Meeting:	Executive
Meeting date:	27 January 2026
Report of:	Debbie Mitchell, Director of Finance
Portfolio of:	Councillor Katie Lomas, Executive Member for Finance, Performance, Major Projects, Human Rights, Equality and Inclusion

Decision Report: Financial Strategy 2026/27 to 2030/31

Subject of Report

1. This report presents the financial strategy 2026/27 to 2030/31, including detailed revenue budget proposals for 2026/27, and asks Members to recommend to Council approval of the proposals. The financial strategy delivers a balanced budget for 2026/27. There are separate reports on the agenda covering the capital budget, the capital and investment strategy and the treasury management strategy.

Benefits and Challenges

2. The budget proposals outline some significant investment into social care to enable the Council to continue delivering vital support to our most vulnerable residents. This essential funding will deliver a financially sound budget, that reflects current pressures, whilst also ensuring a safe and effective service can be delivered across all statutory care services.

3. The Capital Budget report elsewhere on this agenda details the additional investment being made into a range of schemes including:

    - £585k for improvements to the Crematorium.
    - £200k in upgrades to fire protection in council hostels.
    - £625k fleet replacement programme

- £2,320k in repairs and modernisation of council homes.

- £37m in anticipated additional funding over four years for Highway and Transport investment subject to decisions from the York and North Yorkshire Combined Authority.

4. The challenges continue to be increasing demand across all services, especially within social care, and the cost of delivering capital projects.

5. The significant financial challenges facing Local Government are a national concern. As outlined in previous reports to Executive, many Councils across the country are experiencing significant financial pressures and are struggling to balance their budgets. The Government has responded to this through the Fair Funding Review and the reinstatement of a multi-year settlement for Local Government.

6. The Local Government Finance Settlement, which incorporates the impact of the Fair Funding Review, shows an increase in core spending power of just 0.7% in 2026/27 and 0.1% in the following 2 years of the settlement. This is after an assumed maximum increase in council tax.

7. We face exceptional challenges to deliver our Financial Strategy, one that will affect residents, partners, members, and officers alike. The scale cannot be underestimated. Over the next few years, the level of savings required will be significant, and it is likely that some services will reduce — and, in some cases, stop altogether. We know these decisions will not be easy, and the impact on residents and our communities will be real. It is crucial we approach this together, with honesty, transparency, and a focus on what's important to support our most vulnerable communities. By focusing on priorities, maintaining strong financial management, with robust cost control measures, we can protect the services that matter most, support the people who rely on them, and ensure the council is best placed for a resilient and sustainable future.

8. Whilst the local and national financial position for local government is clearly very strained, considerable work is ongoing to secure inward investment into the city to ensure that the Council's priorities can still be achieved.

9. The budget proposals include continued investment in transformation to deliver the changes needed in the short, medium and longer term to ensure the continued financial resilience of the Council. As well as

investment in staff to support and deliver change, additional funding is included to allow for investment in technology and other innovation that will deliver improvements in council operations and efficiency savings.

10. To date, projects across York have secured over £30 million in funding from the York and North Yorkshire Combined Authority. This includes the following funding directly awarded to the Council:

- £430k to deliver a spatial plan for the city centre
- £70k for the York Construction Skills initiative
- Approval in principle of £460k for a cultural passport for young people programme
- £1,540k for Electric Vehicle charging infrastructure
- £7,456k Local Transport Grant Funding
- £910k funding towards the council Trailblazers project
- An initial £150k for the development of the York Movement and Place Plan, total cost circa £1m
- £3,066k Net Zero Funding including Harewood Whin Green Energy Park, Heating Upgrades at Housing Independent Living Schemes
- £370k Mayoral Renewables Fund to fund Photovoltaic panels on council buildings
- £4,512k funding for brownfield housing (including Lowfield phase 2, Willow House and Ordnance Lane)

11. Much of this funding is delivering schemes in 2025/26 but funding will continue into future years.

12. Other key issues included in the budget proposals are as follows.

- A proposed basic council tax increase of 2.99% in 2026/27. Any increase above this amount would require a referendum.
- In addition, an increase of 2% in line with the government's adult social care precept, equating to additional income of £2.6m, which provides support for social care
- Revenue savings of £4.3m in 2026/27

- Ensuring a financially prudent budget by addressing known budget pressures, including likely pay awards and inflationary pressures

- A net revenue budget of £187.009m, which will be funded by:

    i. Council tax income of £127.181m

    ii. Retained business rates of £22.977m

    iii. Revenue Support Grant of £36.851m

Policy Basis for Decision

13. The Financial Strategy aims to ensure that, as far as possible, resources are aligned to the Council's priorities. It is vital that the Council sets a robust budget each year. Alongside the income generation and other savings included in Annex 2 to this report, the Council's transformation programme is key to the delivery of a balanced budget. The cross-cutting transformation programme will coordinate activity that ensures the Council has a sustainable and more efficient operating model, prioritising the delivery of statutory services alongside those initiatives that will contribute to the achievement of the Council Plan.

Financial Strategy Implications

14. The following table shows the 2026/27 budget position after taking account of the expenditure and funding changes outlined throughout the report. Further detail is provided at annex 1.

Summary	**2026/27 £'000**
Total investment (Table 6)	19,094
Total net funding changes (Table 7)	21,912
Revenue Support Grant (Table 7)	-36,851
Total changes in council tax (Table 8)	-6,501
Total changes in business rates income (Table 9)	13,264
Total savings and income generation (Table 10)	-10,918
Budget gap	**0**

Table 1 – Budget position summary

15. Should the recommendations in this report be approved, this will result in a 4.99% increase in the City of York element of the council tax, 2% of which would relate to the social care precept. The total council tax increase including the parish, police and fire authority precepts, will be agreed at a meeting of Full Council on 12th February 2026.

16. In considering the budget, members 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 Section 151 Officer

Recommendation and Reasons

17. 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 £187.009m
    - A council tax requirement of £127.181m
    - The revenue growth proposals as outlined in paragraphs 75 to 77
    - The 2026/27 revenue savings proposals as outlined in annex 2
    - The fees and charges proposals as outlined in annex 3
    - The Housing Revenue Account (HRA) 2026/27 budget set out in annex 5
    - The Dedicated Schools Grant (DSG) proposals outlined from paragraph 168
    - The Flexible Use of Capital Receipts Policy set out in annex 7, including delegation to the Director of Finance to determine the costs that can be charged to the transformation programme

    Reason: To ensure a legally balanced budget is set.

18. Members are asked to approve the average rent increase of 4.8% to be applied to all rents for 2026/27.

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.

Background

National context and Fair Funding Review

19. The Government published the provisional local government finance settlement for 2026/27 to 2028/29 on 17th December 2025. A policy statement issued on 20th November had already announced the key principles applied in the provisional settlement.

20. At the national level the headlines were:

- Council Tax can be increased by up to 2.99% and social care authorities can apply a further 2% Adult Social Care Precept making a total increase of 4.99%
- Local authorities will receive a three year settlement for 2026/27, 2027/28 and 2028/29.
- A large number of grants were consolidated into Revenue Support Grant as well as the creation of four new service grants containing ringfences
- Changes to the Business Rates system including a reset of gains previously retained.

21. It is expected that the final settlement will be announced in February but is unlikely to differ significantly from the provisional figures.

22. In relation to council tax, as City of York Council is a unitary authority with statutory social care responsibilities, the proposals in this report are predicated on a basic council tax increase in 2026/27 of 2.99%, plus an additional increase of 2% 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.

Fair Funding Review

23. The Fair Funding Review was published on 20th June with an eight week consultation window. The Council responded to the consultation and published its response on the Open Data platform here https://data.yorkopendata.org/dataset/fair-funding-review-consultation-2025.

24. This review of Local Government Finance is the most significant change in how authorities are funded in over 10 years and has had a significant negative impact on the Council’s overall financial position. The review focussed on the following changes

- A review of the proportion of funding each council is due
- The principal of council tax equalisation whereby government will fund councils considering an assumed council tax rather than actual council tax
- A reset of the business rates retention scheme
- A rationalisation of the number and value of grants awarded to local councils.

25. On 20th November 2025 Government responded to the consultation as part of the Local Government Finance Policy Statement.

26. The government announced more changes than expected, with the main one being that authorities in receipt of recovery funding in 2025/26 would continue to receive that funding and would see real term cash increases each year regardless of how much funding the revised formula advised. There were also amendments to the weighting of remoteness and day visitors and detail was given on how funding floors would work.

27. The proposals will be implemented in 2026/27 and will cover 3 years to 2028/29. The settlement has confirmed that York will see a reduction of £20m in non-council tax funding from the funding reforms over the next 3 years, equivalent to 10% of Core Spending Power and this reduction in funding will be phased in over 3 years.

28. The key issue for York is that our share of Relative Needs Formula and the overall needs assessment is reducing. This is the measure of the demand and costs each council faces in the delivery of local services compared to other local authorities. The table below shows how this has changed and that essentially, we don’t have as a greater need as we did in 2013/14 (which is when the relative needs were last assessed).

Relative Need Formula	2013/14 %	2026/27 %	Change %
Adult Social Care	0.305	0.299	-2.0
Children & Young People	0.223	0.195	-12.6
Foundation Formula (lower tier)	0.321	0.328	2.2

Foundation Formula (upper tier)	0.350	0.312	-10.9
Highways Maintenance	0.343	0.322	-6.1
Home to School Transport	n/a	0.218	
Temporary Accommodation	n/a	0.038	
Overall Needs Assessment	0.288	0.261	-9.4

Table 2 – Relative need formula comparison

29. Many different factors have been used to calculate these figures, including the number of visitors. There have been significant changes to a number of the formulas most including added weightings for deprivation most of which have impacted York negatively. An area cost adjustment (ACA) has also been applied to the overall needs assessment to “account for the different costs of delivering services in different places”.

