. The collection fund surplus is only available as one off funding.
61. In summary the Table 3 shows an estimated £5.021m additional income from council tax in 2017/18.

	2017/18
Council tax	£'000
- 3.7% increase in charge	-2,851
- Increase in taxbase	-1,706
- Collection Fund Surplus 15/16	1,633
- Collection Fund Surplus 16/17	-2,097
Net council tax changes	-5,021

Table 3 – Council Tax Funding changes

Business Rates Income

62. Table 4 shows £1.2m income from the business rates, based on estimated growth in 2017/18.

	2017/18
Business rates income	£'000
- Business Rates	-1,200
Change in income	-1,200

Table 4 –Change in Business Rates Income

Savings Proposals

63. Directorates have identified over £5.231m to contribute towards the 2017/18 savings target in addition to a corporate saving of £0.75m in Treasury Management. These proposals, outlined in annex 2, include increases in income, reductions in administration costs and removal of vacant posts.
64. The savings proposals included in annex 2 provide the details of the 2017/18 impact totalling £5.981m. The first column includes savings totalling £3.7m which were agreed by Council in February 2016 and new proposals totalling £2.3m are included in the second column.
65. The third column of annex 2 (2018/19 impact) includes the remaining saving to be achieved based on the acceptance of savings proposals recommended in this budget.
66. The total savings column highlights the cumulative saving over years 2017/18 to 2018/19 for savings proposals approved in this budget.
67. Table 5 summarises the 2017/18 savings to be delivered by each directorate and corporate services.

	2017/18
Savings	£'000
- Health, Housing, Adult Social Care	-1,783
- Children, Education & Communities	-1,353
- Economy and Place	-909
- Customer and Corporate Services	-1,186
- Corporate	-750
Total Savings Changes	-5,981

Table 5 –2017/18 Savings Proposals

New Homes Bonus (NHB) Grant

68. The New Homes Bonus was introduced to provide an incentive for local authorities to encourage housing growth in their areas.
69. In the provisional settlement announced on 15 December a number of changes were announced to NHB from 2017/18, which include;
 - A top slice of the overall funding pot to fund adult social care
 - A reduction of legacy payments from a 6 year period to 5 years in 2017/18 and to 4 years from 2018/19
 - A change to the funding criteria whereby authorities will only receive funding for growth above the national baseline. When an authority has overall growth in excess of the baseline, it only gets rewarded for the above-baseline growth, not its entire growth.
 - Future payment may also be linked to delivery of a Local Plan. This represents a risk to the council, if the Local Plan is not finalised payment of the grant may be deferred or reduced.
70. As a result future New Homes Bonus will begin to decline. Taking account of estimated levels of grant in future years, and approved commitments, it will be necessary to consider from 2018/19 phasing out any ongoing revenue funding from New Homes Bonus. This currently totals around £2.6m and therefore over the four year period from 2018/19 this will need to be gradually phased out. This will be considered further in the 2018/19 budget.
71. The total funding available in 2017/18 is £3.2m. As mentioned above, £2.6m of NHB funding is already allocated to fund recurring expenditure as determined by previous Council decisions. These are set out in Table 6 below.
72. £50k of NHB funding is to be invested in an energy storage feasibility study. This study will identify short and long term opportunities for the wider use of energy storage in York and to facilitate the implementation of energy storage devices in association with renewable generation and electric vehicle charging.
73. The budget proposals include one off investment of £911k and the majority of this is funded from the transitional grant .The remaining £147k will be funded from NHB.

74. Council have previously approved a sum of £1.5m over a 5 year period towards support for Yearsley Pool. In order to ensure that the full £1.5m is available, there is a need to transfer the remaining NHB funding of £456k to the Yearsley Pool reserve. Projections for New Homes Bonus take full account of the need to provide the full £1.5m reserve.

New Homes Bonus	£'000
- Total available 2017/18	3,211
- Previous Council Decisions	
February 2016 Budget	1,349
July 2015 Budget Amendments	1,259
Yearsley Pool	456
- Allocated in this budget (one off)	147
NHB remaining	0

Table 6 – New Homes Bonus Funding

Net Budget Composition

75. Taking into account funding changes summarised in Tables 2, 3 and 4, Table 7 below summarises the funding available from council tax, government funding and business rates for 2017/18.

	2017/18 £'000
Council Tax	81,630
Collection Fund Surplus	2,097
RSG	8,580
Business Rates Baseline	27,352
Total Net Budget	119,659

Table 7 – Net budget composition for 2017/18

Summary of Budget Changes

76. The following table shows the budget position after taking account of the expenditure and funding changes outlined.

Summary	2017/18 £'000
Total expenditure pressures (Table 1)	6,658
Total net funding changes (Table 2)	5,691
Total changes in council tax (Table 3)	-5,021
Total changes in Business Rates income (Table 4)	-1,200
Total savings and income generation (Table 5)	-5,981
New Homes Bonus funding (Table 6)	-147
Budget gap	0

Table 8 – Budget position summary

Fees and charges

77. Detailed proposals for any changes to fees and charges are attached at annex 4. The proposals have taken account of such factors as current consumer price indices, possible impact on customer numbers, knowledge of business and current market conditions and benchmarking exercises. Any increased income from this review of charges is included within the overall list of savings attached at annex 2.
78. One of the major areas of income generated is from car parking fees and charges. Charges will be increased in 2017/18 at most car parks by 10p per hour.
79. The majority of increases are approximately in line with inflation with the exception of the following;
80. The majority of fees relating to Licensing and Trading Standards are set by Government and at this point of time no increases have been announced.
81. It has been necessary to reduce the fees in respect of sex establishments following a legal challenge relating to cost recovery. Where an application is accepted a new grant fee is then applied.
82. Residential care has increased above inflation as part of the second stage of moving to recovering the full cost of providing care in our own homes as agreed in the 2016/17 budget.

