CITY OF
YORK
COUNCIL

Executive **13 February 2020**

Joint Report of the Deputy Chief Executive/ Director of Customer and Corporate Services (Interim Head of Paid Service) and Corporate Finance and Commercial Procurement Manager (Interim s151 Officer)

Portfolio of the Leader and Deputy Leader of the Council

Financial Strategy 2020/21 to 2024/25

Summary

1. This report presents the financial strategy 2020/21 to 2024/25, including detailed revenue budget proposals for 2020/21, and asks Members to recommend to Council approval of the proposals. Following on from consultation with residents and business groups, the financial strategy delivers a balanced budget for 2020/21 with savings proposals totalling £4m, equivalent to 3.2% of the net budget. There are separate reports on the agenda covering the capital budget, the capital and investment strategy and the treasury management strategy.

2. Over £11m in additional revenue funding will be added to the Council's 2020/21 budget to support the objectives outlined in the new Council Plan. Specific examples of revenue investment include;

   - Creating homes and world class infrastructure - investment in 2020/21 of £1.5m to fund the on-going work of the Housing Delivery Programme, York Central, Castle Gateway, the Community Stadium and other crucial major projects.

   - Good health & wellbeing – investment in 2020/21 of over £4.5m in adult social care, to support and care for some of the most vulnerable residents in York. This includes the costs of care, supporting adult social care staff and enabling residents to remain in their homes for longer.

   - A better start for children and young people - investment in 2020/21 of £225k, including £50k to commission additional mental health early intervention work, with a further £190k funding to

contribute towards initiatives aimed at improving children's wellbeing and tackling the city's attainment gap.

- Safe communities and culture for all - investment in 2020/21 of £340k, including additional officer capacity to support our local communities and ward committee funding to ensure safer communities across York.

- A greener and cleaner city - investment in 2020/21 of over £1m to create a new waste and street environment service, with a new neighbourhood focus to support local communities.

- A greener and cleaner city - investment in 2020/21 of £50k to invest in the northern forest, alongside £3m capital investment which is included in the capital budget report.

- A greener and cleaner city – investment of £150k in 20/21 with a further £150k committed in 2021/22 towards the climate change delivery programme (with appropriate senior officer support and expertise in carbon budgeting) to coordinate, develop and implement the council's ten year plan to deliver a zero carbon future for York.

- Getting around sustainably - investment in 2020/21 of £25k to improve the electric vehicle car charging point network in the city, with a further £200k one off funding to refresh the Transport Plan, including feasibility work on the potential options regarding Haxby station.

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

- A proposed basic council tax increase of 1.99 % in 2020/21.

- In addition an increase of 2% in line with the government's social care precept, equating to additional income of £1.8m, which provides support for social care

- Revenue savings of £4m in 2020/21

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

- A net revenue budget of £127.223m, which will be funded by:

    i. Council tax income of £93.808m

    ii. Retained business rates of £33.415m

- Alongside these proposals, elsewhere on the agenda the capital budget report details significant additional capital investment of over £56m, including schemes in transport, highways, schools, libraries and housing, which together with the revenue budget proposals ensure continued investment in key frontline service delivery, and supports the councils key priorities.

4. The following table shows the 2020/21 budget position after taking account of the expenditure and funding changes outlined throughout the report. Further detail is provided at annex 1.

Summary	**2020/21 £'000**
Total investment (Table 3)	11,090
Total net funding changes (Table 4)	-2,427
Total changes in council tax (Table 5)	-3,241
Total changes in business rates income (Table 6)	-1,139
Total savings and income generation (Table 7)	-4,013
Use of reserves (Table 8)	150
New homes bonus funding (Table 9)	-420
Budget gap	**0**

Table 1 – Budget position summary

5. City of York Council continues to face financial challenges, particularly with regard to uncertainty over national funding streams and growing demand for council services, especially within adult social care.

6. The council's proposed overall financial strategy includes significant investment in several priority areas outlined in the recently agreed Council Plan, including front line services, adult social care, neighbourhood-based working and initiatives to reduce carbon emissions.

Recommendations

7. Members are asked to consider the appropriate levels of council tax that they wish to see levied by the City of York Council for 2020/21. In doing so they should pay due regard to factors such as;

- Expenditure pressures facing the council as set out in the report
- Impacts of savings proposals set out in annex 2
- Medium term financial factors facing the council as outlined in the report
- Projected levels of reserves as set out in the report
- Statutory advice from the Section 151 Officer

8. In light of the considerations outlined in the paragraph above, Members are asked to recommend to Council approval of the budget proposals as outlined in this report. In particular;

    - The net revenue expenditure requirement of £127.223m
    - A council tax requirement of £93.808m
    - The revenue growth proposals as outlined in the body of the report
    - The 2020/21 revenue savings proposals as outlined in annex 2
    - The fees and charges proposals as outlined in annex 3
    - The consultation feedback as set out in annex 4
    - The Housing Revenue Account (HRA) growth set out in annex 5, and the HRA savings proposals set out in annex 6
    - The dedicated schools grant proposals outlined from paragraph 154
    - The use of £420k New Homes Bonus, £150k from the Lendal Bridge reserve and £150k Transport reserve to fund one off investment, as outlined in paragraphs 86, 87 and 92

    Reason: To ensure a legally balanced budget is set

9. The effect of approving the income and expenditure proposals included in the recommendations would result in a 3.99% increase in the City of York element of the council tax, 2% of which would relate to the social care precept. It is intended that the total council tax increase including the parish, police and fire authority precepts, will be agreed at the full Council meeting on 27 February 2020.

10. Members are asked to note the revocation of the 2019/20 North and West Yorkshire 75% retention business rates pool on 31 March 2020 and agree membership of City of York Council in the new 20/21 North and West Yorkshire 50% retention business rates pool from 1 April 2020, as outlined in paragraph 111

    Reason: To ensure ongoing membership of the North and West Yorkshire business rates pool

11. Members are asked to approve the average rent increase, based on national formulas linked to RPI and CPI, of 2.7% to be applied to all rents for 2020/21, with the exception of a 2.2% increase on the Gypsy, Roma and Traveller Community site rents as described in paragraphs 150 and 153.

    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

<u>National context and funding issues</u>

12. York has the 4th lowest band D council tax out of 55 unitary council in England.

13. All aspects of the public sector are continuing to face challenging times. In recent years the council has had to deal with large reductions in funding, combined with a range of significant pressures, particularly in social care.

14. In relation to council tax, the proposals in this report are predicated on a basic council tax increase in 2020/21 of 1.99 %, 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.

<u>Local issues and challenges</u>

15. There remains continued pressure on many of the council's income budgets and inflation is driving up costs.

16. Whilst devolution of business rates presents opportunities for the council, there are also associated risks with business rates appeals and the business rates reset which is expected to take place in the next spending review period.

17. The major capital programme the Council is embarking upon brings with it some significant risks. In 2019/20 provision was made for such risks with the allocation of £1.5m funding into the venture fund to deal with cashflow or revenue implications regarding major capital schemes.

18. The Council made a climate emergency declaration, which was supported by all political groups. Since then the Council have supported the motion to declare a region-wide climate emergency. This declaration will support the region's ongoing commitment to achieve carbon neutrality and deliver the new Energy Strategy and Delivery Plan (ESDP), which aims to drive forward clean growth.

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

Local issues and challenges – Adult social care

20. Locally demand for council services continues to increase, with an ageing population and increased complex needs in respect of care. There are also significant challenges in the health sector, including challenging financial positions for health partners which are in turn a significant financial risk to the council.

21. The Financial and Performance monitor 3 report, elsewhere on this agenda, sets out in more detail the current financial pressures in relation to adult social care.

22. The additional funding received in 2020/21 and areas of investment in relation to adult social care is summarised in the table below.