30. The Foundation formula line includes all other general fund services such as waste, culture, leisure, etc.

31. The formulas have been amended since drafts were provided in the summer to take into account updated population and deprivation figures as well as ministerial determined amendments (eg reduced visitor numbers). The overall impact, a 9% reduction, is consistent in the final announcement as was originally indicated.

32. The ACA compensates authorities for different levels of unit costs. It has four elements: labour, premises, travel-times, and remoteness. Labour and premises elements have been updated for the latest data. The travel time and remoteness elements are new and will be introduced for the first time in 2026-27.

Council Tax Equalisation

33. The second major change in the Funding reforms relates to the introduction of council tax equalisation. The government is making an assessment of what a Council can raise through Council Tax raising ability through a “resource adjustment”. They are multiplying each local authority tax base by an assumed / notional level of Council Tax on the assumption that Councils with stronger tax bases will receive lower allocations that those with weaker tax bases.

34. However, by using an average that is higher than our actual, this assumes we generate £7.8m more than we actually can.

35. The assumed average Band D Council Tax for 2026/27 is £2,063 (£1,968 excluding fire element) compared to a forecast 2026/27 CYC charge of £1,817 (assuming we increase by 4.99%).

	Assumed position	Actual CYC position	Difference
a) Council Tax Base	68,602	69,979	+1,377
b) Council Tax Band D	£1,968.10	£1,817.43	-£150.67
a) x b)	£135.016m	£127.182m	-£7.834m

Table 3 – Council Tax Equalisation

36. Using the figures in the table above, this means that our funding settlement will be reduced by £135m despite us only being able to generate £127.2m. The loss therefore because of the lower than assumed council tax is £7.8m.

Core Spending Power

37. The governments favoured measure of comparing Local Government is Core Spending Power. This shows how much local authorities have available to spend on providing local services. When factored in with population numbers it allows fair comparisons between local authorities.

38. The table below shows CYC's core spending power over the period 2026/27 to 2028/29 compared to some statistical neighbours. The tables assume council tax increases of 4.99% each year is applied

£'m	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m	Increase %
York	195.9	197.3	197.4	197.6	0.9%
Bath & NE Somerset	198.6	205.0	209.8	215.1	8.3%
Brighton & Hove	360.9	368.6	374.5	380.4	5.4%
Calderdale	245.1	262.1	276.6	291.5	18.9%
Cheshire West & Chester	403.8	430.7	455.1	480.6	19.0%
Darlington	136.1	143.2	149.1	155.2	14.0%
Stockport	345.8	356.1	363.7	371.7	7.5%
Trafford	246.7	251.3	253.4	256.1	3.8%
England	**73,522**	**77,712**	**81,041**	**84,618**	**15.1%**

Table 4 – core spending power comparators

39. The table clearly demonstrates that CYC funding is being effectively cash limited over the period of the settlement and whilst some of the authorities above have similar low settlements York has performed particularly badly.

40. When looking at core spending power per capita the position is even starker. By 2028/29 York's core spending power at £923.94 per capita will be the lowest unitary in the country.

Authority	CSP £/capita	% higher than CYC
York	923.94	
Bath & NE Somerset	1,034.51	12.0%
Brighton & Hove	1,264.38	36.8%
Calderdale	1,366.62	47.9%
Cheshire West & Chester	1,315.75	42.4%
Darlington	1,499.70	62.3%
Stockport	1,229.24	33.0%
Trafford	1,037.35	12.3%
England	**1,440.32**	**55.9%**

Table 5 – core spending power per capita by 2028/29

41. One of the reasons for the low increases in core spending power is due to the lower level of council tax in York (£1,817.43) compared to the government assumed level (£1,968.10). If York were charging the assumed level of council tax the council would be able to generate an additional revenue of £10.5m which would increase core spending power by £49.64 per capita.

42. There has also been a move towards the local population (through council tax) paying for a higher proportion of council services. In 2025/26 council tax accounted for 62% of core spending power. This will increase to 72% by 2028/29.

Grants

43. A number of specific grants will be rolled into Revenue Support Grant. These totalled £22.3m and include Adult Social Care Grant, New Homes Bonus, National Insurance Grant, Temporary Accommodation as well as a number of smaller grants.

44. The Government have introduced 4 new core grants covering

- Homelessness, Rough Sleeping and Domestic Abuse £2.131m (£+95k)

- Public Health Grant £10.417m (£+202k)
- Crisis and Resilience Grant £1.587m (£-406k)
- Children's and Families Grant £2.144m (£+692k)

45. Where the grants have increased it is proposed that the funding is ringfenced to the service area. Some of the grants have separate ringfences within the main grant eg Holiday activities and food within the children's grant and drugs and alcohol expenditure within the public health grant.

Local issues and challenges

46. The Council is facing unprecedented financial pressures driven by inflation and increasing demand for our services. Despite annual growth, there are acute underlying budget pressures in adult social care requiring all services to make further savings. As a result, every council service is operating in an extremely challenging environment, with no capacity to absorb additional budget cuts.

47. York's ageing population, together with increasingly complex resident health needs drive sustained demand for social care. At the same time, the hospital and wider health system are under severe and increasing financial pressure, limiting their ability to absorb demand and placing additional responsibility for resident's care on the Council.

48. From April 2026, the council's financial position will deteriorate further, with direct and tangible consequences for residents, whilst at the same time, York's population is growing as a result of the Local Plan.

49. Following the Fair Funding Review, the City of York Council is projected to be THE lowest funded unitary authority in the country. There will be £110 less per resident spent on council services than the 2nd least funded authority (Bath and NE Somerset) (ie. £924 in York vs £1034 in Bath).

50. With council tax remaining low and fewer residents experiencing deprivation than in neighbouring areas, crucial funding is being cut and limiting the Council's ability to support the community where it's needed most. York residents struggling to make ends meet will be left further behind as in real terms. The ongoing need to protect core social care and children's services for those who need the most support, will mean a focus on finding savings from other services

the council operates. This will be part of our ongoing review into how the organisation operates within its new financial position.

51. The consequences of the budget pressures for residents are serious and far-reaching. Without sufficient funding, the Council’s ability to meet rising demand is increasingly constrained. Older residents, and those with the most complex needs, are particularly vulnerable, and the potential impact on their quality of life and access to timely, appropriate care cannot be underestimated. Additionally, the recent CQC assessment has rated York’s adult social care as “requiring improvement”. It will be impossible for the council raise service standards and meet demand without significant budget cuts in non-social care services.

52. In response to the assessment, the council has developed a comprehensive programme to improve the service and ensure our systems and processes are effective in supporting our most vulnerable residents. The programme is supported by an independent improvement partner and the Council will be working with the Department of Health and Social Care to report on progress.

53. Given the Councils severe financial challenges, this programme requires investment to both improve services and deliver savings. We know from our experience in Children’s over recent years that improving services will make them more efficient and reduce costs by ensuring that the right care is provided at the right time.

54. At a time of unprecedented financial pressure, it is crucial that the Council’s financial strategy does more than balance the books—it must actively drive the priorities set out in the Council Plan. However, delivering these priorities requires bold, transformational thinking: a long-term approach that ensures every pound is focused where it will have the greatest impact, protecting the services that residents rely on and shaping a sustainable future for the city.

Council priorities

55. *One City, for all* is the Council’s corporate strategy and guides the council’s priorities, whilst providing a framework for financial and performance management, and helps the city identify and respond to new opportunities or challenges.

56. It sets out the Council’s contribution to delivering the vision for the city and long-term ambitions contained within the 10-Year Plan and

10-Year Strategies (York 2032), which is collectively owned by, and developed with, city partners.

57. Underpinning the priorities set out in the Council Plan are Four Core Commitments that will be put at the heart of Council services and the decisions we make:

- Equalities - providing equal opportunity, balancing human rights, standing up to hate, championing communities
- Affordability - finding new ways so everyone benefits from the city's success, targeting support where it's most needed
- Climate - understanding the impact our decisions have on the environment, adapting the city to prepare for extreme weather events
- Health - improving health and wellbeing, reducing health inequalities, targeting areas of deprivation

58. The plan recognises there are significant funding challenges facing local government as a sector, and the Council will need to make difficult decisions in the coming years. To deliver against the ambition will require the Council to work closely with the city and partners to unlock investment and identify opportunities.

59. The budget reflects the Council priorities through the protection of existing spending, as set out in both the capital budget and this report.

<u>Principles that have shaped the budget process</u>

60. The Council's Financial Strategy continues to invest in statutory areas, including adult social care and support for children.

61. 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 where possible. This included an assessment of options, risks, and links with Council priorities. 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. This approach will help to protect the needs of the most vulnerable people in York. We have again prioritised investment in statutory social care services.

Consultation

62. The Council undertook a very comprehensive budget consultation for the 2025/26 budget process, following a staged approach which allowed the Council to iteratively build an understanding of both the impact of proposals on different demographics and community groups, together with how partners, businesses and residents could work together to deliver our shared ambitions for the city.

63. Feedback from this consultation has continued to shape key budget decisions, including prioritising investments in adult social care and children's services.

64. As the Council was in the pre-election period from the 8th December pending a by-election on the 15th January, only consultation with the business community has been undertaken.

65. Business groups such as the FSB, Chamber of Commerce and the York BID were contacted by email. An overview of the Council's financial challenge was included, and businesses were invited to contact the Council to join the conversation and help us decide what actions we need to take in order to meet our financial challenges.

66. Respondents noted that whilst it was challenging to offer targeted feedback without the specific proposals, they would welcome proposals to make the council more efficient. They felt that streamlined processes, using technology would deliver quicker decisions, clearer guidance and predictable timelines helping improve productivity.