83. The day support cost in adult social care has also increased above inflation to match the external support hourly cost for Learning Disability customers.
84. The Care Act permits customers to defer payment for the cost of their care. The local authority can recover their costs for setting up this arrangement. The element of the deferred payment agreement cost relating to income services has been increased in line with the proposed local authority pay increase for 2017/18.

Council Tax and the Collection Fund

85. The council tax referendum limit remains at 2% (excluding social care precept). If a Council wishes to set a higher council tax it must hold a referendum. It must also provide “substitute calculations” which need to be presented to setting out what the alternative budget would be. This means that that if any proposal is made for a council tax above the referendum limit it must be accompanied by “substitute calculations” within the referendum limit, to be used in the event that the referendum would reject the increase. If a referendum is held after the beginning of the relevant financial year, the higher rate of council tax will be payable unless and until it is overturned by a ‘no’ vote in the referendum. In the event that a referendum rejects the increase, the billing authority would be able to issue new bills, offer refunds at the end of the year or allow credits against liability the following year, although individual council taxpayers would be entitled to a refund on demand.
86. The costs of a referendum are not easy to estimate, and depend to an extent on whether it can be done as part of another election. If there is no other election, provision should be made for £210k. If the referendum could be combined with another election this would reduce the cost by approximately 50%, but there are no other elections taking place in York in 2017/18. In addition there are the costs of rebilling which is estimated at £50k.
87. A recent briefing paper from the House of Commons cited the cost to Bedfordshire’s Police and Crime Commissioner, is estimated to have cost £600k. The Bedfordshire PCC covers three unitary local authorities and a population of some 640,000. The paper also noted examples of rebilling costs for recently-capped authorities, such as £380k for Lincolnshire Police Authority in 2008/09 (£1.22 per household) and £626,000 for Surrey Police Authority in 2009/10 (£1.29 per household).

The paper concludes that it seems reasonable to estimate the range of the cost of referendums as between £85k to £300k.

88. Local authorities with responsibilities for adult social care have been given the flexibility to charge a further 3% social care precept in addition to the 2% referendum threshold. Should local authorities decide to take up the offer to charge the adult social care precept they are required to provide information on adult social care spend to the government.
89. As referred to earlier in this report, the recommendation made in these papers is that from April 2017 the CYC element of the council tax will increase by 3.7%, 3% of the increase relating to the social care precept. A 3% increase generates additional income of approximately £2.3m for the council which will be used to fund adult social care increased costs, pay, pension and other pressures. A range of investments are being made that contribute to improvement in social care.
90. The existing components of the current (2016/17) band D council tax for a CYC resident are shown in Table 9 below. It should be noted that these figures exclude parish precepts which are an additional charge in some areas.

	£
City of York Council	1,200.51
North Yorkshire Police Authority	217.00
North Yorkshire Fire Authority	65.88
TOTAL	1,483.39

Table 9 - Make Up of 2016/17 Council Tax

91. The collection fund is the ring-fenced account where all council tax is credited. This account can either be in surplus or deficit at the year end, depending on whether the authority has managed to collect more or less than it originally anticipated and the growth in property numbers. This year, the CYC element of the council tax surplus is estimated to be £2.1m and this is included in the budget assumptions.

Precepts

92. In addition to the council tax to be charged by the City of York, the overall charge must include the precepts from the North Yorkshire Police, Fire Authority and parish councils. Due to the timing of this report

these precepts are not yet available but will be included in the report which is considered by full Council on 23 February.

93. Table 10 demonstrates both the cash and percentage increase in 2016/17 for these which resulted in a total band D council tax for a York property of £1,483.39.

	2015/16 Charge (£)	2016/17		
		Increase (£)	Increase (%)	Council Tax (£)
CYC	1,165.54	34.97	3.00%	1,200.51
Police	212.77	4.23	1.99%	217.00
Fire	64.59	1.29	1.99%	65.88
Total	1,442.90	40.49	2.81%	1,483.39

Table 10 – Headline 2016/17 Council Tax Figures for City of York Area

94. There are 31 parish councils within the City of York Council area. It should be noted that the council will provide each parish with a support grant to ensure that they do not experience any loss on their equivalent funding as a result of changes due to the localisation of council tax support.

National Non Domestic Rates (NNDR)

95. In April 2016 the two NNDR multipliers were 49.7p in the pound for normal properties and 48.4p in the pound for smaller properties (based upon the total rateable values of all properties held by a single owner).
96. Following the business rates revaluation which comes into effect in April 2017 the multipliers will be to 47.9p for normal properties and 46.6p for smaller properties.
97. The council is projecting retained business rates income in 2017/18 of £27.352m.
98. Under the current system, business rates receipts are shared between central and local government. However, receipts of business rates in each individual local authority area may or may not match the amount the government believes the authority needs to spend, so, at the outset of the scheme in April 2013, amounts were equalised through a system of 'tariffs' and 'top-ups', according to need. Authorities that collect more than the government believes they need to spend pay over a 'tariff' to

government and those that collect less receive a 'top-up' to make up the difference.

99. Tariff authorities that are successful in growing their rates are also liable for 'levies' which scale back the rewards of growth – by as much as 50% in some cases.
100. As mentioned earlier in the report, significant changes to the Business rates system will be introduced in 2019/20 and these are covered in further detail later in the report.