	2020/21
	£'000
Additional social care grant	2,722
Social care precept	1,801

Total Additional Social Care Income	**4,523**
Invested in:	
Pay and pension	371
Price inflation	1,158
Children preparing for Adulthood	600
Investment to ensure budget sustainability	550
Increased costs due to complexity and market capacity	1,844
Total Invested	**4,523**

Table 2 – Adult social care additional funding and investment

23. The majority of the growth will be used to fund price increases and cost pressures currently being experienced by costlier support packages for a growing number of individuals with complex care needs. It will also be used to fund the increasing cost of residential placements in a marketplace where the majority of customers are self funders and resources to satisfy demand are scarce. It will also be used to funding the increasing cost of the support required as children move into adult services.

24. The strategy to bring a sustainable balanced budget is to focus on key areas we believe will make the most impact on these areas of increasing cost. In order to achieve this, growth will also be used to bring in external expertise to support work on reviewing the key areas of budget pressure. This will help us embed at scale what we are currently doing to improve the budget position. We will also commission focussed external expertise to help us create an enhanced social care leadership and management structure that will enable us to manage the budget sustainability. Key performance outcomes include;

- Implementing best practice financial controls and measures to improve scrutiny, review and authorisation of spend.
- Ensuring prudent use of financial resources in commissioning social care packages
- Reducing the number and spend on permanent residential placements through the use of short term intensive support and alternative provision.
- Reducing the spend on home care services through better, more frequent reviewing of care, the use of technology to support people

as a default option and strengths based approaches that harness personal strengths and sustain families in their caring roles.
- Reducing the cost of residential and home care coming to adult services through children's service through earlier intervention by adult services to prepare young people with care needs for adulthood.
- Improving uptake of NHS continuing health care services where people are eligible for these.
- Stabilise the rising unit cost of residential and nursing care by agreeing rates with the sector based on the actual cost of care.

25. We are creating a sustainable adult social care leadership structure that;

    - Drives the principles of strengths based practice, radical help and the use of technology, through the more powerful use of roles such as Principal Social Worker and Principal Occupational Therapist
    - Supports the move from dependence on long term services to rapid intensive support in crisis and the scaling down of this through review
    - Makes better use of business intelligence and data to move from information to action; turning strategy more quickly into delivery at the frontline
    - Reduces cost through better market shaping and the introduction of innovation into the social care market
    - Creates clearer operational accountability for budget and performance

26. We are changing our approach to reviews, learning from our good practice and positive outcomes from managing demand at the front door of adult social care. At the heart of this is our proven experience that care can be reduced by enabling people to access more community and voluntary sector support to promote independence. This programme is underway.

<u>Local issues and challenges – Children's social care</u>

27. Nationally there is significant pressure on budgets in children's services. Demand is increasing and numbers of children in our care are also rising. There are well publicised issues with SEND and high needs funding which are subject to national review. In York we are seeing

significant demand pressures, for example referral to social care are on track to have doubled this year. In addition historically, there has been insufficient focus on practice quality and ensuring children receive the right service at the right time.

28. For the last year there has been very significant due diligence activity with a detailed review of every aspect of service delivery. As a result of this, drift and delay which had existed has been tackled and this has led to a re calibration in the system with significantly more children needing the support of a child protection plan or being in our care. This also creates cost pressures.

29. Improvement journeys of this type also require investment in workforce to support them to make the practice changes which are necessary. In York we are very pleased to have been successful in attracting social workers at the start of their careers with a view to supporting and developing them to become a stable and experienced workforce committed to the children of York. In order to offer them appropriate support and mentoring we have recruited additional experiences staff to ensure caseloads remain reasonable and children and their families receive a timely and appropriate service.

30. Against this context (especially as there is a need for a relentless focus on continuing our improvement) to make savings is very challenging. Therefore the savings which are proposed are primarily in areas where there is an alternative funding source (such as a grant) and core budget can be reduced. Where this is not the case savings are anticipated to come from re alignment of services to have a more focused practice model which reduces the number of children that require statutory intervention due to complex needs) for example being in need of protection or in need of being in our care).

31. The growth items in the budget relate to areas where there is significant need such as mental health support and social care practice improvement.

<u>Council priorities</u>

32. The Council Plan for 2019/2023 is based on our statutory responsibilities and the priorities of our administration. The plan is structured around 8 core outcomes, which in turn reflect the key components of a good quality of life for our residents. These are:

- **A greener and cleaner city** – York's environment is protected and enhanced through investment in the Council's frontline services working towards becoming a carbon neutral city by 2030
- **Good health and wellbeing** – Every resident enjoys the best possible health and wellbeing throughout their life
- **A better start for children and young people** – Families, carers and schools are supported so that every child and young person has the opportunity to develop, learn and achieve their aspirations
- **Well-paid jobs and an inclusive economy** – High skilled and better paid jobs in sustainable businesses, providing opportunities for all York's people in an inclusive economy
- **Getting around sustainably** – More people chose to travel by public transport, walking or cycling, benefiting from improved roads, footpaths and cycle routes across the city, cutting congestion, pollution and carbon emissions, as part of renewed efforts to tackle the climate emergency
- **Creating homes and world-class infrastructure** – The right housing is available, affordable and environmentally sustainable for everyone with good quality infrastructure that supports community and local businesses
- **Safe communities and culture for all** – Residents live safe from harm as part of strong and vibrant communities, participating in their local area and have access to a range of quality cultural activities
- **An open and effective Council** – We work as an efficient, open, transparent, democratically-led and accountable organisation, in partnership with key stakeholders, to deliver on residents priorities and achieve the council plan outcomes for our city

33. The plan focuses on outcomes rather than just on the services we provide, to help the Council and our partners work better together, rather than as a collection of individual services and activities.

34. The plan was formally approved by Council on 31 October 2019 following consultation with residents, businesses and staff.

35. The budget reflects the Council priorities, with significant revenue and capital investment in a number of critical areas, or protection to existing spending, as set out in both the capital budget and this report.

Medium term financial strategy

36. Anticipating that the council would be self funded from council tax and business rates by 2020/21, it was recognised some years ago that a successful economy is critical to the council's financial future, with strong and growing business rates and the ability to attract better paid employment to the city.

37. Inevitably, savings will still need to be found in the medium term to deal with further reductions in funding and growth pressures. This is covered in more detail later in the report.

38. The medium term strategy will focus on delivering efficiencies across all areas and a need to drive forward some corporate savings programmes. Ensuring that there is the capacity to invest in key priority areas has been a critical part of previous budget decisions and will need to continue in the future.

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

Consultation

40. The council has been working with residents and businesses to identify the services that matter most to them and to understand their priorities for spending the council budgets.

41. The budget consultation launched on 15 November 2019 and closed on 12 January 2020 for paper surveys and closed at midnight on 31 December 2019 for online surveys.

42. This year there were 825 responses, an increase compared to 366 last year.

43. The consultation replicated a number of question sets from previous years on council tax and the social care precept, to allow us to track feedback.

44. The consultation was promoted to residents through various existing channels via the business intelligence team, published on the council's consultation page, and promoted via the communications teams. Paper copies of the survey were available at council buildings and 3rd party premises across the city.

45. The online survey was promoted;

- Within the business community via existing business network links and distribution groups including York Business Week (11th to 15th November), Make It York, The Business Improvement District, York Chamber of Commerce and the York Federation of Small Businesses. Promotion was through social media, website channels and email. These key stakeholders were asked to pass on details of the consultation to their members. Approximately 4% of the total responses were received from the business community.

- To equalities groups via the equalities network.

- Our City was distributed to all households in the city in December, with delivery taking place over a two week period. The question set shown in Our City was the same as the online budget consultation, but with a reduced number of equalities questions. As with the distributed paper copies of the budget consultation, responses were sent back via Freepost to West Offices.