67. There is support for an early intervention and prevention approach given its potential to deliver long term cost savings in social care and community services.

68. From an economic perspective, respondents felt that investment in skills is essential for workforce supply, productivity and growth, with skills and training support aligned to local employer needs.

69. Road condition and reliability is important to businesses, and they would prioritise investment in prioritises maintenance on routes that serve industrial estates and key trading areas and reducing avoidable congestion pinch points.

70. Some concerns were raised around the cost of car parking and the potential impact of this on footfall in the city centre. Ensuring practical city centre access and loading arrangements to keep trade moving was also mentioned.

71. The consultation with businesses will remain open until final budget decisions are made at full Council on 12th February and officers will continue to engage with the local business community.

Budget analysis

72. The budget setting process has taken into account the following issues, which are considered in more detail in following paragraphs.

    i. Consideration of the 2025/26 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. How to best deliver services effectively for local residents, businesses, and communities
    iv. Consideration of reductions in grant funding.
    v. Ensuring that the budget is robust and prudent and is based upon the strategic financial advice of the s151 officer.
    vi. 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.

<u>2025/26 position</u>

73. As part of the budget approved in February 2025, considerable investment was made in priority services to ensure sufficient resources to deliver statutory and priority services.

74. Despite this investment the latest finance and performance report still forecasts an overspend of c£2.1m. Cost control measures remain in place across the Council to reduce spending and there remains a risk that we will need to use reserves to balance the final position.

<u>Additional Investment</u>

75. The following bullet points set out the areas where additional recurring investment is being made.

    - Health and Adult social care - **£10.33m** to cover unavoidable contractual price increases and demographic pressures, including the cost of ongoing care for adults as they transition from children’s services.

- Children’s Services - **£1.94m** to cover unavoidable contractual price increases and demographic pressures, including looked after children costs. This includes £664k additional grant from government and £400k CYC investment into case work capacity and oversight as well as investment in early help and preventative services.

- Pay, pension and other contractual price increases **£3.75m** - to cover pay inflation and unavoidable contractual price increases in other service areas, mainly ICT, insurance, transport and waste.

- **£2.33m** to fund the additional revenue cost of funding borrowing agreed into the capital programme

- **£0.33m** passporting of resources funded from additional grants for Housing and Public Health

- **£0.04m** Weed Spraying in Public Realm. Historically the weed spraying for the city has been undertaken by a contractor at a limited cost and quality. It is proposed to trial delivering the weed spraying in-house for 2026, delivering two sprays city wide., this will require an additional £40k to fund temporary resources, training and product.

76. In addition to the recurring investment above it is also proposed to invest in a number of one-off proposals totalling £380k:

- **£130k to fund an assessment of the closed Ouse Bridge walkway**. This will determine the appropriate long-term solution for the walkway. Future works if necessary to be considered as part of future capital budgets.

- **£60k for a Community Cycle Parking Fund.** Many areas of York have a shortage of cycle parking and there have been numerous requests for additional cycle parking in recent years. This funding will deliver upwards of 250 new cycle hoops (or a combination of hoops and secure lockers if requested) in locations across the city. Community groups, shops, parks, etc can all benefit from the quick, straightforward installation of groups of hoops on pre-existing hardstanding areas. Likewise new city centre locations can be added and existing, overused locations quickly and easily extended.

- **£30k for Paper Based CYC Communications.** Funding for delivery of community based information as part of a drive to tackle digital exclusion. This paper publication will go to all households across York Local Authority area, delivered four times over the financial year 2026/27. The publication will inform residents of Council activities, community-based services, events etc.

- **£20k for the continuation of the Filmmaking in schools project.** This will part fund the Filmmaking in Schools project and keep it going while alternative sources of long-term funding are secured. The rest of the funding comes from commercial sponsorship (LNER) and in-kind support from film production companies in York. In 2025, the programme engaged 200 young people from seven York secondary schools — Huntington, Joseph Rowntree, Milthorpe, York High, All Saints, Fulford and Archbishop Holgate. Delivered in partnership with schools and industry professionals and embedded within the BAFTA-Qualifying Aesthetica Film Festival, the programme offers young people a rare opportunity to engage in a full, professional creative production cycle. Filmmaking in Schools is a strategic, city-wide cultural and skills intervention, operating at the intersection of education, culture, industry and economic development.

- **£90k to deliver Pride in Place – Community caretakers additional capacity in 2026/27.** This will provide additional resources for our community caretakers to enable them to deliver additional weed controls, street cleaning, fence replacements as part of the existing patrols across the city. This will include additional short term staffing and additional tools and materials to support the work.

- **£50k for Delivering Pride in Place – Community events in parks and community spaces outside the city centre.** A small additional one-off grant to Make it York to support them to develop delivery of community events (not for profit) in our parks and areas like Front Street as well as in the city centre. The events would be commissioned through the Council, to ensure effective use of funding.

77. As set out earlier, there remain potential pressures and risks within social care. The budget provides for a significant investment within social care. However, it is recognised there remain a number of risks in this area, with significant pressures for social care providers across the private and voluntary sector. The Council’s statutory responsibilities in respect of market management and provider

failure, as well as the requirement to meet the assessed eligible care needs of older and disabled adults, requires due consideration of the social care market's financial issues.

Investment Summary

78. The investments described above are set out in the following table.

Investment	**2026/27 £'000**
- Revenue cost of borrowing	2,328
- Adult social care prices and demographic	10,330
- Children's Services prices and service pressures	1,941
- Pay and Prices	3,750
- Growth funded from increased grants	325
- Weed Control	40
- One off service priorities	380
Total Investment	**19,094**

Table 6 – Summary of investment

Specific Grant Funding Changes

79. As part of the Fair Funding Review the government is simplifying local authority funding by bringing together a number of different funding streams into four high level consolidated grants. In addition, some specific grants from 2025/26 have been consolidated into the Revenue Support Grant (RSG), which is now shown in the Net Budget Composition section below.

80. The funding moved into the RSG includes elements of Adult Social Care funding such as the Social Care Grant (£15.9m) and the Market Sustainability and Improvement Fund (£3.2m). In addition to this the Employer's NI Contributions Grant (£1.3m) has also been included, together with a number of smaller funding streams.

81. The four new consolidated grants are

- **Homelessness, Rough Sleeping and Domestic Abuse Grant**. A consolidation of rough sleeping, homelessness prevention and domestic abuse funding.

- **Public Health Grant**. A consolidation of the public health grant, drug and alcohol treatment, stop smoking and other elements of public health funding.

- **Crisis and Resilience Fund**. A consolidation of household support funding and discretionary housing payments.

- **Children and Families Grant**. A consolidation of children's funding including children's social care prevention grant, supporting families grant and holiday activities and food programme funding.

82. In total the net reduction in specific grants is £21.9m in 2026/27 as shown in Table 7. The reduction is entirely related to the movement of specific grants into the RSG (see Table 7 below).

Funding Changes	**2026/27 £'000**
- Homelessness, Rough Sleeping and Dom. Abuse Grant	-95
- Public Health Grant	-202
- Children, Families and Youth Grant	-692
- Extended Producer Responsibility Grant	-482
- 2025/26 RSG included in specific grants	1,046
- Grants consolidated into RSG	22,337
Net Funding Changes	**21,912**
New Revenue Support Grant	**-36,851**

Table 7 – Grant funding changes

83. It should be noted that the Crisis and Resilience Fund has been reduced by £406k compared to current funding streams. The new scheme will be adjusted to reflect spending levels.

84. The Extended Producer Responsibility Grant is an indicative allocation. Final funding will be dependent on the levels of fees collected by government.

Council Tax Funding Changes

85. Table 4 shows the net changes to council tax funding. The first line in shows the 4.99% increase in council tax which will generate additional income of £5.997m on the existing taxbase.

86. A further £504k council tax is generated due to an increase in taxbase as shown in the second line of the table. The taxbase is calculated by the s151 Officer each year and represents the total number of Band D equivalent properties in the city. In 2026/27, this has grown by approximately 552 properties although this includes second homes assumed in the setting of the 2025/26 budget.

Taxbase can increase or decrease due to various factors including new homes and changing patterns in the number and types of discounts taxpayers are able to receive or apply for.

87. The third line is the reversal of the collection fund surplus from the prior year. There was an estimated deficit declared in 2024/25 of which York’s share was £473k. This was funded in year from the collection fund reserve.

88. The council tax surplus or deficit for the year 2025/26 is estimated on 15 January 2026, based on current year actual figures. It is currently projected that there will be a surplus of £1,778k of which York’s share is £1,428k. This is a result of an increase in the taxbase compared to initial estimates for 2025/26 made last year.

89. As outlined in paragraph 108 below it is currently forecast that there will be an overall deficit on the Collection Fund for 2025/26. Any council tax surplus in 2025/26 will be needed to fund this deficit, therefore will not be available to fund other expenditure in 2026/27.

90. In summary Table 8 shows an estimated £6.501m additional income from council tax in 2026/27.

Council Tax	**2026/27 £’000**
- Increase in charge	-5,997
- Increase in taxbase	-504
- Reversal of Collection Fund surplus 2024/25	0
- Estimated Collection Fund surplus 2025/26	-1,428
- Contribution to Collection Fund Reserve	1,428
Net council tax changes	**-6,501**

Table 8 – Council Tax funding changes

Business rates income

91. Table 9 shows a net reduction in the level of business rates for 2026/27 of around £13m. A number of changes have been made in the government’s business rates reset which have resulted in funding previously included in business rates, such as cap compensation payments for under-indexation, being rolled into the SFA in 2026/27. The reduction in business rates shown here is therefore offset by an increase in the Revenue Support Grant. Further details on business rates income and assumptions are included later in the report.