Leeds City Region (LCR) Business Rates Pool

101. The current scheme allows groups of authorities to join together to form business rates pools. Pooling allows groups of 'tariff' and 'top-up' authorities to gain financial advantage by enabling levy payments to be paid to the pool rather than central government. City of York Council is a member of the Leeds City Region (LCR) Business Rates Pool.
102. City of York Council is a tariff authority and pays a levy of 48.57%. Effectively, the council to keep c.25p of growth after shares have been paid to central government and the LCR business rates pool.
103. The amount available for distribution to York from previous year's growth is £156k.
104. It is intended that the £156k be used to support cultural and sporting events, such as cycling, which will be subject to a report to the Executive during the year.

Reserves and Contingency

Allerton Waste Recovery Park

105. When the Long Term Waste Contract was agreed by Council, it was agreed to set aside additional funds in order to build up sufficient budget to fund the contractual obligations. These increased budgets have funded waste contractual increases such as landfill tax and the balance has been added to a waste reserve. This reserve has funded one off costs relating to the Waste Project such as s106 obligations, highway improvements and lease payments.

106. The new facility is due to commence operation in February 2018 and there is sufficient budget to fund the ongoing operation.
107. There are however a number of one-off costs due in 2017/18 that were not forecast at the time of agreeing the contract which will require funding. These include commissioning costs which are charged at a similar rate to landfill. There will however be additional haulage costs incurred in transferring waste to the facility. The composition and source of commissioning waste has not been finalised and the payment mechanics are still to be confirmed with North Yorkshire County Council. There are also further engineering costs at Harewood Whin which will extend the life at the facility into 2018 without the need for significant new airspace. This will increase landfill costs by c £8 / tonne compared to current rates.
108. It is proposed that a sum of £750k is set aside from the Waste Reserve to fund these additional costs in 2017/18.

Lendal Bridge Reserves

109. The Lendal Bridge Reserve was set up for the cost of settling claims for repayment of Penalty Charge Notices in relation to Lendal Bridge and Coppergate. There are no further claims outstanding therefore the remaining **£676k** is available to fund one off investment initiatives.
110. This one off income will be used to fund transport improvements. This will include investigating options for cycling improvements and a cycle hire scheme, pothole repairs, and footway repairs. Use of this funding will be subject to a further report to the Executive.

York Financial Assistance Scheme (YFAS) Reserves

111. The YFAS Reserve is the accumulation of prior year underspends on the YFAS budget. The reserve amount is currently £971k. It is proposed that £630k is used to fund one off investment initiatives, which are set out in further detail below, and the remaining £341k remains in the YFAS reserve in case of future demand from residents.
- Financial Inclusion **£250k** – To support a local area approach to tackling financial inclusion (4Community Growth) £250k spread over

2 years 2017/18 and 2018/19, which will be subject to a report to the Executive

- Additional debt advice support **£50k** – to be allocated through the Financial Inclusion Steering Group (FISG) spread over 2 years 2017/18 and 2018/19
- Financial Inclusion Steering Group (FISG) **£100k**, to be allocated through the FISG, - Additional investment and promotion of the FISG and its goals and objectives spread over 2 years 2017/18 and 2018/19
- Jobs Fair **£30k** - Extra funding to continue citywide jobs fairs spread over 3 years 2017/18, 2018/19 and 2019/20
- Mental Health Support **£200k**, subject to a further report to the Executive member for Adult Social Care and Health, and will include:
 - i. Work with young people, specifically reducing self-harm. This will include establishment of a Youth Health Champion programme and training with frontline staff. £100k over 2017/18 and 2018/19
 - ii. Work to support employment opportunities, including Ways into Work programme. £100k over 2017/18 and 2018/19.

General Reserves and Contingency

112. Table 11 shows the position on the general fund reserve which, it is anticipated, will be £6.896m by the end of 2016/17. The projected reserves at the end of 2016/17 are based on the assumption that Members agree no usage of reserves in 2016/17 as part of the final recommendations to Council. It should be noted that the figures below also assume that there will be no requirement to fund an overspend against the 2016/17 budget.

	2016/17 Projected Out-turn £'000	2017/18 Budget £'000
General Reserve at start of year	6,896	6,896
In Year use of reserves	0	0
General Reserve at end of year	6,896	6,896
Prudent minimum reserves	6,400	6,400
Headroom (+)/Shortfall (-) in Reserves	496	496

Table 11 – Projected General Reserves

113. In line with best practice, the council has undertaken a review of risks and known commitments in order to determine its minimum general reserve level. In considering this, it has been determined by the Deputy Chief Executive/ Director of Customer and Corporate Services that a level of £6.4m remains an appropriate figure. However in light of the risks facing the council, in particular the scale of future reductions on top of those already made, it is considered that headroom should remain above the minimum level. In addition, within the statutory S151 statement, there is a strong recommendation that revenue reserves should be increased over the next couple of years, recognising some current risks the council faces. It is proposed that any revenue underspend in 16/17 be transferred to reserves, and this will be considered as part of the outturn report in June 2017. In addition the position regarding the Venture Fund should be noted, as referred to later in this report.
114. In addition to general fund reserves, the budget includes a £449k general contingency. In recent years this has always been required.
115. As mentioned earlier in the report, due to significant risks associated with major capital projects, reduction in New Homes Bonus and health budgets it is appropriate to provide an increased contingency on an ongoing basis. This is critical in terms of the setting of a prudent budget. The proposals in this report will increase the contingency budget by £51k from £449k to £500k.
116. During the year Members will consider ways of funding Community Flood Resilience, including potential use of the contingency budget.