46. The key messages from the consultation were;

- To balance the budget majority of respondents (47%) were in favour of an increase in council tax, rather than an increase in charges or a reduction in service provision

- The views on both the basic council tax and social care precept increase were varied with most residents supporting either no increase or the maximum increase. 27% of respondents (the second largest) were in favour of the maximum 1.99% increase in the basic council tax (excluding social care precept), although 34% did not support an increase. The largest category (38%) of respondents were in favour of the maximum 2% increase in the social care precept, although a significant proportion did not support an increase (29%).

- Respondents were asked if they agreed with various areas for capital investment. The area most agreed was a priority was maintenance and development of highways and infrastructure assets, followed by maintenance and upkeep of schools, renewable energy to reduce council and city energy bills and maintenance and refurbishment of parks, play areas and libraries. Maintenance and refurbishment of council premises was the least favoured capital investment scheme.

47. These consultation results have been used to inform the budget, as evidenced below;

- The views of residents on council tax increase are varied, with a significant number favouring either a maximum or no increase. The budget proposal increases both the basic council tax and social care precept. This decision was taken to address the significant budget pressures which the council faces, particularly in adult social care, as set out in the report.

- The council have prioritised capital investment in highways, schools and energy efficiency as detailed in the capital budget report elsewhere on this agenda.

48. The consultation responses to questions are summarised in Annex 4. Due to the significant volume of free text comments these are not included in the summary annex but will be published on the York's open data platform www.yorkopendata.org

Executive Member decision session consultation

49. Following the consultation, five decision session meetings were held for all portfolios (some of these were joint decision sessions) in the week commencing 13 January. The Executive Member decision session meetings were a new addition to the budget consultation process.

50. The meetings provided further opportunity for Executive Members to obtain feedback from stakeholders, and also gave stakeholders a view of the initial budgets proposals approximately a month in advance of the usual timeframe. Six members of the public and two elected members registered to speak to share their views, which were taken into consideration by Members in advance of the finalisation of these budget proposals.

Principles that have shaped the budget process

51. As outlined earlier in the report, due to the reduction in government funding, it is critical that the council continues to support economic growth, recognising the significant financial benefits in the form of retained business rates, and creation of jobs. Ensuring that there is a strong link between the capital and revenue budgets to support the

delivery of council priorities is essential. The capital budget sets out significant capital investment, and details regarding some of the major capital schemes that will impact on the economy of the city. There is a growing imperative for all councils to respond to the climate emergency and look for opportunities to develop the circular low carbon economy as part of their action to deliver council priorities.

52. Many councils across the country are now experiencing very severe financial challenges. Whilst the challenges for this council are significant, through sound financial planning, and in year management, the council retains strong financial health, and continues to be able to make significant strategic investments. In response to a shift in demand led expenditure pressures and reductions in grant funding, the council is taking steps to enable itself, residents and communities to work together as equal partners to meet their future needs and priorities.

53. In terms of investment, the council spends a significant amount of its budget on protecting vulnerable people through its social care services. In 2019/20, the net cost of adult social care was £49.9m, 40% of the council's net budget.

54. 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. This approach will help to protect the needs of the most vulnerable people in York.

55. All service areas were asked to consider the long term implications of a 2% per annum reduction in their controllable spend over a 4 year period from 2020/21 to 2023/24, which is in the region of £4m in each financial year. This included an assessment of options, risks, and links with Council priorities.

56. Alongside the revenue budget, set out in the separate capital budget report are proposals for further major investment in a variety of schemes. These continue the council's approach to prioritise investment in the economy, housing, transport, and to invest to save including energy efficiency. In addition, the council is continuing to make a significant investment in ICT, recognising that the need for high quality technology will be crucial to delivering services in the most effective manner in the future, particularly in relation to adult and children's services and customer services.

Budget analysis

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

    i. Consideration of the 2019/20 position.

    ii. Consideration of unavoidable cost increases, priority areas, how to create the capacity in priority areas and creating the capacity to allow for service improvement and innovation.

    iii. Consideration of reductions in grant funding.

    iv. Ensuring that the budget is robust and prudent and is based upon the strategic financial advice of the s151 officer.

    v. Ensuring there is a strong link between the capital and revenue budgets and that the delivery of priorities fully considers the two budgets hand in hand.

<u>2019/20 position</u>

58. As part of the budget approved in February 2019, considerable investment was made in priority services to ensure sufficient resources to deliver statutory and priority services. The most notable example was additional funding for adult social care contracts, with the inclusion of £1.9m growth. At a time of significant financial challenges, this was a major investment to ensure the council were able to provide a better funding deal for care providers and to cover a general increase in adult contracts, including the new national living wage.

59. As outlined earlier in the report, and in a separate report elsewhere on this agenda, the latest finance and performance report identifies a range of budget pressures with the expectation that these will be contained within the overall approved budget by the end of the financial year.

60. Given the significant pressures within both children’s and adult social care there may be a potential need to allocate any underspend from 2019/20 towards social care in 2020/21.

61. However some areas identified as pressures in 2019/20 will require additional funding going forward and these include investments relating to waste, children and adult social care, which is covered further in the report. In addition the Council will need to take some concerted actions

to ensure cost pressures are minimised, with cost avoidance strategies to be implemented. Provision is included within the budget for this.

Additional Investment

62. The following bullet points set out the areas where additional investment is being made;

- Revenue funding for the prior year capital programme **£1,500k**
- Adult social care - **£4,152k** to cover contractual price increases and demographic pressures, including the cost of adults as they transition from children's services within 2020/21. Including an increase for officer pay and pension costs (included in the £2m figure below) a total investment of £4,523k has been made in the adult social care service, as set earlier in the report
- Contractual price increases **£993k** - to cover unavoidable contractual price increases in other service areas, mainly waste and children's services
- Pay and Pension costs - **£2,000k** is included for pay and pension costs in 2020/21.
- Member Allowances increase **£141k** – to cover changes to member allowances, as recommended by an independent remuneration panel and approved by Council in December 2019

63. The following bullet points set out the full year growth as agreed in the July 2019 supplementary budget;

- Graffiti removal team **£70k** - to create a new team to remove graffiti, particularly on private premises and utilities.
- Carbon reduction and sustainability officer **£54k** - To create a lead carbon reduction and sustainability officer role to promote carbon zero by 2030
- Recycling, litter and dog bins **£43k –** To service an additional 2 bins per ward councillor which were added in 2019/20
- Northern forest **£50k** - To create additional capacity to allow for further tree planting and better tree maintenance across the city - as part of the Council's commitment to the Northern Forest

- Community engagement officer **£40k** – To create an additional community engagement officer to enable faster action to create local area working, safer and inclusive communities

- Purple flag promotion **£50k** – To create officer capacity and a small budget to promote purple flag, working in partnership with local businesses and partners to create a safer, more family-friendly and inclusive city centre

- Waste collection improvements **£100k** – To invest in a review of new sustainable waste vehicles, increase collection rates, and improve customer service. This will include a review of waste collection, including plastics and food waste.

- Blacksmith apprentice **£25k** – To invest in a new Blacksmith apprentice for an improved street environment

- Council tax relief for care leavers **£10k** – To ensure all care leavers in their first year of leaving care do not pay council tax

- Electric vehicle charging points **£25k** – To increase electric charging points revenue budget to better improve maintenance.

- Safe and inclusive communities fund **£250k** - A new safer and inclusive communities fund to be allocated to ward committees to enhance safer communities

64. The following bullet points set out the areas where additional investment is being made in other priority areas;

- Waste and environment services **£500k**, with a further £500k commitment in 2021/22 – To invest in waste and environment services to include additional staffing on waste rounds, improved city centre cleaning and effective weed control.

- Climate change delivery programme **£150k**, with a further £150k commitment in 2021/22 – To establish a climate change delivery programme that will deliver a programme of actions along with the development of an evidence base to inform future activity and a public engagement exercise.