92. In 2025/26 City of York Council were part of a 50% business rates pool with Leeds City Region. However, due to the business rates reset and changes from the Fair Funding Review, no pool is proposed for 2026/27. This is covered in further detail later in the report.

Business rates	**2026/27 £'000**
- Business rates reduction	13,264
Change in income	**13,264**

Table 9 –Change in business rates Income

Savings proposals and Expenditure Reduction

93. Proposals totalling £10.9m have been identified to contribute towards balancing the 2026/27 budget.

94. Table 10 summarises the 2026/27 savings to be delivered.

Savings	**2026/27 £'000**
- Fees & charges and Income	-2,125
- Transformation and General Savings	-4,293
- Superannuation Reduction	-4,500
Total expenditure reductions	**-10,918**

Table 10 – 2026/27 Expenditure Reductions

95. There is assumed additional income arising from the proposed fees and charges set (see section below) totalling £1.1.25m. There has been a further assessment of recurring income from current income levels particularly within parking services (£700k) and Waste Services (£300k).

96. The Transformation and General Savings totalling £4.293m are detailed at Annex 2. Savings delivery will be led by Service Directors with the support of the Chief Officer – Transformation where necessary to deliver savings across all service areas to deliver efficiencies. The establishment of a corporate cross council programme and Programme Management Office is underway which will focus on the delivery and governance of all change activity across the organisation.

97. The council has been notified of a significant ongoing reduction to the North Yorkshire Pension Fund for the superannuation rate that

needs to be paid across employees of the fund for the following 3 years. The assessment of the new rate results in a saving on pension costs for the General Fund of £4.5m. This is primarily due to the general health of the pension fund where assets are greater than liabilities. This contribution does not impact individual Member benefits.

Net Budget Composition

98. Taking into account funding changes summarised in Tables 7, 8 and 9, Table 11 below summarises the funding available from council tax, business rates and RSG for 2026/27.

	2026/27 £'000
Council Tax	127,181
Business Rates	22,977
Revenue Support Grant	36,851
Total Net Budget	**187,009**

Table 11 – Net budget composition for 2026/27

99. The net budget for 2026/27 does show a significant increase compared to 2025/26 but this is explained by the change in treatment of grants totalling £22.3m which historically were shown netting off service expenditure but have now rolled into Revenue Support Grant. It should be noted that this is a technical adjustment and does not provide additional spending power.

Fees and charges

100. Fees and charges that were last reviewed 12 months ago have been reviewed again, ahead of proposed increases on the 1st April 2026. Service areas have reviewed their charging policies and various increases are proposed which aim to minimise the impact either on service users or the volume of activity in these areas. Whilst the Council recognises the challenges of the cost of living crisis for businesses and residents, it has been necessary to increase fees and charges for 2026/27 to achieve a balanced budget. The proposals are to use a 5% increase in most instances where possible which is higher than current inflation levels but reduces the need for other budget savings.

101. A proposed price increase has the aim of reducing subsidy and maintaining resources available for service delivery. A balance is

struck with the need to keep increases at inflationary levels whilst also ensuring subsidy of a chargeable service is minimised. One example would be the increase in the garden waste charge by 6% for 2026/27. Officers are aware that in previous years the income has not covered the cost of the service and therefore this increase is an attempt to bring the fee income in line with cost.

102. The majority of income streams within the Environment and Regulatory Services are predicated on a thriving and active economy. Income from Planning and Building Control fees, are affected by local and national economic conditions and therefore any downturn impacts directly in these service areas. This presents a significant risk as the uncertainty created by the current economic climate continues.

103. Car parking charges were significantly increased for 2025/26 with the intention of reducing traffic in the city centre whilst investing in sustainable travel. The policy has seen the desired outcome. For 2026/27, increases for the Council’s car parks vary with off street city centre locations seeing on average a 3% increase in hourly charges, whereas suburban car park charges remain at 2025/26 levels.

104. Respark prices have been frozen for first vehicles and visitor permits as it is anticipated that additional areas will generate more individuals paying for the scheme.

105. Detailed proposals for any changes to fees and charges are attached at annex 3. The proposals have taken account of such factors as possible impact on customer numbers, knowledge of business and current market conditions and benchmarking exercises. Within Annex 1, the increased income from the review of fees and charges is assumed in the budget at £2,125k.

106. The proposals include:

- 5% increases to fees charged by Bereavement Services, although the basic cremation fee will remain unchanged.
- Taxi licensing fees have been benchmarked regionally and where necessary have been held at 2025/26 levels to remain competitive.
- Mansion House admission fees maintained at 2025/26 levels, although wedding venue fees have been increased above inflation

- A large number of regulatory or statutory fees that are set nationally, as are those collected for the General Registry Office, which can only be increased by the relevant governing body
- Planning fees that are set nationally and are increased at the appropriate time in line with national policy

Council Tax

107. The existing components of the current (2025/26) band D council tax for a City of York Council resident are shown in Table 12 below. It should be noted that these figures exclude parish precepts which are an additional charge in some areas.

	£
City of York Council – Basic	1,456.78
City of York Council – Social Care Precept	274.27
North Yorkshire Police	320.86
Mayoral Combined Authority	107.02
TOTAL	**2,158.93**

Table 12 - Make Up of 2025/26 Council Tax

108. The Collection Fund is the ring-fenced account where all council tax and business rates are 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. For 2025/26 it is projected that there will be net deficit on the Collection Fund by the end of the year. The Council's share of this is estimated to be £1.8m, consisting of a £3.2m deficit on business rates, partially offset by a £1.4m surplus on council tax.

Referendum Limits

109. The council tax referendum limit (excluding social care precept) for 2026/27 is 3%. 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 setting out what the alternative budget would be. This means 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.

110. 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 cost of £520k. If the referendum could be combined with another election this would reduce the cost by approximately 50%.

Social care precept

111. Local authorities with responsibilities for adult social care have been given the flexibility to charge a further social care precept in addition to the 3% referendum threshold. The Council can charge up to a maximum of 2% on social care precept.

112. As referred to earlier in this report, the recommendation made in these papers is that from April 2026 the City of York element of the council tax will increase by 4.99%, 2% of the increase relating to the social care precept.

113. A 2% social care precept increase generates additional income of approximately £2.4m for the council which will be used along with additional grant funding to partly fund adult social care increased costs, pay, pension and other pressures. The increase in the adult social care precept is in recognition of the significant budget pressures within this service area. Further details on the use of the adult social care precept are covered earlier in the report.

Precepts

114. 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, York & North Yorkshire Combined Mayoral 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 12 February 2026.

115. Table 13 demonstrates both the cash and percentage increase in 2025/26 for these which resulted in a total band D council tax for a York property of £2,158.93.

	2024/25	2025/26		
	Charge (£)	Increase (£)	Increase (%)	Council Tax (£)
CYC	1,648.78	82.27	4.99%	1,731.05
Police	306.86	14.00	4.56%	320.86
Fire	83.02	- 83.02	-	-
Combined Authority	-	107.02	-	107.02
Total	2,038.66	120.27	5.9%	2,158.93

Table 13 – 2025/26 Council Tax Figures for City of York Area

116. 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.

Business Rates (National Non Domestic rates - NNDR)

117. A package of changes to the Business Rates Retention Scheme will be implemented in 2026/27, including baseline reset, 2026 revaluation, changes to the levy and safety net payments and new multipliers.

118. The government has confirmed that for 2026/27 the small business rates multiplier will be set at 43.2p, and the standard multiplier at 48.0p. In addition to this from April 2026 there will be new small and standard Retail, Hospitality and Leisure multipliers set at 38.2p and 43.0p respectively. These will be funded by a new high-value multiplier set at 50.8p for properties with a rateable value of £500k or more.

119. A new minimum Baseline Funding Level (BFL) of £22.977m has been set for York for 2026/27. Taking into account the uncertainty around the impact of the new system it is considered prudent to set the business rates budget for 2026/27 to match the BFL. This is a reduction of £13.2m compared to the 2025/26 budget.

120. It is currently projected that there will be a deficit on business rates in 2025/26 which will need to be paid back in 2026/27. York’s share of this deficit is estimated at £3.2m (including £0.9m relating to 2024/25). This is partially offset by a projected surplus in council tax income for 2025/26 (see paragraph 88 above). The overall net deficit will be funded from reserves.

Business Rates Pooling

121. In 2025/26 City of York Council was a member of the Leeds City Region (LCR) Business Rates Pool. The business rates reset outlined above will have an impact on future pooling arrangements. Analysis indicates that it is unlikely that there will be a financial advantage to pooling in 2026/27, with an increased risk of financial loss to the region. In the light of this, all six members have collectively agreed not to continue with the pool in 2026/27. This will be kept under review for future years.

Reserves and Contingency

General reserves and contingency

122. Table 14 shows the position on the general fund reserve which, it is anticipated, will remain at £7.441m by the end of 2025/26.

123. The projected reserves at the end of 2025/26 are based on the assumption that Members agree no usage of reserves in 2026/27 as part of the final recommendations to Council.

124. 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 s151 Officer that £7.4m remains an appropriate figure. However, in light of the risks facing the council, in relation to major capital programme schemes and the budget pressures within adult social care, it is considered that the Council should make every effort to maintain some headroom above the minimum level. Further consideration of reserves will be made during the early part of 2026/27 and any increase needed will be considered as part of a future budget process. Reserves are covered in further detail within the s151 statutory statement at the end of the report.

	2025/26 Projected Outturn	**Budget**
	£'000	**£'000**
General reserve at start of year	7,441	7,441
Increase to General Reserve (one off growth)	0	0
In Year use of reserves	0	0
General reserve at end of year	7,441	7,441
Prudent minimum reserves	7,400	7,400
Headroom (+)/Shortfall (-) in reserves	41	41

Table 14 – Projected general reserves

125. In addition to general fund reserves, the budget includes a £500k general contingency. In recent years this has always been required.