Venture Fund

117. The balance on the venture fund reserve is anticipated to be £2.6m at the end of 2016/17.
118. It was previously agreed that the Older Person's Accommodation Programme (OPAP) would receive funding of £1.2m from the Venture Fund in 2018/19 but this funding will now be provided from the use of capital receipts, as mentioned in paragraph 131.
119. In March 2016 Members agreed that the Venture Fund be used to fund £1.0m of the Community Stadium capital expenditure which will be repaid from later years leisure revenue budget savings. It is assumed that this advance will not be provided until 2018. In addition, up to £300k was allocated for dealing with any early year shortfall in the revenue budget in 2018/19.
120. The balance on the Venture Fund reserve provides some mitigation in terms of the need to consider an increase in revenue reserves given the potential risks as highlighted above.

Medium term planning

Business Rates Retention

121. The Local Government Finance Bill published on 13 January 2017 confirmed that Revenue Support Grant (RSG) will be phased out by 2019/20 or 2020/21 and will be replaced by a system which allows local government to retain 100% of business rates.
122. Much of the detail about how the system will work, and the functions that will be transferred to local government, will be filled out in the secondary legislation that will be published over the next 18 months.
123. Councils will have the power to reduce business rates to boost growth or to give elected city region mayors the power to levy a premium on business rates to fund infrastructure projects.
124. As part of the funding reform, additional responsibilities will transfer to local government, potentially the administration of housing benefits for pensioners and funding of public health.

125. The Bill will remove the requirement for the government to maintain a levy account. If there is no future levy on growth, as a tariff authority, this would potentially benefit City of York Council.
126. Under the new system the incentive for operating a pool will disappear unless there were some other financial benefits. However, there is potential that the new system may be regional or be linked to local devolution deals to help manage risk and volatility. The Bill proposes to give the Secretary of State the powers to designate a pool without the affected authorities agreeing to the designation – there is only a requirement to consult. The Bill also gives the Secretary of State the powers to designate a lead authority. The purpose of these changes can only be to give the Secretary of State greater powers to form business rates pools.
127. The Bill includes the proposal to nationalise the risk and cost of business rate appeals which will come into effect when the 100% system is introduced. This change will remove a significant risk to local authorities future income and will make it easier to forecast income.

Social Care Funding

128. Additional funding will be available for the Better Care Fund (BCF) by 2019/20 which should increase budget available for adult social care.
129. The Better Care Fund nationally will grow from £3.8bn in 2015/16 to £5.3m by 2019/20 and will encourage the integration between health and adult social care as more budget is pooled for use across the health and social care sector. This needs considering in the wider context of the health and social care economy in York as both the health commissioner and main provider are currently carrying significant deficits. Their plans to address these deficits may well impact on the social care budget.
130. Phase Two of the Care Act is still due for implementation in April 2020 which, as it stands, will cap the amount people contribute to the cost of their care. This will significantly reduce the income the council gets to support the services it provides and commissions.

Use of Capital Receipts

131. The government are allowing greater flexibility for council's in how they make use of capital receipts – money received when an asset such as a building is sold. Councils were previously only allowed to spend such money on capital projects. The new flexibility allows money from asset sales (excluding Right to Buy receipts) to be used on the revenue costs of reform projects, subject to certain conditions.
132. The council propose to use this flexibility for up to £1.2m of capital receipts which will be used to fund the Older People's Accommodation project. This project aims to provide suitable accommodation, ideally in a community setting, for the city's older residents including those with complex care needs, those with dementia and those moving out of, or diverted from moving to, existing council-run Older People Homes which are no longer fit-for-purpose.

4 Year Funding Settlement 2016/17 to 2019/20

133. The government have confirmed the replacement of the annual local government finance settlement with a multi-year settlement, and principles for maximum council tax increases over a multi-year period.
134. On 30 June 2016 Council approved the recommendation to publish a 4 year Efficiency Plan to enable the council to take advantage of a 4 year settlement to improve stability and aid medium term planning. The government have confirmed that any council taking up the offer will not see a reduction in the settlement figures already announced.
135. The 4 year settlement indicates a reduction of £19m in SFA over the 4 year period from 2016/17 to 2019/20. Until further details emerge in relation to business rates devolution and additional burdens it is difficult to put this figure into context. The scale of savings that will be required in the future will be driven by the outcomes of the devolution agenda, alongside the extent to which spending pressures affect the council.

136. Table 12 below sets out the settlement from 2016/17 to 2019/20.

	16/17 £m	17/18 £m	18/19 £m	19/20 £m
RSG	14.892	8.580	4.576	0.529
Business Rates Baseline	24.303	24.798	25.596	26.507
Total SFA	39.195	33.378	30.172	27.036

Table 12 – Settlement figures to 2019/20

Four Year Strategy and Approach to Savings

137. Other factors that will affect the council will include potential increased costs in elderly care, inflationary pressures, implications of the capital programme and the thresholds to increase council tax.
138. By 2019/20, the council will be self funded from council tax and business rates. Therefore, it is critical that the council continues to support Economic growth, recognising the significant financial benefits in the form of retained business rates, and creation of jobs.
139. What is clear however is that further savings will need to be found, as further reductions in overall funding are inevitable. Estimated annual savings required are anticipated to be in the region of £4m to £6m from 2018/19 onwards.
140. The financial planning process has considered the scale of the challenge over the years from 2016/17 to 2019/20, and services have been reviewing opportunities for changing the delivery of services.
141. Annex 3 sets out the strategic direction towards achievement of savings proposals for each directorate over the 4 year period from 2016/17 to 2019/20. This includes the directorate approach to protecting priority areas and the type of savings or efficiencies under consideration for the medium term.
142. Specific details of future years (2018/19 onwards) savings proposals will be covered in future budget reports.