- Apprenticeships **£77k** – To provide permanent funding to support the ongoing apprenticeships scheme

- Public rights of way **£30k** – To invest in additional resource to speed up the process to approve public rights of way

- Taxi licence enforcement **£60k** – To invest in additional taxi licence enforcement

- Mental health early intervention fund **£50k** – To create a mental health early intervention fund

65. As set out earlier, there remain potential pressures and risks are within social care. The budget provides for a significant investment within adult care, however it is recognised there remain a number of risks in this area.

<u>One off Investment</u>

66. In addition to the ongoing expenditure pressures set out above one off growth totalling £720k is included.

- Transport Plan refresh **£200k**, with a further £200k committed in 21/22

- Haxby station **£50k** – Funding for a strategic outline business case for Haxby station, to reassess and evaluate potential sites, service patterns, demand and revenue forecasting, and other high-level infrastructure requirements

- Children and young people **£150k** – To support improvement of services for children and young people

- Children and young people **£40k** - A range of initiatives including a summer school to deliver cultural education opportunities that will contribute to the wellbeing and success of our children and young people and help to reduce the attainment gap

- Forward planning **£200k** – To deliver future forward planning, once the Local Plan is complete

- Organisational development programme **£80k**, with a further £30k committed in 2021/22 – investment to support the organisation development plan, in particular support for middle management training and development, to support the delivery of council priorities

67. The one off growth items above are funded from £420k new homes bonus grant provided by central government, £150k from the transport reserve and £150k from the lendal bridge reserve.

Investment Summary

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

Investment	**2020/21 £'000**
Recurring investment	
- Revenue funding for prior year capital schemes	1,500
- Adult social care prices contingency	4,152
- Prices contingency	993
- Pay and pension	2,000
- Member allowances	141
- Graffiti removal team	70
- Carbon reduction & sustainability officer	54
- Recycling, litter and dog bins	43
- Northern forest	50
- Community engagement officer	40
- Purple flag promotion	50
- Waste collection improvements	100
- Blacksmith apprentice	25
- Council Tax relief for care leavers	10
- Electric vehicle charging points	25
- Safe and inclusive communities fund	250
- Waste and environment services	500
- Climate change delivery programme	150
- Apprenticeships	77
- Public rights of way	30
- Taxi licence enforcement	60
- Mental health early intervention fund	50
One off investment	
- Transport plan refresh	200
- Haxby station business case	50
- Children and young people	150

- Reduce the attainment gap - Forward planning - Organisational development programme	40 200 80
Total Investment	**11,090**

Table 3 – Summary of investment

Grant Funding Changes

69. The Revenue Support Grant (RSG) due to the Council in 2019/20 was £529k. However, since the Council were included in a 75% retention business rates pilot in 2019/20, the RSG due was forgone. RSG funding has now be phased out and is therefore nil in 2020/21. The first line of Table 4 shows the reduction in RSG, excluding the effect of the business rates pilot.

70. The second line of Table 4 shows the net change in specific grants. It is anticipated that public health grant will increase by £234k, although this is not confirmed. If the grant is not received expenditure may be funded from one off reserves. The council will receive additional grant of £2,722k in 2020/21 to fund adult social care pressures. This will be used to fund growth in adult social care and is covered in further detail elsewhere in the report.

71. In total, specific grants are estimated to increase by £2,427k in 2020/21.

Funding Changes	**2020/21 £'000**
- Reduction in RSG (excluding effect of business rates pilot)	529
- Net increase in specific grants	-2,956
Net Funding Changes	**-2,427**

Table 4 – Grant funding changes

Council Tax Funding Changes

72. Table 5 shows the net changes to council tax funding.

73. The first line in Table 5 shows the 3.99% increase in council tax which will generate additional income of £3.593m on the existing taxbase.

74. A further £148k council tax is generated due to an increase in taxbase as shown in the second line of Table 5. The taxbase is calculated by the s151 Officer each year and represents the total number of Band D equivalent properties in the city. In 2020/21, this has grown by approximately 107 properties. 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.

75. The third line is the collection fund surplus of £500k from 2018/19 which was used in the 2019/20 budget and falls out this year.

76. The council tax collection fund surplus or deficit for the year 2019/20 is estimated on 15 January 2020, based on current year actual figures. The surplus is a result of an increase in taxbase, compared to estimates made last year. The collection fund surplus is only available as one off funding, but there is no surplus forecast for the year 2019/20.

77. In summary the Table 5 shows an estimated £3.241m additional income from council tax in 2020/21.

Council tax	**2020/21 £'000**
- Increase in charge	-3,593
- Increase in taxbase	-148
- Collection fund surplus 2018/19	500
- Collection fund surplus 2019/20	0
Net council tax changes	**-3,241**

Table 5 – Council Tax funding changes

<u>Business rates income</u>

78. Table 6 shows a total of £1.139m additional income from business rates.

79. In 2019/20 City of York Council were part of a 75% rates retention pilot and in 2020/21 this reverted to a 50% retention model.

80. There may be further one off benefits from the 2019/20 75% pilot which have not been assumed within the budget figures, and will be the subject of further consideration during 2020/21 as the amounts become more certain. This is covered in further detail later in the report.

Business rates income	2020/21 £'000
- Business Rates growth	-1,139
Change in income	**-1,139**

Table 6 –Change in business rates Income

<u>Savings proposals</u>

81. Directorates have identified £3.943m to contribute towards the 2020/21 savings target in addition to corporate savings of £70k. These proposals, outlined in annex 2, include increases in income, reductions in administration costs and removal of vacant posts.

82. The savings proposals included in annex 2 provide the details of the 2020/21 impact totalling £4.013m.

83. Table 7 summarises the 2020/21 savings to be delivered by each directorate and corporate services.

Savings	2020/21 £'000
- Health, Housing, Adult Social Care	-1,914
- Economy and Place	-590
- Customer and Corporate Services	-580
- Children, Education and Communities	-859
- Corporate	-70
Total savings changes	**-4,013**

Table 7 –2020/21 Savings Proposals

<u>Use of Reserves</u>

84. The transport reserve includes funding which was set aside in a prior year for the West Yorkshire Combined Authority (WYCA) transport fund, but due to timing of when the fund started some funding was never required. Members have already approved use of some of this reserve the 2018/19 and 2019/20 year's budgets.

85. As noted in previous budget reports, the use of £450k from the transport reserve in 2019/20 to fund ongoing expenditure falls out in 2020/21.

86. As at 31st March 2020 a balance of £165k is forecast to be held in the Transport reserve and it is proposed that £150k of the balance is used to fund one off investment.

87. As at 31st March 2020 a balance of £150k is forecast to be held in the Lendal Bridge reserve. Members have approved use of this reserve in May 2017 and it is proposed that the £150k balance is redirected in 2020/21 to fund the one off investment relating to transport, whilst other transport schemes will be considered alongside the Local Transport plan.

Use of reserves	**2020/21 £'000**
- Transport reserve used 2020/21 to fund on off	-150
- Transport reserve used 2019/20 to fund recurring	450
- Lendal Bridge reserve used 2020/21 to fund one off	-150
Change in income	**150**

Table 8 –Use of Reserves

New homes bonus (NHB) grant

88. The new homes bonus was introduced to provide an incentive for local authorities to encourage housing growth in their areas. Authorities receive funding for growth above the national baseline set at 0.4%. When an authority has overall growth in excess of the baseline, it gets rewarded for the above-baseline growth, not its entire growth.

89. In the September 2019 settlement the government announced a reduction in legacy payments and a phasing out of the NHB funding by 2023/24.

90. We will continue to phase out any ongoing revenue funding from NHB. This currently totals around £2.2m (as set out in the table below) and therefore over the coming years this will be gradually phased out in future budgets.