126. As mentioned earlier in the report, it is appropriate to provide an adequate contingency on an ongoing basis. This is critical in terms of the setting of a prudent budget.

Venture Fund

127. The balance on the venture fund reserve is anticipated to be £4.1m at the end of 2025/26.

128. As covered in previous budget reports Executive have already agreed commitments in future years to major projects including £3m to York Central and £131k to Mental Health. After taking into account these commitments, the forecast year end balances on the venture fund are included below in Table 15.

	Forecast Year end Venture Fund Balance
	£'000
2026/27	3,959
2027/28	991
2028/29	1,440
2029/30	1,905

Table 15 –Venture Fund Balance

Medium term planning

Medium Term Outlook and Funding Reform

129. As outlined elsewhere in this report, the Government published the provisional local government finance settlement on 17 December 2026, a multiyear settlement covering a 3-year period from 2026/27 to 2028/29.

130. The impact of the Fair Funding Review has been significant and results in this Council having much lower funding that many other Councils. By 2028/29, York will have the lowest core spending power of any council in the country. Even assuming a maximum increase

in Council Tax each year, spending power only increases by 0.1% in 2027/28 and 2028/29.

131. This essentially means that every increase in spending needed for pay award, contractual inflation and demographic changes will need to be matched by a reduction in spend elsewhere in the Council.

132. The Council will therefore need stringent cost control and the relentless pursuit of efficiencies to be a key organisational priority. It will also need to ensure it creates the conditions for success that will allow change to happen and achieve efficiency savings.

133. Additional funding has been allocated to both adult and children's social care. Within adults this funding will need to be prioritised towards the delivery of both savings and the improvements needed following the CQC report. An Adult Social Care transformation and improvement programme has been developed to ensure services are improved and spending reduces.

Medium term strategy and approach to savings

134. As outlined earlier in this report, the Fair Funding Review has had a significant negative impact on the Council's medium term finances. The certainty that the 3-year settlement brings is welcomed and, despite the negative impact on York, it does at least allow us plan for the significant challenge ahead. At the time of writing, the draft settlement has only just been released and therefore work will be done to refine the Medium Term Financial Forecast early in 2026 so that work can commence almost immediately on planning for the 2027/28 and 2028/29 budget process.

135. The table below sets out the high level overview of the expected position in future years.

	2027/28	**2028/29**	**2029/30**
	£'000	**£'000**	**£'000**
GROWTH			
Pay and price inflation	8,500	8,500	8,200
Demographic and service growth	1,700	800	700
Capital Programme	2,500	2,600	2,400
Total growth	**12,700**	**11,900**	**11,300**
RESOURCES			
Council Tax	6,940	7,260	7,570

Business Rates	670	680	690
Revenue Support Grant	-7,500	-7,700	
Fees & Charges	1,120	1,120	1,120
Savings Identified	1,816		
Total resources incl savings	**3,046**	**1,360**	**9,380**
FUNDING GAP	**9,654**	**10,540**	**1,920**

Table 16 – Medium Term Forecast to 2029/30

136. These figures assume that funding for adult social care continues in a similar manner and that the pay award will be approximately 3%. Clearly there are several factors that could change these figures, but they provide the broad basis on which the Council will need to consider decisions over coming years.

137. The funding gap figure in Table 16 represents the amount of savings that are required each year to balance the budget.

138. The forecasts for 2027/28 and 2028/29 are based on information and assumptions published by the government. This assumes a 5% increase in council tax but a corresponding reduction in revenue support grant. The 2027/28 figure takes into account the second year of savings proposed in Annex 2.

139. The main pressures facing the Council in future years include inflation, social care, and the impact of the capital programme. Inflation continues to cause budget pressures on external provider contracts across the Council.

140. The impact of the capital programme will have an effect on the revenue budget in terms of cost of borrowing. Whilst this is spread over a number of years, the broad requirement in future years is for an increase in the treasury budget of around £2.5m every year.

141. The current pressures on the adult social care budget must be managed and whilst some growth is included in the figures in Table 16, the service cannot continue to spend at current levels.

142. To achieve the savings, and ensure budget pressures are contained, it is essential that the Council further develops the delivery of digital services, its use of assets, ensures efficient cost control, develops new sources of income, secures grant funding and reviews the method of delivery across all service areas.

143. There remains a funding gap of over £10m each year, over the next 2 years with an improved position for 2029/30. That will be dependent on future spending rounds and funding redistribution. Whilst every effort will be, and is being, made to identify alternative sources of income, secure grant funding and effectively control costs – this may not be enough to deliver the scale of the savings needed.

144. To deliver a further £20m+ of savings the Council will need to downsize the organisation and seriously consider the level of spend across a range of services. A significant focus in 2026/27 will again be on changing the way the Council works through a comprehensive and wide ranging transformation programme. This work will be funded using capital receipts.

145. Every aspect of Council spending will need to be considered ranging from libraries to bus subsidies to grants to voluntary organisations. There will be no areas that are left unaffected by the financial challenge being faced.

<u>Use of Capital Receipts</u>

146. The government continues to allow flexibility for councils 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 flexibility allows money from asset sales (excluding Right to Buy receipts) to be used on the revenue costs of transformation projects, subject to certain conditions.

147. The Council has reviewed the assets it holds and has a programme of releasing these for sale. Alongside previous capital receipts, money realised from these sales will be used to offset the internal cost of transformation work, that in turn will deliver more efficiencies in the medium term.

148. Annex 7 to this report sets out the Flexible Use of Capital Receipts policy and the Council intends to use capital receipts up to the value of £2.5m to fund a programme of work that will fund a series of strategic service reviews and council wide cross cutting transformational schemes that will seek to deliver both service improvement and recurring budget savings.

149. This will include a fund to deliver investment in technology and innovation which will be used to deliver the aims of the corporate transformation and savings programme. Any investment will require

a business case outlining how new technology will support efficiencies, internal business modernisation and better outcomes for residents.

150. The key workstreams of the Transformation programme have been defined as: Internal Business Transformation; Integrated Neighbourhood Working and Digitisation. Each of the workstreams will be underpinned by a strategic approach to Early Intervention and Prevention. Additionally, the Adult Social Care Improvement programme will be governed under the corporate Programme Management Office. Each workstream has a defined savings target to be achieved via transforming services alongside supporting and co-ordinating other directorate savings.

151. As this work progresses, regular updates will be provided to Executive through the quarterly Finance and Performance Reports.

Housing Revenue Account (HRA) Budget

152. Local Authorities with housing stock 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.

153. The Housing Revenue Account, similar to General Fund, is facing significant budget pressures due to inflationary factors, the cost of living crisis as well as an increased focus on the state of the property stock following national stories where stock suffers from damp and disrepair.

154. The HRA is also carrying a significant debt of £140.86m (including £116.05m from self-financing) which is forecast to rise to further over the coming years.

155. When the latest HRA budget for 2025/26 was agreed in February 2025 the real annual surplus for the year was maintained at £2.023m which equates to less than 1.5% of total debt and lower than a prudent level of surplus where resources are set aside for debt repayments as is practice in general fund. This budget seeks to further increase the annual surplus that is budgeted for.

156. It is important to note that the HRA is paying £5.1m interest per annum funding the debt and the average interest rate on the debt (3.4%) is lower than current interest rates meaning that refinancing

is not an attractive option. The first tranches of self-financing debt are maturing over the coming years and current interest rates are circa 2% higher than the average rate when the debt was originally taken out.

157. Additionally, the HRA is planning to fund 100% affordable housing schemes at Ordnance Lane / Hospital Fields Road, Lowfield A and Willow House which will all require additional borrowing in order to develop.

Rent Increase

158. The rent standard allows council to increase rents by CPI+1%. The increase is based on September 2025 CPI rate which stood at 3.8%. This would allow an increase of 4.8%. Whilst Members have the option to increase rents by a lower amount any lower rent would reduce the surplus made by HRA.

159. The additional income from a 4.8% increase on rents will deliver additional income to HRA of £1.95m.

Spending Pressures

160. We have undertaken a review of likely cost increases across the HRA. These are considered in the table below.

Cost Pressures		£'000
Pay incl. overheads	3% increase assumed	237
Rents and Voids	Additional sales from RTB have reduced rents and adjustment to increase void levels to 1.25%	221
Repairs	4% to cover materials sub-contractors and pay	419
Capital Repairs	Additional allowance to cover additional depreciation charge that funds capital repairs	583
Insurance	Above inflation increase	76
Other	Other changes – assumes 3%	202
	Total Pressures	**1,738**

Table 17 - HRA pressures

161. The cost pressures identified total £1,738k. In addition, the following savings have been identified through budget monitoring and reviews:

Savings		£'000
Superannuation	Reduction in employers' contribution rate	-217
Other rental income	Including reduction in voids in Temporary Accommodation and increase in income from Shared Ownership properties	-146
Management Recharges	Associated savings from reduced cost of general fund staff charged to HRA	-154
	Total Savings	**-517**

Table 18 - HRA savings

162. The result of the above changes is that the HRA will be forecasting an increase in the budgeted surplus in 2026/27 of £732k from £2,023k to £2,755k, excluding the debt repayment if £10,600k. The deficit is £7,845k including the debt repayment. However, the overall HRA general reserve is forecast to reduce to £3,016k by the end of 2026/27 and therefore refinancing of the debt will be sought to ensure the reserve balance remains above £5m. The detailed budgets are shown at Annex 5.

163. Since the last budget was set, the Council has engaged the expertise of Savills to support a review of the HRA. The review found that the HRA is in a relatively strong position, meaning it can support future new build schemes over the course of the next 30 years. Work is still ongoing to fully understand this piece of work and ensure that the HRA capacity correctly reflects the new Right to Buy legislation and the future of the Housing Delivery Project.