Housing Revenue Account (HRA) Budget

143. Local Authorities are required, by legislation, to keep a HRA. The Local Government and Housing Act 1989 stated that items of income and expenditure only relating to council housing must be contained within the account. Authorities have a duty to ensure that the HRA balances, to keep the budget under review and to take all reasonable steps to avoid a deficit.
144. The HRA budget at annex 5 results in an in-year surplus of £3,323k. Together with the budgeted brought forward working balance of £21,491k this will leave a working balance of £24,814k on the account. This balance is below what was forecast in the HRA Business Plan at the last revision in February 2016 (£25,814k) mainly due to the increased level of investment in IT Infrastructure but is still within prudent and sustainable levels and is committed towards the repayment of the debt allocation taken on through self-financing.

Rent Changes 2017/18

145. Since April 2002, the rent increase has been calculated with the key aim of converging rents across all social housing providers whether local authority landlord or other registered provider. This involved a phased change in rents, known as rent restructuring, based on a formula for rent setting created by central government. This government formula rent took account of various factors including the number of bedrooms a property has, property valuation, average earnings and the date at which all rents were expected to converge.
146. Central government policy has now changed and rent restructuring has been brought to an end. The subsequent policy of increasing rents by the Consumer Prices Index (CPI) + 1% that was applied for the 2015/16 increase was due to apply for ten years but in July 2015 further changes to social rents were announced in the Welfare Reform and Work Bill 2015. All social housing rents were required to be reduced by 1% for four years from 2016/17.
147. The expected effect on rent levels over the next 3 years is shown in table 13 below.

Year	Estimated Average Rent Per week	Estimated Average Decrease per week
2017/18	£79.36	£0.80
2018/19	£78.57	£0.79
2019/20	£77.78	£0.79

Table 13 – HRA Rent decreases

148. All rents that do not fall within the definition of “social housing rents” for the purposes of the Welfare Reform and Work Bill 2015 will have the previous policy applied of increasing by CPI + 1% which will be an increase of 2%. This will include Gypsy, Roma and Traveller Community sites, garages and cookers, as well as any specialist supported housing that is exempt from the rent reduction legislation.

Dedicated Schools Grant (DSG) and the Schools Budget

149. The DSG is ring-fenced for funding the provision of education or childcare for 3 to 16 year olds in all settings. As such it covers funding delegated to individual LA maintained schools, academies and PVI providers through the LMS & Early Years Funding Formulae, plus funding for other pupil provision which is retained centrally by the LA (e.g. SEN, Behaviour Support, Home & Hospital Tuition, School Contingencies etc.).

150. For 2017/18 government has continued to protect schools from the full effect of their spending reductions when compared to other parts of the public sector, and the remainder of local government services in particular. The key features of the DSG Settlement for 2017/18 are:

- Another one-year only schools settlement for 2017/18 (with a consultation currently underway on proposals for the introduction of a new national school funding formula from 2018/19).
- A continued flat cash per pupil allocation for all of York’s core school funding through the schools block of the DSG.
- A high needs allocation frozen at current levels.
- Some technical changes in relation to funding transferred from the Educational Services Grant (ESG).

- A significant (18%) increase in the funding allocated for early years provision for 3 and 4 year olds following the introduction of a new national early years funding formula.

151. Full details of the DSG and schools budget will be presented to the Schools Forum later this month. Apart from taking account of the technical changes that the DfE have made in relation to the removal of the ESG from September 2017, the LA is not proposing any material changes to the funding allocations and retained budgets for schools. However, in advance of the Schools Forum meeting, Members of the Executive are asked to consider and approve some changes to the allocation of early years funding for 3 and 4 year olds for 2017/18.

DfE Early Years Funding Review

152. Following a national consultation that took place during August and September 2016, the DfE published new arrangements for early years funding in December. The new arrangements include:

- Introducing a new Early Years National Funding Formula (EYNFF) to allocate funding to LAs for 3 and 4 year olds.
- Changing the way that LAs fund the early years providers in their area.
- Targeting extra funding towards children with SEND.

153. As timescales were very tight, the Schools Forum established a special Early Years Reference Group (EYRG) to consider the implications of the new arrangements, and be the consultative group for the subsequent changes that would be required to the local formula for allocating funding to early years providers in the city. Following two meetings of the EYRG in late 2016, the LA published its proposals for a new local Early Years Single Funding Formula (EYSFF). The LA consultation document is attached at Annex 9.

154. Feedback on the consultation was received directly from providers and via a final meeting of the EYRG held on 24 January. Full details of the consultation responses can be provided on request, however the key messages received were:

- **Base Rate:** A view that a base rate of £3.70 per hour was unsustainable for the majority of providers.

- **Flexibility Supplement:** Linked to the base rate, a strong desire that all discretionary funding was channelled into the base rate and therefore dissatisfaction about the introduction of a flexibility supplement. In addition concern that there was not enough clarity around how flexibility would be defined, and that the LA's desire to include the factor could suggest a lack of trust with providers over the delivery of the increased 30 hour offer.

LA Comment: The LA recognises the concerns of providers and proposes to remove the proposal for a flexibility supplement in the new formula in 2017/18. Therefore all providers will be funded at a base rate of £4.00 per hour in 2017/18. This will allow time for a more detailed analysis and discussion of any potential flexibility issues under the increased 30 hour offer. Consideration can then be given as to whether a £0.30 per hour (or otherwise) flexibility supplement would be necessary in future years.

- **Deprivation:** A view from some providers that there were other possible models for allocating deprivation funding that time constraints prevented the EYRG from exploring.

LA Comment: The LA recognises that time constraints limited the number of models that could be considered for 2017/18 and would support further work on deprivation options prior to 2018/19.

- **Centrally Retained Top Slice:** A challenge to the LA for further transparency and details to justify the proposed 5% top slice of funding for central early years services.