91. The total funding available in 2020/21 is £2.7m.

92. The budget proposals include one off investment of £420k which will be funded from NHB.

New Homes Bonus	**£'000**

- Available 2020/21 - Previous Council decisions February 2016 budget - recurring July 2015 budget amendments - recurring February 2019 budget - recurring - 18/19 Allocation to phase out NHB funding	-2,679 1,349 1,259 51 -400
- Allocated in this budget (one off)	420
NHB remaining	**0**

Table 9 – New homes bonus funding

Net Budget Composition

93. Taking into account funding changes summarised in Tables 4, 5 and 6, Table 10 below summarises the funding available from council tax and business rates for 2020/21.

	2020/21 £'000
Council Tax	93,808
Business Rates	33,415
Total Net Budget	**127,223**

Table 10 – Net budget composition for 2020/21

Fees and charges

94. Detailed proposals for any changes to fees and charges are attached at annex 3. The proposals have taken account of such factors as current consumer price indices, possible impact on customer numbers, knowledge of business and current market conditions and benchmarking exercises. Any increased income from this review of charges is included within the overall list of savings attached at annex. The majority of increases are approximately in line with inflation with the exception of fees which are set by central government.

95. Fees for the european settlement scheme (ESS) have been reduced from £14, and will be offered free of charge for York residents.

96. The proof of life service is due to be handed over to Registrars in April and will continue to be offered free of charge

97. The proposals include a £1 increase in evening car parking charges for non Minster badge holders, although it should be noted that this is the first increase in evening parking charges since April 2004.

Council Tax

98. The existing components of the current (2019/20) band D council tax for a CYC resident are shown in Table 11 below. It should be noted that these figures exclude parish precepts which are an additional charge in some areas.

	£
City of York Council	1,330.25
North Yorkshire Police	255.77
North Yorkshire Fire and Rescue	71.27
TOTAL	**1,657.29**

Table 11 - Make Up of 2019/20 Council Tax

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

Referendum Limits

100. The council tax referendum limit has reduced from 3% to 2% (excluding social care precept) for 2020/21. The threshold is not guaranteed to continue beyond 2020/21. If a Council wishes to set a higher council tax it must hold a referendum. It must also provide ‘substitute calculations’ which need to be presented to setting out what the alternative budget would be. This means that that if any proposal is made for a council tax above the referendum limit it must be accompanied by ‘substitute calculations’ within the referendum limit, to be used in the event that the referendum would reject the increase. If a referendum is held after the beginning of the relevant financial year, the higher rate of council tax will

be payable unless and until it is overturned by a ‘no’ vote in the referendum. In the event that a referendum rejects the increase, the billing authority would be able to issue new bills, offer refunds at the end of the year or allow credits against liability the following year, although individual council taxpayers would be entitled to a refund on demand.

101. The costs of a referendum are not easy to estimate, and depend to an extent on whether it can be done as part of another election. If there is no other election, provision should be made for £210k. If the referendum could be combined with another election this would reduce the cost by approximately 50%. There are no local elections scheduled to take place in 2020/21. In addition there are the costs of rebilling which is estimated at £50k.

Social care precept

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

103. As referred to earlier in this report, the recommendation made in these papers is that from April 2020 the City of York element of the council tax will increase by 3.99%, 2% of the increase relating to the social care precept.

104. A 2% social care precept increase generates additional income of approximately £1.8m for the council which will be used along with additional grant funding to 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

105. 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, North Yorkshire Fire and Rescue 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 28 February.

106. Table 12 demonstrates both the cash and percentage increase in 2019/20 for these which resulted in a total band D council tax for a York property of £1,657.29.

	2018/19	2019/20		
	Charge (£)	Increase (£)	Increase (%)	Council Tax (£)
CYC	1,288.38	41.87	3.25%	1,330.25
Police	232.82	22.95	9.86%	255.77
Fire	69.20	2.07	2.99%	71.27
Total	1,590.40	66.89	4.20%	1,657.29

Table 12 – 2019/20 Council Tax Figures for City of York Area

107. 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)

108. The council is projecting retained business rates income in 2020/21 of £33.415m, an increase of £1,139k compared to 2019/20.

<u>Business Rates Pooling</u>

109. City of York Council is currently a member of the North and West Yorkshire (NWY) Business Rates Pool.

110. The NWY business rates pool was part of a pilot programme, offering 75% business rates retention for 2019/20, which was set to run for one year only. Any additional business rates growth resulting from the 2019/20 75% pilot scheme can be utilised to further support risks and potential future investment needs. A further report will be brought to Members later in the year once more detailed figures are available.

111. The 2019/20 75% pilot scheme has ceased for 2020/21 and the pool was revoked. The pool was reformed for 2020/21 with the exclusion of one authority. The 20/21 pool retains only 50% of business rates, in line with national policy.

Reserves and Contingency

General reserves and contingency

112. Table 13 shows the position on the general fund reserve which, it is anticipated, will be £7.442m by the end of 2019/20. The projected reserves at the end of 2019/20 are based on the assumption that Members agree no usage of reserves in 2020/21 as part of the final recommendations to Council. It should be noted that the figures below also assume that there will be no requirement to fund an overspend against the 2019/20 budget.

	2019/20 Projected Out-turn £'000	2020/21 Budget £'000
General reserve at start of year	7,442	7,442
In Year use of reserves	0	0
General reserve at end of year	7,442	7,442
Prudent minimum reserves	6,400	6,400
Headroom (+)/Shortfall (-) in reserves	1,042	1,042

Table 13 – Projected general reserves

113. In line with best practice, the council has undertaken a review of risks and known commitments in order to determine its minimum general reserve level. In considering this, it has been determined by the s151 Officer that a level of £6.4m remains an appropriate figure. However in light of the risks facing the council, in relation to major capital programme schemes such as York Central and Castle Gateway and the budget pressures within children's and adult social care as covered earlier in the report, it is considered that headroom should remain above the minimum level. Reserves are covered in further detail within the s151 statutory statement at the end of the report, which cautions against any reduction in the general reserve at this stage.

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

115. As mentioned earlier in the report, due to significant risks associated with major capital projects and the reduction in NHB grant 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

116. The balance on the venture fund reserve is anticipated to be £3.98m at the end of 2019/20.

117. As covered in previous budget reports Executive have already agreed commitments in future years to major projects including £300k to the Community Stadium, £3m to York Central, £200k to Burnholme Community Centre and £131k to Mental Health services. After taking into account these commitments, the forecast year end balances on the venture fund is included below in Table 14.

	Forecast Year end Venture Fund Balance
	£'000
2019/20	3,980
2020/21	4,175
2021/22	4,356
2022/23	4,244
2023/24	1,281
2024/25	1,485

Table 14 –Venture Fund Balance

118. Taking into account future years commitments, a balance of £850k is available at 2019/20, which increases to £1.4m by 2024/25 as advances are repaid to the fund from prior year schemes.

Medium term planning

<u>Medium Term Outlook</u>

119. The Spending Review 2019 (SR19) announced in September 2019 is a one year only review for 2020/21 and is effectively an extension to the 4 year settlement covering the period 2016/17 to 2019/20. The main feature was the announcement that social care funding will remain at existing levels plus an additional £1bn nationally. In addition, although it was expected that business rates retention would increase to 75% nationally, this was postponed until 2021/22 and in 2020/21 business rates pilot will revert to the 50% retention system.

120. The provisional settlement was announced on 20 December. It is expected that the final settlement will be announced in February, but it is unlikely to differ significantly from the provisional figures.

121. In the settlement it was confirmed that £1bn social care funding would be repeated in each year of the parliament. A potholes fund of £500m was proposed and allocations will be announced at a later stage. The government's manifesto indicated that there are prospects for additional funding for various new schemes including childcare, SEND, flood defence and capital investment, although there may be reductions to public health grant funding. Details of this are expected to emerge in the next budget on the 11 March 2020 or the Spending Review 2020, likely to be announced in autumn 2020.

122. The Spending Review 2020 will be a multi-year review covering 2021/22 to 2023/24 and this will provide greater certainty over the medium term. However, until that point significant uncertainty remains due to the ongoing 'fair funding' review and the ongoing review of business rates retention.