Rent Changes 2026/27

164. The expected effect on rent levels over the next years is shown in the table below:

Year	Estimated Average Rent Per week	Estimated Average Increase per week
2025/26	£99.70	
2026/27	£104.49	£4.79

Table 19 – Rent Changes 2026/27

165. It is also proposed that rents that do not fall within the definition of "social housing rents" for the purposes of the Welfare Reform and Work Bill 2015 will similarly be capped at the 4.8% level set out in the report. This includes shared ownership, Gypsy Roma and

Traveller accommodation as well as any specialist supported housing that is exempt from the rent reduction legislation.

166. It is also recommended that Shared Ownership rents increase at the same level of 4.8%.

167. Housing Officers will work with all residents to minimise impacts as far as possible, maximising household incomes and supporting as outlined above.

Dedicated Schools Grant (DSG) and the Schools Budget

168. The Dedicated Schools Grant (DSG) is ring-fenced for funding the provision of education or childcare for 2 to 16 year olds in all settings, and Special Educational Needs & Disabilities (SEND) provision for pupils up to age 25. It covers funding delegated to individual Local Authority (LA) maintained schools, academies and private, voluntary & independent (PVI) nursery providers through the Local Management of Schools (LMS) & Early Years funding formulae, plus funding for other pupil provision which is retained centrally by the LA to support SEND and some central education services.

169. The DSG does not include funding for home to school transport, assessing pupils and administering the SEND system and other statutory LA education responsibilities such as monitoring schools' performance, all of which must be funded from the council's general fund budget.

170. The overall DSG is allocated to LAs via four sub blocks; schools, high needs, early years and central school services. Since 2018 the funding that LAs receive in each block has been determined by specific national funding formulae (NFF). For 2026/27 these arrangements are continued for the schools, early years and central services blocks. However, the DfE have suspended the NFF for high needs in 2026/27 pending the publication of a schools white paper which is expected to include plans for reform of SEND provision and funding.

171. The total DSG allocation for 2026/27 is estimated at £206.960m, an increase of £6.826m (3.4%) from 2025/26 and broken down as follows:

DSG Funding Block	Adjusted 2025/26	2026/27	Increase

	£m	£m	£m	%
Schools Block	137.059	138.258	1.199	0.9%
Early Years Block - Existing	28.998	30.678	1.680	5.8%
Early Years Block - Expansion	-	4.117	4.117	n/a
High Needs Block	32.139	32.179	0.040	0.1%
Central School Services Block	1.938	1.728	(0.210)	(10.8%)
Total DSG	**200.134**	**206.960**	**6.826**	**3.4%**

Table 20 DSG Allocations (2025/26 funding has been adjusted to include separate grants rolled into the DSG in 2026/27)

Schools Block

172. The vast majority of the Schools Block DSG (£137.863m) is used to fund the local funding formula for mainstream schools (maintained and academies). Following a detailed consultation with all schools and the Schools Forum prior to setting the 2018/19 budget, the LA agreed to introduce the DfE's new national funding formula (NFF) at school level from April 2018. For 2026/27 the LA is again proposing to follow the NFF for schools, except for a £32 per pupil deduction referred to at paragraph 177.

173. The funding factors used in the 2026/27 NFF remain the same, however the factor values will increase as follows:

- The basic entitlement, free school meals at any time in the last 6 years (FSM6) and lump sum factors will increase to reflect the rolling in of the Schools Budget Support Grant (SBSG) and the National Insurance Contribution (NICs) grant that were allocated to schools outside of the NFF in 2025/26.

- On top of this, a further 2.11% has been applied to the basic entitlement, FSM6 and the lump sum factors.

- A 2.11% increase has also been applied to the income deprivation affecting children index (IDACI), lower prior attainment (LPA), English as an additional language (EAL), sparsity and split site factors.

- A 1.66% increase to pupils currently accessing free school meals (FSM) factor.

- A 3.88% increase in the PFI factor.

174. The minimum per pupil levels (MPPL) in 2026/27 will be set at £5,115 per pupil for primary schools and £6,640 per pupil for secondary schools. These amounts include additional funding for the rolling in of SBSG and NICs grant, but no further uplift has been applied.

175. The 2026/27 NFF funding floor has been set at 0.0%. This means that every school will, as a minimum, have their pupil-led funding per pupil protected at their 2025/26 baseline per pupil funding level. Funding floor baselines have also been increased to take account of the rolling in of SBSG and NICs grant.

176. At a national level school funding through the NFF is increasing by 2.1% per pupil. However, the average increase for York schools is estimated at 2.6% per pupil as the proportion of York schools that still require protection through the funding floor and the minimum per pupil amounts continues to fall. This per pupil increase is higher than the 0.9% cash increase shown at table 20 due to a 1.8% fall in pupil numbers from 2025/26 to 2026/27. LA's will continue to determine the final allocations for all local mainstream schools in 2026/27.

177. As part of that local determination of funding at school level, the York Schools Forum have agreed to a request from the LA to transfer 0.5% (£0.691m) of schools block funding to support high needs expenditure in 2026/27 (see paragraphs 188 -196) for more details). It is proposed to deliver this transfer by a small reduction (c£32 per pupil) in all mainstream schools' basic entitlements and an equivalent adjustment to the MPPL's. At the time of writing this report approval to adjust the MPPL's is still awaited from the DfE. If approval is not given, then only the basic entitlement reduction will be used to effect the transfer.

178. The remaining £0.395m of the Schools Block DSG is allocated to the growth fund. The growth fund can only be used to support increases in pre-16 pupil numbers to meet basic need, additional classes needed to meet the infant class size legislation or meet the costs of pupils in new schools commissioned to meet basic need. The growth fund may not be used to support schools in financial difficulty or general growth due to popularity, which is managed through lagged funding.

179. The amount of growth funding allocated to the LA by the DfE has reduced significantly over recent years, down from £0.800m in 2018/19. The level of funding required to be allocated to schools under the current local growth criteria and formulae is difficult to

predict with any certainty each year. In each of the last five years the fund has been oversubscribed, and this is likely to continue in 2026/27. Therefore, for all allocations made since the 2020/21 academic year onwards, the LA has implemented a cash limit on this budget. This means that if the total of all allocations to schools in a particular year, calculated via the relevant formulae, exceeds the budget available then all allocations will be reduced pro-rata.

Early Years Block

180. The DfE has implemented a significant phased expansion of entitlement to funded childcare over the last two years. By September 2025 working parents of all 9 month to 4 year olds were entitled to access 30 hours per week of government funded childcare. Increased support for Maintained Nursery Schools (MNS) was also announced through the MNS supplementary factor.

181. In addition, the DfE is moving from using one annual census to three termly censuses for calculating and transferring Early Years DSG to LAs from 2026/27. LAs continue to be required to fund providers based on actual hours taken up by parents. In addition, to support the transition from the current funding model to the termly census model the DfE have provided two sets of hourly funding rates for each LA for 2026/27 for the established 3 & 4 year old entitlements. The first is that derived from the Early Years NFF and the second, adjusted rate, including a transition uplift that will only be provided in the 2026/27 transition year.

182. All of these changes will require careful modelling to understand their implication for York's funding in 2026/27 and the hourly rates that can be used to fund local providers. As these significant and complex changes were only announced in late December, at the time of writing this report, that modelling work is still on-going. Although the DfE do recommend that LAs undertake their own modelling work, they have also stated that they would expect LAs to pass-on an uplift to their provider rate which is broadly in line with their DfE unadjusted (NFF) year-on-year increase.

183. The early years hourly rates received by York from the DfE for 2025/26, plus the new 2026/27 hourly rates are set out in the table below:

	2025/26 £/hr	**2026/27 £/hr**	**Increase £/hr %**

3 & 4 Year Olds Universal & Working Parents - unadjusted	5.71	6.01	**0.30 5.3%**
3 & 4 Year Olds Universal & Working Parents - adjusted	*N/A*	*6.20*	***N/A***
2 Year Old Disadvantaged & Working Parents	7.91	8.26	**0.35 4.4%**
9 Month to 2 Years Old Working Parents	10.72	11.19	**0.47 4.4%**
MNS Supplement	5.27	5.47	**0.20 3.8%**

Table 21 – Early Years National Funding Formula Rates

184. Under the early years entitlements funding system, the DfE distributes funding to LAs who in turn distribute this funding to their providers using their own local funding formulae. In setting their local formulae LAs must adhere to regulations and should comply with guidance set by the DfE stipulating how funding for the entitlements should be spent.

185. In advance of completing a full modelling exercise on the new termly census funding arrangements, and with the agreement of the Schools Forum, it is proposed to continue the arrangements introduced in 2024/25 following detailed consultation with providers. This would mean that for 2026/27 each of the formulae (under 2s, 2-year-olds and 3/4 year olds) would utilise the respective hourly rates provided by the DfE in the following way:

- 94.50% allocated to the base rate
- 1.25% allocated to the deprivation rate
- 1.25% allocated to the SEND Inclusion Fund
- 3.00% allocated to fund LA Early Years services (centrally retained fund)

186. The eligibility criteria and proportion of funding for deprivation will continue to be based on the child's home address postcode and the Income Deprivation Affecting Children Index (IDACI). With postcodes in top 30% most deprived areas attracting deprivation funding.