LA Comment: Further detail on central LA services was provided at the 24 January EYRG. In addition the LA is committed to continuing to review central budgets with a view to making further efficiency savings. As part of this review a clear narrative will be developed to ensure transparency with childcare providers and schools so that they understand how the services deliver current and new statutory responsibilities relating to early years and childcare, and sustain a flexible offer for parents in York.

155. In light of the above Members are recommended to approve the following use of the £4.30 per hour available, and EYSFF elements for 2017/18:

£ / per hour

Amount allocated to the LA by the DfE	£4.3000
Less 5% retained to support LA central EY services	- £0.2150
Less increase in SEND inclusion fund by £20,000	- £0.0137
Amount available to support the EYSFF in 2017/18	£4.0713
Basic hourly rate	£4.0000
Flexibility Supplement (to be reviewed prior to 2018/19)	£0.0000
Total Hourly Rate (inc. up to 30 hours / week for working parents)	£4.0000
Plus a deprivation supplement paid at £0.40 per eligible hour based on the existing IDACI indicator	£0.0713

156. If the proposals set out above are approved then the following table sets out comparative provider funding figures under the proposed EYSFF, the previous EYSFF and the current estimated position under the 30 pilot arrangements.

	Previous York EYSFF £ / Hour	Under 30 Hour Pilot £ / Hour	Proposed York EYSFF £ / Hour
Average Funding Rate Per Hour	3.56	3.77	4.14
Minimum Funding Rate Per Hour	3.38	3.38	4.00
Maximum Funding Rate Per Hour	3.78	4.40	4.40

Table 14- EYSFF £/Hour

Scrutiny

157. In accordance with constitutional practice Corporate Scrutiny and Management Policy Scrutiny Committee will consider at its meeting on 13 February 2017 what level of budget it considers appropriate in the coming year to support scrutiny reviews. The Committee will take into account existing levels of spend in 2016/17 and the councils overall financial position. In the light of those considerations the Committee will decide whether to maintain the current funding level of £5k and not request any increase. No increase is currently assumed.

Equalities

158. A communities impact assessment (CIA) has been completed on the overall impact of the budget proposals and this is available at annex 7. The impact assessment considers risks associated with savings proposals to ensure any negative impact for a particular group, sector or community is eliminated or counterbalanced. Where a screening of the potential implications has identified it appropriate, a full CIA will be completed for individual proposals.
159. The financial strategy will impact on all residents and has carefully considered the local demand for services whilst also ensuring the budget set is prudent, protects vulnerable people and has capacity to invest. The strategy could have a negative impact on the following communities;
- Age
 - Disability
 - Carers
160. This negative impact can be mitigated by investment targeted to these same communities. The key approaches to achieving savings whilst avoiding impacts on communities of identity include;
- Ensuring that savings are made from back office functions and universal services
 - Protecting statutory services and other key services for vulnerable residents
 - Increasing community involvement in service redesign and delivery
 - Making services self-financing wherever practicable, including external trading
 - Maximising the return from externalised service provision
 - Redesign of existing services and external contracts
 - Placing a focus on prevention and ceasing service provision only where this is least impact
 - Streamlining services to provide focussed support and reduce areas of duplication
 - Supporting carers
 - Integrated working with health
 - Focussing growth where it is expected to have a positive effect on older or disabled people and their carers
161. By reviewing and reshaping services for young people, particularly those in relation to prevention and early intervention, the route into identifying

support will be made simpler for customers and the services more tailored to the needs to each community. This will have a positive impact on young people and promote equality of opportunity for those growing up in the city.

162. Funding for carers will continue as the council aims to provide a more comprehensive set of support, reflecting the significant role of carers in allowing people to remain in their own homes and live independently as far as possible.

163. The changes within a new operating model for adult social care seek to reduce people's dependency on social care support through the provision of information and advice and earlier intervention to support, maintain or regain independence for those who are able. These changes are designed improve outcomes for customers, including those with one or more protected characteristic (particularly Age and Disability). For those who require ongoing support, the offer will be made more flexible and tailored to their needs.

Specialist Implications

164. This report has the following implications;

Financial

165. The financial implications are contained within the body of the report.

Human Resources (HR)

166. The council currently employs 2,650 non school staff. The budget proposals which are contained within this report highlight the likely reduction of approximately 40 FTE posts in 2017/18. However based on the experience of previous years to achieve budget reductions of this scale is likely to mean that this figure is exceeded.

167. As implementation plans to achieve these post reductions are produced the specific staffing implications will be clear and staff consulted on the proposals. The type of change affecting staff in 2017/18 is likely to be a mixture of post reductions and working for redesigned services, some of which may no longer be delivered by the council.

168. The HR implications of change are managed in accordance with established council procedures. As part of this process consultation with trade unions and affected staff will continue to be undertaken and every opportunity will be explored to mitigate compulsory redundancies, such as vacancy controls, flexible working, voluntary redundancy / early retirement and extended redeployment. Where consideration is being given to the transfer of services to another provider TUPE will apply which will protect the terms and conditions of employment of transferring staff.
169. A programme of support for staff who are going through change is in place which will help staff adapt to changes to the way they will need to work or to prepare for a move into a new role.