123. The Queen's speech provided some clarity on the government's new fiscal rules, which are;

- To have the current budget in balance no later than the third year of the forecast period
- To limit public sector net investment to an average of 3% of GDP
- To reassess plans in the event of a pronounced rise in interest rates taking interest costs above 6% of government revenue

124. The commitment to balance the budget in the third year of parliament indicates a much tighter fiscal policy than the previous chancellor. Given that a large proportion of public sector funding is protected, this raises the risk that there is less scope for growth in local government funding. Conversely, some parts of local government could receive better settlements than in recent years, with it being recognised that adult services and children's services are in a critical position nationally.

Business Rates and Funding Reform

125. As highlighted in previous Financial Strategy reports, the government has phased out Revenue Support Grant (RSG) by 2020/21, to be

replaced by a system which allows local government to retain a greater percentage of business rates growth.

126. Before the provisional settlement was announced, it was assumed that from 2020/21 there would be an increase in all local authorities' retention of business rates from 50% to 75%. This has been postponed until 2021/22.

127. The most recent Queen's speech promised a fundamental review of business rates. It is to be assumed that future changes will be made to 'protect your high street and community from excessive tax hikes'. This suggests further reliefs or discounts in the future as well as the continuation of the small business rate relief. It might also lead to more fundamental change in the way that businesses are taxed.

128. The government intends to progress legislation so the next business rates revaluation will be brought forward by one year to 2021 and future revaluations will take place on a three yearly cycle rather than a five yearly cycle. This should help to reduce volatility in the system. In the future it is expected that regular baseline resets will overlap with the revaluations.

129. The Government have indicated that they are minded to have a full business rates baseline reset in 2021/22. This could have significant implications for a high growth authority such as York, as any growth built up since 2013/14 may be taken and redistributed to authorities with higher 'needs', according to the revised funding formula under consideration in the Fair Funding Review (FFR).

130. The Fair Funding Review focuses on the cost drivers for individual authorities. It is expected that this would be implemented as part of the 2021/22 local government finance settlement. As part of the funding reform, additional responsibilities will transfer to local government, potentially the administration of housing benefits for pensioners and funding of public health.

Social care funding

131. Social care funding received an extra £1bn in 2020/21 and this will continue for the duration of this parliament. There is no indication as to whether the social care precept on council tax will continue beyond 2020/21.

132. The government wants to reform social care to find ‘a long term solution that will stand the test of time’. The Social Care Green Paper was originally due to be published in summer 2017, but a new date for publication has not been confirmed. This is expected to consider the longer-term challenges in adult social care, and its purpose will be to build a sustainable, long-term, reliable system. As set out elsewhere in this report there are ongoing pressures within social care funding, linked to the financial challenges within the NHS.

Medium term strategy and approach to savings

133. Recognising some of the risks set out in preceding paragraphs, in particular the state of the UK economy, and the distribution of local government funding, the table below, Table 15, sets out the headline figures for the Council’s medium term financial forecast.

	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£’000	**£’000**	**£’000**	**£’000**	**£’000**
GROWTH					
Pay and price inflation	2,465	2,530	2,590	2,650	2,720
Social care (assumes additional grant funding)	2,500	2,560	2,620	2,690	2,760
Capital Programme	1,500	1,500	1,500	1,500	1,500
Other	1,100	1,100	960	500	500
Total growth	7,565	7,690	7,670	7,340	7,480
RESOURCES					
Council Tax at 3%	2,750	2,800	2,850	2,900	2,950
Business Rates	800	800	800	800	800
Total resources	**3,550**	**3,600**	**3,650**	**3,700**	**3,750**
FUNDING GAP	**4,015**	**4,090**	**4,020**	**3,640**	**3,730**

Table 15 – Medium Term Forecast to 2025/26

134. These figures are based on the current funding formula and grant funding for adult social care continuing in a similar manner as currently. Clearly there are a number of factors that could change these figures, and uncertainty will remain until the announcement of the Spending

Review 2020, but they provide the broad basis on which the Council will need to consider decisions over coming years.

135. The funding gap figure of approximately £4m each year represents the amount of savings that are required each year to balance the budget.

136. Whilst settlements for local government are expected to be better than in the past, this is far from certain in light of the current one year settlement and the factors outlined earlier in the 'medium term outlook' section of the report.

137. There are two very major pressures facing the Council. These relate to social care, and the impact of the capital programme.

138. The impact of the capital programme will have an effect on the revenue budget in terms of cost of borrowing. The current capital programme has additional borrowing needs (excluding borrowing supported by savings/enterprise zone receipts) of approximately £40.6m by increasing the programme by an additional £56m (as set out in the capital budget report). This would result in just over £150m borrowing requirement over the next 5 years. 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 £1.5m every year.

139. The current pressures on the social care budget are expected to continue in the medium term and are reflected in the figures in Table 15.

140. 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 of a number of service areas.

141. An assumption is included for £800k of business rates growth per annum. However as identified earlier in the report there are uncertainties around assumptions in business rates funding which may have a significant impact on the council's funding. This will be determined by the outcome of the fair funding review and the business rates baseline reset.

142. Based on the current assumptions above, based on a 3% increase in future year's Council tax, there remains a funding gap of between £3.64m and £4m each year, over the next 5 years. The Council will need to consider the relevant balance of savings, variation in council tax, and potential changes in funding and income from business rates.

143. Specific details of future year's savings proposals will be covered in future budget reports. Looking beyond 2020/21 is difficult given a wide range of uncertainties already described. The scale of savings is to a large extent dictated by the overall level of council tax increase that will be set.

Housing Revenue Account (HRA) Budget

144. Local Authorities are required, by legislation, to keep a HRA. The Local Government and Housing Act 1989 stated that items of income and expenditure only relating to council housing must be contained within the account. Authorities have a duty to ensure that the HRA balances, to keep the budget under review and to take all reasonable steps to avoid a deficit.

145. This budget has recognised the need for further investment in its Housing Stock and has identified additional funding for its repairs service totalling £1.5m in a full year. There is also proposed investment across the Housing Management service totalling £0.3m in a full year. Details if these investments are shown in Annex 5

146. It is also important to ensure that the HRA does operate efficiently and a number of savings (£507k in a full year) have been identified. Details of these savings are shown in Annex 6.

147. Elsewhere on the Agenda there is an update to the HRA Business Plan which shows the 30 year HRA forecast. The headlines of that forecast are that

- Maximum debt will increase from £140m to £166m as the Housing Delivery Programme develops sites
- The HRA debt then reduce to £26m by the end of the plan
- The minimum HRA year end balance can be maintained at over £20m

148. The plan remains financially robust as the ongoing HRA debt can be serviced whilst continuing to deliver in year surpluses (prior to debt repayment) in every year of the plan.

Rent Changes 2020/21

149. Since April 2002, the rent increase has been calculated with the key aim of converging rents across all social housing providers whether local authority landlord or other registered provider. This involved a phased change in rents, known as rent restructuring, based on a formula for rent setting created by central government. This government formula rent took account of various factors including the number of bedrooms a property has, property valuation, average earnings and the date at which all rents were expected to converge.

150. Central government policy has now changed and rent restructuring has been brought to an end. The subsequent policy of increasing rents by the Consumer Prices Index (CPI) + 1% that was applied for the 2015/16 increase was due to apply for ten years but in July 2015 further changes to social rents were announced in the Welfare Reform and Work Bill 2015. All social housing rents were required to be reduced by 1% for four years from 2016/17. Government made a further announcement in October 2017 confirming that social rents can be increased by CPI + 1% with effect from 2020/21 for a period of at least five years. Therefore the increase for 2020/21 will be 2.7% using CPI as at September 2019 of 1.7%. Future increases in the model assumes CPI at 2%.