187. The following early years funding rates for all York providers are proposed for 2026/27:

	2025/26 Rate £/hour	2026/27 Rate £/hour	Increase £/hr	%
3 & 4 Year Olds Universal & Working Parents - Base Rate - Deprivation Rate	5.34 0.56	5.68 0.59	0.34 0.03	6.4% 5.4%
2 Year Old Disadvantaged & Working Parents - Base Rate - Deprivation Rate	7.40 0.77	7.81 0.81	0.41 0.04	5.5% 5.2%
9 Month to 2 Years Old Working Parents - Base Rate - Deprivation Rate	10.02 1.05	10.57 1.10	0.55 0.05	5.5% 4.8%
Maintained Nursery School - Supplementary Rate	5.27	5.47	0.20	3.8%

Table 22 – York's Proposed EYSFF Funding Rates for 2026/27

High Needs Block

188. The DfE have suspended the NFF for high needs in 2026/27 pending the publication of a schools white paper which is expected to include plans for reform of SEND provision and funding. This means that for 2026/27 LAs will be funded based on their current 2025/26 allocations with no uplift, except for the rolling in of existing CSBG, SBSG & NIC grants.

189. Therefore the high needs block DSG only increases by £0.040m (0.1%) in 2026/27. This is much lower than the increases in recent years where high needs allocations have increased between 5% and 8% per year. As has been previously reported, the high needs budget is already under significant pressure due to rising demand from increased numbers of SEND pupils. For 2025/26 net in year expenditure within the high needs block is currently forecast to be £1.4m higher than the core DSG funding allocated by government.

190. As part of the safety valve agreement that the LA has made with the DfE, additional grant of £2m is due to be received by the end of the financial year. The effect of this additional grant produces a

forecast net in year high needs block surplus of £0.6m in 2025/26, and a cumulative year end surplus carry forward into 2026/27 of £1.2m. However, it should be noted that the safety valve agreement is due to end on 31 March 2026. The DfE have also confirmed that they will not enter into any new safety valve agreements, so no further safety valve funding is expected.

191. The combined impact of the ending of the safety valve contribution and the freezing of the high needs allocation at the 2025/26 level creates a challenging position in 2026/27. Prior to the publication of the white paper and an understanding of its potential impact on SEND demands and funding, it is currently forecast that high needs expenditure will now exceed the high needs DSG grant allocation by £1.8m in 2026/27.

192. This level of in-year high needs deficit would result in a cumulative DSG deficit of £0.6m by 31 March 2027. And, subject to any changes to the SEND system and funding announced in the forthcoming white paper, continuing and increasing deficits in future years. Government have announced that the statutory override for SEND DSG deficits will end after 2027/28. Further details on plans to support LAs with historic and accruing DSG deficits and conditions for accessing such support have not yet been announced.

193. In the interim, to assist LAs in managing their SEND deficits, the DfE allows LAs, with Schools Forum approval, to transfer up to 0.5% of the Schools Block to the High Needs Block. If the LA wishes to transfer more than 0.5% or proceed without Schools Forum approval, it must submit a disapplication request to the Secretary of State (SoS) for Education.

194. Given the significant level of concern in relation to the forecast SEND deficit position, it was felt essential that a transfer of 0.5% from the Schools Block DSG to the High Needs Block for the 2026/27 financial year was considered by the LA and Schools Forum, as part of the overall financial recovery plan for SEND. This reflects the shared responsibility for High Needs across the stakeholders within the sector and reflects the position currently in place in many LAs across the country.

195. Following lengthy discussions at the Schools Forum over several meetings during 2025, and a detailed consultation with all of York’s state funded schools, the Schools Forum have agreed to the 0.5% transfer for 2026/27. Transfers in future years would have to be the subject of further consultation and decision.

196. It is estimated that the transfer will result in additional high needs resources of £0.691m being available in 2026/27. As part of the agreement with the Schools Forum the transferred funds will not be used to merely prop up the projected SEND deficit. It is believed that a more effective use of the resource would be to fund initiatives that help support mainstream schools in retaining higher needs pupils, whilst avoiding and reducing the need for more expensive placements elsewhere. This will contribute towards a more sustainable and balanced SEND budget thereby reducing the necessity to request additional funding transfers in future years.

Central School Services Block

197. As part of the DfE's policy to remove funding within this block that directly supports exceptional expenditure previously agreed between LAs and their Schools Forums (historic commitments), there is a significant net reduction of £0.210m (10.8%) in 2026/27. This follows similar reductions in the previous six financial years. This net reduction is made up of a £0.049m (4.3%) reduction in the allocation for the on-going responsibilities that the LA continues to have for all schools, and a £0.161m (20%) reduction in the allocation for historic commitments.

198. For 2026/27 this means allocations of £1.082m for LA on-going responsibilities and £0.646m for historic commitments. As historic commitments currently total £0.807m in 2025/26 the LA will need to identify budget reductions totalling £0.161m for 2026/27.

199. Outturn expenditure in 2024/25 for termination of employment costs and prudential borrowing totalled £0.644m and it is expected that the DfE will continue to protect the LA's historic commitments allocation at least this level going forward. As the LA removed all of its other historic commitment budgets in 2024/25, the 2026/27 expected required reduction of £0.161m will need to be taken from the remaining School Improvement Commissioning budget. That means a reduction in the budget from £0.163m in 2025/26 to £0.002m in 2026/27, effectively ceasing this funding source.

Equalities

200. The Public Sector Equality Duty is a duty which requires all public authorities to consider the impact of proposed decisions on various recognised groups with protected characteristics as part of the organisations formal decision making process. The protected characteristics as defined by the Equality Act 2010 are:

- Age;
- Disability;
- Gender reassignment;
- Marriage and civil partnership;
- Pregnancy and maternity;
- Race;
- Religion or belief
- Sex; and sexual orientation.

201. In addition, this Council has committed to ensure that Care Leavers are treated as if they also have a protected characteristic.

202. For City of York the decision makers are the Leader of the Council and the Executive who make reasoned well-founded decisions based on the professional advice from appropriately skilled and qualified officers. In respect of the budget, Full Council is asked to approve the budget as recommended to it by the Executive. In respect of Officers a number hold statutory responsibilities, for example Head of Paid Service, s151 and Monitoring Officer, and as such there is a greater onus on statutory officers to ensure that the advice and recommendations given also take into account a number of factors including the Public Sector Equality Duty as part of their role.

203. In all aspects of the budget setting for the Council it is essential that the Public Sector Equality Duty is at the forefront of all decisions made. To ensure this occurs an Equality Impact Assessment is prepared at the outset of the budget preparations and a detailed EIA has been completed on the overall impact of the budget proposals.

204. It is accepted that the Human Right and Equity Analysis (HREA) accompanying the budget report (at Annex 4) will not address the impacts of every detailed aspect of the budget and therefore individual elements of the budget will, following Council approval, attract their own HREA to support delivery of that proposal and ensure that negative aspects of the protected characteristics are acknowledged and where possible mitigated.

205. 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.

206. 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.

207. 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

Specialist Implications

208. This report has the following implications.

Financial

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

Human Resources (HR)

210. The savings proposals contained within the overall budget may require the reduction of some posts in 2026/27.

211. 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 2026/27 is likely to be a mixture of post reductions and working for

redesigned services. Should there be sufficient reductions to posts and proposed redundancies, the necessary notification will be made to Redundancy Payments Service and a HR1 will be submitted.

212. 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.

213. Equality Impact Assessments will also be undertaken to assess the impact of each agreed budget proposal and emphasis on any interdependent impacts on the workforce and services will also be assessed.

214. 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

215. The council is required to set a council tax for 2026/27 before 11 March 2026. 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 2026, whichever is the earlier. The decision to set the level of council tax is reserved to Council and cannot be taken by Executive or delegated to officers, although Executive has to recommend a budget to Council. These comments are intended to apply to both the Executive meeting and the subsequent Council meeting.

216. There is no statutory requirement to set a detailed budget in any particular form. They are produced as an important tool to assist the Council in setting the council tax precept and managing its finances effectively with a view to balancing its budget.

217. 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.

218. 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 she considers that a decision taken by the Council would be unlawful and likely to cause a financial deficiency.

219. 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 should also be conscious that, whilst Council is responsible for setting the budget envelope for the relevant financial year, Executive is responsible for individual spending decisions within that budget envelope.

220. Members must also bear in mind the Council's other statutory duties to have regard to certain matters when making decisions. The report identifies proposals which, if approved, may potentially have an impact on children, older adults and persons with disabilities all of which groups are statutorily protected under the Equalities Act 2010. In making their decision, Members must have due regard to their public sector equality duty and the need to eliminate discrimination, to advance equality of opportunity and to foster good relations between persons who share a protected characteristic and those who do not. Members must also take into consideration any crime and disorder implications of the decision. A failure to follow these principles could open the Council to judicial review.

221. There is legal authority for the proposition that if there is discretion left as to how budget envelope is spent, or if the envelope itself can

be changed (virement etc) any relevant statutory duties (such as the Public Sector Equality Duty) can be discharged when spending decisions within the envelope are taken. The early consideration of potential equalities impact on service changes is however advised as set out in this report.

222. 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.

223. 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.

224. 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 s151 Officer and the Monitoring Officer. The Council may take decisions which are at variance with their 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 Chief Finance Officer in order to balance the budget, they must find equivalent savings elsewhere.

225. The Chief Finance Officer 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. This is in addition subject to the requirements set out above.

226. 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.

227. 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.

228. 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.

229. **Procurement**, there are no direct implications arising from the report.

230. **Health and Wellbeing**, reductions in spend in some areas could impact on the health and wellbeing of both staff and residents. The impact of any reductions in spending will continue to be carefully monitored so that any implications can be monitored and mitigated where possible.

231. **Environment and Climate action,** there are no direct implications related to the recommendations, but aspects of the budget and spending decisions will need to consider the environment and climate implications as they progress through any future decisions.

232. **Affordability,** implications are contained through the main body of the report. Where decisions impact on residents on a low income these impacts will be recorded in the individual Equalities and Human Rights analysis for individual savings proposals.