Legal

170. The council is required to set a council tax for 2017/18 before 11 March 2017. It may not be set before all major precepts (i.e. precepts from the Police and Fire Authorities) have been issued or before 1st March 2017, whichever is the earlier. This decision is reserved to Council and cannot be taken by Executive or delegated to officers, although Executive has to recommend a budget to the Council. These comments are intended to apply to both the Executive meeting and the subsequent Council meeting.
171. Before determining the level of the tax, the Council must estimate its proposed revenue expenditure, taking into account amounts required by way of contingency, any need to raise reserves and any other amounts which the Council is legally required to transfer between funds. It must also estimate its anticipated income, any relevant transfer between funds and any proposed use of reserves. It must then calculate the difference between the two which is the council tax requirement.
172. The Council's Chief Financial Officer (under s151 Local Government Act 1972) is required to report to the Council on the robustness of the estimates made for the purposes of the calculations, and the adequacy of the proposed financial reserves. The Council must have regard to the report when making decisions about the calculations in connection with which it is made. The Chief Financial Officer has a statutory duty under section 114 of the Local Government Finance Act 1988 to issue a written report if he considers that a decision taken by the Council would be unlawful and likely to cause a financial deficiency.

173. In reaching decisions on these matters, Members are bound by the general principles of administrative law. Lawful discretions must not be abused or fettered and all relevant considerations must be taken into account. No irrelevant considerations may be taken into account, and any decision made must be one which only a reasonable authority, properly directing itself, could have reached. Members must also balance the interests of service users against those who contribute to the Council's finances. The resources available to the Council must be deployed to their best advantage. Members must also act prudently. Members must also bear in mind their other statutory duties to have regard to certain matters when making decisions. In particular the "equalities duty" to have 'due regard' to the need to eliminate discrimination and to promote equality when making decisions and the need to consider any crime and disorder implications of the decision. A failure to follow these principles could open the Council to judicial review.
174. Members have a fiduciary duty to the council tax payers and others in the local authority's area. This means that members must behave responsibly in agreeing the budget. Members have no authority to make anything other than a balanced budget.
175. Among the relevant considerations which Members must take into account in reaching their decisions are the views of business ratepayers and the advice of officers. The duty to consult representatives of non-domestic ratepayers on the Council's expenditure plans is contained in Section 65 of the Local Government Finance Act 1992.
176. In considering the advice of officers, and the weight to be attached to that advice, Members should have regard to the personal duties placed upon the Deputy Chief Executive/Director of Customer and Corporate Services as Chief Financial Officer. Members are obliged under the Code of Conduct to have regard to the advice of the Chief Finance Officer and Monitoring Officer. The Council may take decisions which are at variance with his advice, providing there are reasonable grounds to do so. However, Members may expose themselves to risk if they disregard clearly expressed advice, for example as to the level of provision required for contingencies, bad debts and future liabilities. In addition, if Members wish to re-instate savings recommended by the Deputy Chief Executive/ Director of Customer and Corporate Services in order to balance the budget, they must find equivalent savings elsewhere.

177. The Deputy Chief Executive/Director of Customer and Corporate Services is required by Section 151 of the Local Government Act 1972 and by the Accounts and Audit (England) Regulations 2011 (as amended) to ensure that the council's budgeting, financial management, and accounting practices meet relevant statutory and professional requirements. He is in addition subject to the requirements set out in paragraph 174 above.
178. Members must also have regard to, and be aware of, the wider duties placed upon the council by various statutes governing the conduct of its financial affairs. These include the distinction between revenue and capital expenditure and the requirement to set prudential indicators in line with capital investment plans that are prudent, affordable and sustainable.
179. Section 106 of the Local Government Finance Act 1992 makes it a criminal offence for any Member with arrears of council tax which have been outstanding for two months or more to attend any meeting at which a decision affecting the budget is to be made, unless the Member concerned declares at the outset of the meeting that he or she is in arrears and will not be voting on the decision for that reason. The Member concerned must not vote but may speak. The application of Section 106 of the 1992 Act is very wide and Members should be aware that the responsibility for ensuring that they act within the law at all times rests solely with the individual Member concerned.
180. If a referendum is held after the beginning of the relevant financial year, the higher rate of council tax will be payable unless and until it is overturned by a 'no' vote in the referendum. It must also provide "substitute calculations" which need to be presented to Council setting out what the alternative budget would be. This means that that if a party proposes a council tax above the referendum limit they must also produce "substitute calculations" within the referendum limit, to be used in the event that the referendum would reject the increase. In the event that a referendum rejects the increase, the billing authority would be able to issue new bills, offer refunds at the end of the year or allow credits against liability the following year, although individual council taxpayers would be entitled to a refund on demand.

Council Priorities

181. This report, alongside the Capital Strategy, sets out a range of investments and savings which reflect the Council's priorities. These are covered in detail in the main body of the report.

Statutory Advice from the Deputy Chief Executive/ Director of Customer and Corporate Services

Introduction

182. 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 give my views on the budget (both 2017/18 and beyond), reserves and general robustness of the process.

Overall Assessment

183. The proposals in this budget give a balanced budget for 2017/18 and an overview of future years. The council has well established effective financial management, effective monitoring, and has received very favourable external audit reports in respect of its financial management. The council has managed expenditure within its overall budget in recent years, and the overall financial planning process remains sound.

184. Full scrutiny of the budget proposals for 2017/18 has taken place, in terms of their deliverability, and a proper risk assessment of a range of issues has been conducted.

185. There are significant savings contained within the budget proposals, reflecting the scale of the challenge facing the council. There should be no understatement of the scale of this challenge, both in terms of next year and beyond.

186. A key risk facing the Council relates to the large number of major complex capital schemes it is currently undertaking, and which are at the 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.