151. The expected effect on rent levels over the next 3 years is shown in table 16 below.

Year	Estimated Average Rent Per week	Estimated Average Decrease(-)/Increase per week
2020/21	£79.59	£2.08
2021/22	£81.98	£2.39
2022/23	£84.44	£2.46

Table 16 – HRA Rent changes

152. The Mobile Homes Act 1983 allows the council to increase rents by RPI. However, where the RPI is higher than CPI +1%, CPI +1% is used in line with the other rent increases.

153. The current RPI is lower than CPI+1%, as such, using the national formula, a rate of 2.2% (December 2019 rate) will be used to increase the Gypsy, Roma and Traveller Community site rents in 2020/21.

Dedicated Schools Grant (DSG) and the Schools Budget

154. The DSG is ring-fenced for funding the provision of education or childcare for 3 to 16 year olds in all settings. As such it covers funding delegated to individual LA maintained schools, academies and PVI providers through the LMS & Early Years funding formulae, plus funding for other pupil provision which is retained centrally by the LA to support such things as Special Educational Needs and some central education services.

155. 2018/19 saw some significant changes to DSG allocations for LAs. The Department for Education (DfE) introduced new national funding formulae to allocate the DSG for schools, high needs and the central school services block from April 2018. These new arrangements are continued for 2020/21 but with some tightening of the flexibility available to local authorities, particularly in the use of centrally retained budgets.

156. Previously the DSG was divided into three blocks; schools, high needs and early years. From 2018/19 the DfE introduced a fourth block, the central school services block, which funds LAs for the statutory duties they hold for all maintained schools and academies, which were previously funded through the schools block.

157. The funding LAs receive in each block is now determined by a specific national funding formula (NFF). The total DSG allocation for 2020/21 is estimated at £139.189m, an increase of £6.965m (5.3%) from 2019/20 and broken down as follows:

DSG Funding Block	**2019/20**	**2020/21**	**Increase**	
	£m	**£m**	**£m**	**%**
Schools Block	98.164	103.951	5.787	5.9%
Early Years Block	10.842	11.036	0.194	1.8%
High Needs Block	19.556	21.028	1.472	7.5%
Central School Services Block	3.663	3.175	(0.488)	(13.3%)
Total DSG	**132.224**	**139.189**	**6.965**	**5.3%**

Table 17 – DSG Allocation

<u>Schools Block</u>

158. The vast majority of the Schools Block DSG (£103.321m) 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. As the DfE announced a two year funding settlement for the DSG, the consultation and LA agreement was for these new arrangements to continue for 2019/20. For 2020/21 the LA is again proposing to follow the NFF for schools.

159. This equates to an increase of £5.852m (6.0%) in the total resources available to allocate to schools in the city through the school funding formula. For individual schools this results in increases ranging from a minimum of 1.84% per pupil to a maximum increase of 10.44% per pupil.

160. The remaining £0.629m 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.

Early Years Block

161. York's government funding rates for 2020/21 through the Early Years block have increased by 8p per hour from the 2019/20 rates to £4.38 per hour for 3 & 4 year olds (+1.9%) and £5.28 per hour for 2 year olds (+1.5%). In line with this the LA is proposing to increase all elements of the Early Years Single Funding Formula rates for York providers in 2020/21 in proportion to the increase in government funding. However, under the formula the DfE established in 2017 to support standalone nursery schools, the amount to be received has remained the same at £90k.

2020/21 EYSFF Funding Rates

	Base Rate £/hour	**Deprivation Rate £/hour**	**Nursery School Lump Sum £**
3 & 4 Year Olds	4.07	0.41	89,971
2 Year Olds	5.28	Nil	Nil

Table 18 – EYSFF Funding Rates

High Needs Block

162. The high needs block DSG increases by £1.472m (7.5%) in 2020/21. 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 2019/20 there is a projected net outturn overspend on the high needs budget of £2.0m, contributing to an estimated deficit carry forward DSG balance of £2.7m into 2020/21. Projections for 2020/21 show that; based on the increased funding, current numbers and expected inflationary pay and contract price increases and without any significant mitigating action, the in year overspend should reduce to £1.0m.

163. Overspends at this level are clearly unsustainable and further work, as part of the inclusion review that is currently underway, is essential to ensure that high needs expenditure is maintained within the funding available through the high needs block of the DSG. Members should note that a deficit carry forward of DSG into 2020/21 at the projected amount (£2.7m) is significantly in excess of the 1% level that will trigger a formal requirement from the DfE for the LA to submit a deficit recovery plan.

164. Under the new school funding arrangements for 2018/19 the DfE introduced ring fences around the transfer of resources between blocks. Under these rules the DfE does allow LAs to make a request to their Schools Forum for up to a 0.5% transfer of funding from the Schools Block to the High Needs block. As part of the LA's agreement to move schools onto the NFF it was also agreed that no transfer request would be sought in the first two years. However, given these pressures, it is now highly likely that the LA will need to consider such a request in 2021/22 as part of an agreed DSG deficit recovery plan.

Central School Services Block

165. This funding block was created in 2018/19 from elements of the previous schools block and the former Education Services Grant (ESG). As part of the DfE's strategy to remove funding within this block that directly supports exceptional expenditure previously agreed between LAs and their Schools Forums, there is a significant reduction of £0.488m (13.3%) in 2020/21. The LA, subject to consultation with the Schools Forum, proposes to manage this reduction by ceasing to make a £195k pa contribution to the schools broadband contract and removing the, as yet uncommitted, budget provision for prudential borrowing against

secondary basic need capital expenditure. Other than this the LA proposes no further changes to the budgets funded by the central school services block DSG.

Scrutiny

166. In accordance with constitutional practice Corporate Scrutiny and Management Policy Scrutiny Committee have considered at its meeting on 11 November 2019 what level of budget is appropriate in the coming year to support scrutiny reviews. The committee take into account existing levels of spend in 2019/20 and the councils overall financial position. In the light of those considerations the committee has decided to maintain the current funding level of £5k and not request any increase.

One Planet/ Equalities

167. 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.

168. 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.

169. 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 using the Better Decision Making Tool and this is available at annex 7.

170. The EIA is classed as a "living document" and as such it should be regularly revisited to ensure that the impacts of proposals (either negative or positive) on the protected characteristics are taken into consideration and recorded. It is accepted that the EIA accompanying the budget report 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 EIA to support delivery of that proposal and ensure that negative aspects of the protected characteristics are acknowledged and where possible mitigated.

171. 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.

172. 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.

173. 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

174. There is significant investment in the climate change delivery programme to coordinate, develop and implement the council's ten year plan to deliver a zero carbon future for York. This brings many positive outcomes in relation to energy usage, waste and sustainable transport.

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

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

Specialist Implications

177. This report has the following implications;

Financial

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

Human Resources (HR)

179. As implementation plans to achieve savings are produced the specific staffing implications will be clear and staff consulted on the proposals. The type of change affecting staff in 2020/21 is likely to be a mixture of post reductions and working for redesigned services, some of which may no longer be delivered by the council.

180. 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.

181. 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

182. The council is required to set a council tax for 2020/21 before 11 March 2020. 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 2020, 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.

183. 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.

184. The Council's Chief Financial Officer (under s151 Local Government Act 1972) is required to report to the Council on the robustness of the estimates made for the purposes of the calculations, and the adequacy of the proposed financial reserves. The Council must have regard to the report when making decisions about the calculations in connection with which it is made. The Chief Financial Officer has a statutory duty under section 114 of the Local Government Finance Act 1988 to issue a written report if he considers that a decision taken by the Council would be unlawful and likely to cause a financial deficiency.

185. 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.

186. Members must also act prudently. Members must also bear in mind their 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 equality strands under the Equalities Act 2010. In making their decision, Members must have due regard to their public sector equality duties and the need to eliminate discrimination, to mitigate against negative impacts where these are known and to promote equality when making decisions. Members must also take into consideration the need to consider any crime and disorder implications of the decision. A failure to follow these principles could open the Council to judicial review.