233. **Equalities and Human Rights**, implications are set out in the Equalities section earlier in the report.

234. **Data Protection and Privacy**, there are no implications related to the recommendations.

235. **Communications**, the information set out in this report necessitates both internal and external communications. This will be on an ongoing basis throughout the year.

236. **Economy**, there are no direct implications related to the recommendations.

Statutory Advice from the s151 Officer

Introduction

237. The Local Government Act 2003 places responsibilities upon the council's Chief Finance Officer to advise the council on the adequacy of its reserves and the robustness of the budget proposals including the estimates contained in this document. This section also addresses the key risks facing the council in relation to current and future budget provision. The following paragraphs outline my assessment of the budget proposals outlined in this report, including reserves and general robustness of the process. Section 25 (2) of the 2003 Act requires the council to have regard to this assessment in approving the annual budget and setting the council tax.

Robustness of proposals and process

238. The preparation of a budget relies on estimates, which are made at a point in time, and clearly there are several factors that can influence actual expenditure throughout the year. However, there are processes in place to ensure that assurance can be given that this budget has been constructed using the best available information and assumptions at the time of preparation. These include:

- regular budget monitoring to ensure known pressures are reflected
- involvement of directorate management teams in development of the proposals
- regular scrutiny of the proposals by Executive members.

239. Considerable reliance is also placed on budget managers having proper arrangements in place to identify issues early, project the likely demand for services, and consider value for money and efficiency.

240. To provide assurances that the budget estimates are robust the following factors have been considered:

- overall funding available including specific grants and other funding available from central government, along with locally raised income from council tax and business rates,
- progress made in delivering 2025/26 savings
- whether the budget decisions outlined in this report are achievable
- the current and anticipated budget pressures arising from services such as social care
- the forecast impact of inflation and pay awards
- the financial sustainability of the council and the effectiveness of the financial management arrangements in place
- the affordability and sustainability of the capital investment plans outlined in the capital programme report elsewhere on this agenda and the revenue impact of this expenditure

241. The council has a demonstrable track record of delivering budget savings and has sound financial management procedures in place. This has been recognised by favourable audit reports in respect of financial management and processes and overall, the financial planning process is sound and effective.

242. A range of pressures have been identified and built into the budget presented in this report, including a contingency sum of £500k as in previous years.

Risks

243. The report outlines the key risks to the 2026/27 budget, and these are considered further in the following paragraphs.

244. Continued increasing costs across all areas of spend remains an area of concern. Whilst inflation levels have reduced, this only means that prices are not increasing as much – they remain at the previously high levels. Given the Councils significant capital programme, rising costs are to be expected and may result in some schemes being delayed or costing more than estimated and there

continue to be concerns over the rising costs of some major schemes.

245. Therefore, the number of complex capital schemes currently being undertaken remains a key risk for the Council. Where there is a gap between the initial proposal and the start of works, there is an even greater risk that costs will increase from those originally estimated. 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. There are also increased borrowing levels resulting in increased revenue costs of debt in coming years. This is highlighted in the medium term plan figures.

246. A further key risk in relation to the capital programme is that some major capital projects may have short/medium term cash flow impacts. For example, York Central will result in additional business rates but will require short term borrowing prior to income being received to cover the costs. As identified in previous budget reports, the Venture Fund will be used to support early years cash flow deficits on major strategic capital projects but given the current economic outlook and higher than previously expected interest rates, this borrowing will be more expensive than previously expected.

247. The current pressures being experienced within Adult Social Care are hugely concerning and the ongoing action being taken will need to continue and be given a high priority. Specific attention is drawn to the national picture regarding these services, which are recognised as being under increased pressure.

248. Whilst this council has invested in these services in recent years, the risks remain, and it is essential the council continues to make adequate budgetary growth provision to deal with the significant cost pressures these services are experiencing, along with savings programmes to mitigate pressures.

249. However, the Council cannot continue to invest at these levels indefinitely and therefore costs will have to be managed over the next year.

250. To balance the 2026/27 budget there is a continued reliance on generating income, especially from car parking charges. This income therefore relies on a continued strong local economy. The figures proposed are achievable and an allowance has been made

for reduced activity. However, there is a risk that activity drops off more than assumed which would result in the savings not being achieved. In addition, any future proposals to reduce the provision of Council car parks would have a higher financial impact with the increased charges.

251. The bulk of the 2026/27 savings proposed rely on the Council delivering its Transformation Programme and improving the efficiency of the Council. Change and transformation can be challenging. Councillors and Chief Officers play a key role through ensuring robust governance, sufficient capacity and capability, maintaining strategic oversight and setting risk appetite. To achieve these savings, all parts of the Council will need to work together to deliver change, creating the necessary conditions for success.

252. It will be vital to have a sound governance structure so that the investment being made in transformation delivers lasting change and ongoing budget savings. Whilst further savings may be available in future years, the proposed transformation savings cannot be stretched further beyond those sums already assumed.

253. Clearly, there are risks in the achievement of some of the proposed savings and, in assessing this risk, I cannot guarantee that every single proposal will be achieved. I do however consider the overall package to be prudent. As outlined earlier, processes are in place to ensure the robustness of the proposed savings. A risk assessment of the individual savings proposals has been conducted and discussed with senior management. Where savings are not delivered, services are fully aware of the need to find compensating savings.

254. The completion of the Fair Funding Review and the return of to a 3 year local government finance settlement does remove the uncertainty we have experienced in recent years. Whilst there has been a significant, negative impact on the financial resilience of the Council, there is now at least some certainty of the challenge ahead.

Reserves

255. CIPFA guidance states that, in order to assess the adequacy of reserves when setting the budget, chief finance officers should take account of the strategic, operational and financial risks facing the authority and that the many factors involved when considering

appropriate levels of reserves can only be assessed properly at a local level.

256. Determining the appropriate levels of balances is therefore a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions and other earmarked reserves and provisions. Based on the range of factors and risks outlined in this report it is my view that the general reserve can remain at £7.4m in 2026/27. However, I expect this figure will need to be increased in future years in light of ongoing impact of the Fair Funding Review and the significant financial challenge the Council is facing and to mitigate against the risk of overspends and non-delivery of savings.

257. The proposed 2026/27 budget does not use the general reserve to balance and therefore reserves remain sufficient for the year ahead.

Summary

258. Whilst the uncertainty of recent years has now been removed, the financial challenge facing this Council is now clear. As expected, there remains a significant budget gap in 2027/28 and 2028/29.

259. Identifying and subsequently delivering recurring budget savings remains the key to balancing the financial strategy. The medium term outlook clearly demonstrates the need for future savings to be delivered.

260. For future budget planning, further action will be needed to continue to focus resources on the highest priority services to reduce demand, as well as creating capacity to make investment in key front line services and essential capital investment. Therefore, the major financial challenge facing the council in coming years remains the need to secure further savings and for cost pressures to be managed effectively. There will need to be continued careful monitoring of the achievement of the savings outlined in this report.

261. Considering all the factors and risks outlined in this report, I continue to advise against the use of one off reserves, or any other one off funding, to delay the need to identify and deliver recurring savings without a clear strategy for how we will tackle the known financial challenges. Whilst Council is only required, statutorily, to balance the budget for the year ahead, not acting now could result

in unmanageable savings requirements in future years and I would caution Council against this.

262. I have given careful consideration to the proposals outlined in all the budget reports on this agenda and particularly the risks associated with the proposals. Prudent and realistic assumptions have been made, and the financial implications of known pressures have been included. With the savings identified in this report, I am satisfied that this report represents a robust budget on which the council can rely in setting council tax.

263. 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

264. An assessment of risks is completed as part of the annual budget setting exercise and further details are included in annex 6 of this report. These risks are managed effectively through regular reporting and corrective action being taken where necessary and appropriate.

265. As the Council's Section 151 Officer, the Director of Finance has a statutory responsibility for ensuring that the Council makes arrangements for the proper administration of its financial affairs. Section 114 of the Local Government Finance Act 1988 requires a report to all Council members to be made by the s151 officer, in consultation with the Monitoring Officer, if there is or is likely to be an unbalanced budget.

Wards Impacted

All

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Background Papers:

None

Annexes:

1 – 2026/27 Budget Summary
2 – 2026/27 Savings Proposals
3 – 2026/27 Fees & Charges
4 – Impact Assessment
5 – HRA 2026/27 Budget
6 – Risk Analysis
7 – Flexible Use of Capital Receipts Policy

Abbreviations used in this report:

ACA – Area Cost Adjustment
BID – Business Improvement District

CIPFA – Chartered Institute of Public Finance & Accountancy
CPI – Consumer Price Index
CQC – Care Quality Commission
CSBG – Core Schools Budget Grant
CYC – City of York Council
DfE – Department for Education
DSG – Dedicated Schools Grant
EAL – English as an Additional Language
EIA – Equalities Impact Assessment
EYSFF – Early Years Single Funding Formula
FSB- Federation of Small Businesses
FSM – Free School Meals
HRA - Housing Revenue Account
HREA – Human Rights and Equity Analysis
ICT – Information & Communications Technology
IDACI - Income Deprivation Affecting Children Index
LA – Local Authority
LGA – Local Government Association
LCR – Leeds City Region
LMS – Local Management of Schools
LPA – Lower Prior Attainment
MNS – Maintained Nursery Schools
MPPL – Minimum Per Pupil Level
NFF – National Funding Formula
NIC – National Insurance Contributions
NNDR – National Non Domestic Rates
PSED – Public Sector Equality Duty
PVI - Private, Voluntary and Independent
RSG – Revenue Support Grant
SBSG - Schools Budget Support Grant
SEND – Special Educational Needs & Disabilities
SFA – Settlement Funding Assessment
SoS – Secretary of State
TUPE – Transfer of Undertakings (Protection of Employment)