187. Another significant risk is the financial position of the Health system within York, which brings with it a number of significant challenges for adult care services in particular. This risk has increased recently, with massive financial challenges facing CCG's in particular and the position regarding the Better Care Fund both now and in the future represents a major risk.
188. There are also changes in New Homes Bonus Funding as described in the report, which will reduce the amount of NHB the Council receives in future years. Previous budget decisions have funded ongoing expenditure of just over £2m from New Homes Bonus, and moving forward the Council will need to plan for funding this expenditure from its council tax/retained business rates. This will require budget growth from 17/18 for a period of around 4 years, at a level of approximately £500k each year.
189. Clearly, there are risks in the achievement of some of the proposed savings and, in assessing the risk of the savings proposed, I cannot guarantee that every single proposal will be achieved. I do however consider the overall package to be prudent, and I am assured of the robustness of the projected savings, and the extent of rigour in their calculation. They do however represent a major challenge to deliver, one that will only be achieved through full commitment across the organisation. Very careful monitoring of the progress of the savings programme will be essential. A risk assessment related to 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.
190. I consider that the overall estimates in the budget are sound and that the proposals to achieve a balanced budget are achievable, albeit demanding. The council has made provision for a number of corporate financial pressures. In addition provision is included for a contingency sum of £500k, and I consider this an important factor in the overall budget assessment. This overall package is a realistic approach in dealing with the financial pressures facing the council next year. In addition the major financial pressures being experienced during 2016/17 have been addressed through significant additional investment. There is provision made for the estimated 1.0% pay award.

Looking Ahead

191. Looking ahead there remains a range of very significant pressures for the future. It is almost certain that there will be further reductions in

government funding, and the major challenge facing the council in coming years will be to secure further savings and for cost pressures to be managed effectively. In doing so, the council will also need to provide capacity for additional investment in unavoidable costs and priorities.

192. The proposals in this report set out details for 2017/18, but also set out the strategic direction, and key issues facing services for the following two years. There has been significant consideration of the medium terms planning issues, and I am entirely satisfied with the extent to which the Council is aware of the challenges it faces, and the actions it will need to consider over coming years.

Reserves

193. In terms of reserves, the proposals seek to keep reserves to an amount of £496k above their minimum levels. This recognises that in difficult financial times, and alongside general uncertainty regarding the economy, it is advisable to ensure sufficient reserves are in place.

194. I believe that the council will come in on budget for 2016/17 and this is reflected in the budget monitoring report presented to Executive at this same Executive meeting.

195. The recommended minimum reserves for 2017/18 are £6.4m. This is considered within the report. I have identified in earlier paragraphs the risks facing the Council. Consequently I strongly advise that Council begins to make provision for increasing general reserves, and does so by using any potential under-spend that occurs on the revenue account for 2016/17. Should this not lead to increases (e.g. there is no underspending) then further action will need to be considered, as I consider it a significant risk not to have reserves above £8m in the short to medium term.

196. Whilst there is a degree of mitigation in that the Venture Fund has a significant balance (covered in the financial strategy report), and some other earmarked reserves could be permanently/temporarily used should there be any significant costs to be charged to revenue funds, it is essential the Council makes proper prudent provision for the risks it faces and has adequate provision in its stated "Unallocated" reserves. The position regarding a number of the risks e.g. major capital projects, health sector funding, should become clearer over the next couple of years and clearly the position on reserves will be reviewed on an ongoing basis.

197. The decision on the adequacy of the level of reserves is also linked to the general robustness of the budget process and the council's systems of budgetary control and risk management. These need to ensure that the Council will not be exposed to any unforeseen major financial problem requiring the use of reserves to resolve. In considering the overall budget position, I have taken assurance over the recent track record of the Council to manage expenditure within budget, and the fact that in very recent times financial pressures have been identified early in the financial year and through concerted action across the council the position has been brought in line with budget.

Other Issues

198. The council tax referendum limit remains at 2% but local authorities with responsibilities for adult social care will be given an additional 3% flexibility on the current council tax referendum threshold to be used entirely for adult social care.

199. It is for members to determine the level of council tax increase, and to decide whether to set a council tax increase up to the 2% referendum limit or to take advantage of the government offer to set a tax at a higher level to be used for adult social care. Members naturally need to consider the implications of the different options very carefully. In particular they need to note the implications of any proposal to set a council tax above the referendum limit, which is covered within this report.

200. I also would highlight the separate capital strategy report, and the issues that are set out within that. I would stress however that the overall balance in terms of capital investment, levels of borrowing, and revenue implications (and the impact on revenue expenditure) is something that is for Members to determine.

201. There is the potential for significant changes to the system of local government finance in coming years. Changes have occurred to New Homes Bonus and in the future will occur to Business Rates. The operational details of the devolution of the business rates system still need to be determined by government, and there remain a number of areas that will need to be addressed before the full implications will be known.

202. I am aware that as with all budgets there is the potential for amendments to be proposed/agreed which could change the overall package of proposals. In that respect, I would highlight that I would amend/add to my

statement if a decision was proposed that lead to the council's reserves falling below the minimum level (assuming the current budget comes in line with budget). In addition, any other amendments I would consider against the scale of the overall budget and depending upon the extent of the amendment I may revise my statement.

Risk Management

203. A summary of risks attached to the budget is contained in annex 8. They will be monitored regularly throughout the year.

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**Report
Approved**



Date 31/01/17

Specialist Implications Officer(s)

Legal – Andy Docherty

HR – Mark Bennett

Wards Affected: List wards or tick box to indicate all

All

For further information please contact the authors of the report

Background Papers:

Budget Consultation available at www.yorkopendata.org

Annexes:

1 – 2017/18 Budget Summary

2 – 2017/18 Savings Proposals

3a – Health, Housing and Adult Social Care 4 year Plan

3b – Children, Education and Communities 4 year Plan

3c – Economy and Place 4 year Plan

3d – Customer and Corporate Services 4 year Plan

4 – Fees & Charges

5 – HRA Budget 2017/18

6 – HRA 2018/19 Savings Proposals

7 – Communities Impact Assessment

8 – Risk Analysis

9 - Early Years Single Funding Formula (EYSFF) Consultation

10 – Background Information