187. 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.

188. 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.

189. 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. Members are obliged under the Code of Conduct to have regard to the advice of the s151 Officer and 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 Corporate Finance and Commercial Procurement Manager in order to balance the budget, they must find equivalent savings elsewhere.

190. The Corporate Finance and Commercial Procurement Manager 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.

191. 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.

192. 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.

193. If a referendum is held after the beginning of the relevant financial year, the higher rate of council tax will be payable unless and until it is overturned by a 'no' vote in the referendum. It must also provide "substitute calculations" which need to be presented to Council setting out what the alternative budget would be. This means that that if a party proposes a council tax above the referendum limit they must also produce "substitute calculations" within the referendum limit, to be used in the event that the referendum would reject the increase. In the event that a referendum rejects the increase, the billing authority would be able to issue new bills, offer refunds at the end of the year or allow credits against liability the following year, although individual council taxpayers would be entitled to a refund on demand.

Council Priorities

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

Statutory Advice from the s151 Officer

Introduction

195. 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

196. The preparation of a budget relies on estimates, which are made at a point in time, and clearly there are a number of 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, including separate budget Executive Member Decision Sessions held during January

197. 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.

198. In order 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 2019/20 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

199. In addition, 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.

200. 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. There are also significant savings, reflecting the scale of the challenge facing the council. There should be no understatement of the scale of this challenge that continues to face the council, given the general upward cost profile of adult care and children's services.

Risks

201. The report outlines the key risks to the 2020/21 budget and these are considered further in the following paragraphs.

202. A key risk facing the council is the number of complex capital schemes it is currently undertaking, and which are still at relatively early stages of development. Should schemes not progress to full completion there remains a risk that costs currently assumed to be capable of being capitalised must be written off to revenue. 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.

203. 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, and Castle Gateway will be major schemes, which will result in additional business rates, income or capital receipts, but that may 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.

204. The current pressures being experienced within both adults and children's services are of concern and the ongoing action being taken, as outlined in the finance and performance report elsewhere on this agenda, 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. 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. The budget proposals properly recognise these pressures.

205. Brexit remains an area of risk that will require continued monitoring. There do not appear to have been any significant issues to date but there are clearly potential future implications, such as increased inflation or difficulties securing goods. Additional funding has been provided by Government and £139k of this funding remains unallocated to cover any potential costs in the coming year.

206. The reduction in New Homes Bonus Funding will also require careful planning to ensure expenditure currently funded from this source can be met from council tax/retained business rates. Again, provision has been made for this in future years.

207. The council has declared a climate emergency and funding has been allocated within the budget to coordinate, develop and implement the council's ten year plan to deliver a zero carbon future for York. The potential future costs (and savings) that may result from this work is still relatively unknown and will therefore require careful monitoring and further consideration in future years budgets.

208. 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.

209. Finally, there remains the potential for significant changes to the system of local government finance in coming years. The government originally

launched the Fair Funding Review in 2016 scheduled for implementation in April 2020, however, implementation was postponed. This policy is likely to change the needs assessments of local authorities and therefore the distribution of funding between different councils. The government has recently announced that they are making progress on the review and that they will be consulting on further details of the proposed reforms soon. Officers will continue to monitor any developments in this area.

Other issues

210. CIPFA's Financial Resilience Index is a comparative analytical tool for use by chief financial officers to support good financial management. The index shows a range of measures that CIPFA have determined are associated with financial risk. In considering the budget the index has been reviewed and particular attention given to reserves sustainability, interest payable as a proportion of net expenditure and business rates growth. All these areas have been considered within the budget and appropriated provision made.

211. In October 2019 CIPFA issued a Financial Management Code to support good practice in financial management and assist in demonstrating financial sustainability. The Code sets out the standards of financial management and 2020/21 will be the first year of full compliance to reflect that councils will need time to consider the contents of the code. We will use the forthcoming financial year to prepare for full implementation and demonstrate our compliance with the Code.

212. In November CIPFA issued Guidance on Prudential Property Investment which includes details of how councils can calculate whether their property investments are proportional to the size of their revenue budgets. Whilst this council has only made relatively modest investments in commercial property, in comparison to other councils, this is an area of potential risk so this guidance will also be reviewed during coming months and in future years will form part of the budget preparation process.

Reserves

213. 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.

214. 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.

215. Furthermore, part of the risk management process involves taking appropriate action to mitigate or remove risks, where this is possible. This in turn may lead to a lower level of reserves being required, and it would be appropriate to consider reducing the level of balances held where appropriate action to mitigate or remove risks has been successfully undertaken. As part of the year end process, a review is undertaken and any balances that are no longer required, or that can be reduced due to action taken to reduce or mitigate the relevant risks, will be reported to Executive as part of the year end outturn report.

216. The proposed 2020/21 budget seeks to keep reserves to an amount of £1,042k above their minimum levels. This recognises that, in difficult financial times and alongside general uncertainty regarding the economy, it is advisable to ensure sufficient reserves are in place.

217. The recommended minimum reserves for 2020/21 are £6.4m and this is considered within the report. Whilst I have identified in earlier paragraphs the risks facing the council I do not consider that reserves require any increase, but as in previous years, would caution against any reduction at this stage as there remain risks within the capital programme and social care in particular.

Summary

218. The continuing reduction in public spending coupled with increasing demand for services means financial planning needs to be robust. For future budget planning, further action will be needed 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. Given the current financial pressures referred to in previous paragraphs there will need to be continued careful monitoring of the achievement of the savings outlined

in this report. The council also has strong financial health in terms of its overall level of unallocated reserves.

219. 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. Therefore, I am satisfied that they represent a robust budget on which the council can rely in setting council tax.

Risk Management

220. A summary of risks attached to the budget is contained in annex 8. Each risk identified relates to at least one Key Corporate Risk (KCR) which are monitored regularly throughout the year and reported to the Audit and Governance Committee.

Contact Details

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	Report Approved √ **Date** 31/1/20

Specialist Implications Officer(s)
Legal – Janie Berry
HR – Trudy Forster

Wards Affected: List wards or tick box to indicate all **All** x

For further information please contact the authors of the report

Background Papers:
Key Corporate Risk Monitor 3 2019/20: Audit and Governance Committee 4 December 2019

Executive Member Budget Decision Session reports:

- Joint Decision Session - Executive Member for Environment and Climate Change, Transport and Economy and Strategic Planning 13 January 2020
- Joint Budget Decision Session - Executive Members For Children, Young People And Education And Culture, Leisure And Communities 14 January 2020
- Joint Budget Decision Session - Executive Leader (incorporating Policy, Strategy and Partnerships) and finance and Performance 15 January 2020
- Joint Budget Decision Session - Executive Leader (incorporating Policy, Strategy and Partnerships) and finance and Performance 15 January 2020
- Decision Session – Health and Adult Social Care 15 January Decision Session - Executive Member for Housing & Safer Neighbourhoods 16 January 2020

Budget Consultation available at www.yorkopendata.org

Annexes:
1 – 2020/21Budget Summary
2 – 2020/21 Savings Proposals
3 – Fees & Charges
4 – Summary Consultation Results
5 – HRA 2020/21 Growth Proposals
6 – HRA 2020/21 Savings Proposals
7 – Better Decision Making Tool
8 – Risk Analysis

Abbreviations used in this report:
ASC – Adult Social Care
BCF – Better Care Fund
CCG- Clinical Commissioning Group
DSG – Dedicated Schools Grant
ESDP - Energy Strategy and Delivery Plan
EYSFF – Early years single funding formula
FTE – Full time equivalent
HRA - Housing Revenue Account
KCR – Key Corporate Risk
NHB – New Homes Bonus
NWY – North and West Yorkshire
RSG – Revenue Support Grant
WYCA – West Yorkshire Combined Authority