

Joint Budget Decision Session of the Executive Leader(Incorporating Policy, Strategy & Partnerships) and the Executive Member for Finance & Performance

13 January 2021

Report of the Chief Finance Officer

Financial Strategy 2021/22 to 2025/26

Summary

1. The Financial Strategy 2021/22 to 2025/26 will be presented to Executive on 11 February 2021 and Full Council on 25 February 2021.
2. The purpose of this Decision Session report is to provide background information for the overall Financial Strategy and to present the draft savings proposals, growth assumptions and capital schemes for the Leader and Finance & Performance portfolios. This will provide an opportunity for Executive Members to obtain feedback in advance of the finalisation of the overall Financial Strategy which will be presented to Executive on 11 February 2021.
3. The Council is facing unprecedented financial challenges due to the impact of the Coronavirus pandemic. Demand for Council services has increased and, at the same time, income from services (such as parking) has fallen significantly. This has generated an in-year financial pressure totalling £15m for the Council. The total financial pressure facing the Council over the next 3 years is estimated to be £25m. At this stage, due to the continued uncertainty and changes in national restrictions, it remains unclear as to the ongoing financial impact in terms of lost income and other recurring expenditure.
4. In November 2020 the Chancellor announced the Government's 1 year Spending Review, which included increased 'spending power' for local authorities. However, on analysis of the detail this is predominantly funded by Council's power to raise money through Council Tax and the Adult Social Care Precept.
5. Key assumptions for the overall Financial Strategy are as follows;

- A proposed basic council tax increase of 1.99 % in 2021/22, equating to additional income of £1.7m. Any increase above this amount would require a referendum.
 - In addition an increase of 3% in line with the government's social care precept, equating to additional income of £2.546m, which provides support for adult social care
 - Revenue savings of £7.9m in 2021/22
6. As a consequence of the Covid-19 pandemic, the Council must maintain a stable and resilient financial position for the next financial year, in the midst of this unprecedented level of uncertainty and economic challenge. Further details of the impact of Covid-19 on the Council's finances are included below in 'the national context' section.
 7. The Council also continues to face long standing financial challenges, particularly with regard to uncertainty over national funding streams and growing demand for Council services, especially within adult social care.
 8. The Council's proposed overall Financial Strategy includes significant investment to stabilise our finances to protect against the economic effects of Covid-19 and continues to invest in priority areas as outlined in the Council Plan, including adult social care and support for children, frontline services and the city's economic recovery.
 9. Recognising the unprecedented economic challenge of the pandemic and support needed for local residents, we are increasing net spending by £2.6 million on adult social care and support for children, whilst investing additional funding to protect frontline services and to accelerate our economic recovery. To enable this investment, the Council has also delivered back office efficiencies of £3 million to ensure financial prudence and that the Council is prepared to respond to future challenges and deliver services to residents and businesses more effectively.
 10. At the same time, the Council is continuing to deliver on local residents' priorities, by continuing our investment programme with a further £150k of enabling funding to support our initiatives to tackle Climate Change (which include £12m of capital investment so far), £5.8m in services which support the most vulnerable and £500k for waste and environment services to include additional staffing on waste rounds, improved city centre cleaning and effective weed control.

11. Overall £12m in additional revenue funding will be added to the Council's 2021/22 Budget to meet continuing pressures on adult social care and children's services to support the Council's response to the Covid-19 pandemic and maintain progress on the objectives outlined in the Council Plan. Specific examples of revenue investment include;

- An open and effective Council – one off revenue investment in 2021/22 of £2.5m to create a Covid-19 Recovery Fund. This will ensure that the Council can continue to fund crucial services for local residents and businesses. Given the scale of the economic challenge following the pandemic, the Council must be financially prudent and ensure emergency funding is there to support York's communities over the coming years. The Covid-19 Recovery Fund is covered in further detail below.
- Good Health & Wellbeing – revenue investment in 2021/22 of over £4.4m 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 - revenue investment in 2021/22 of £1.4m to support children and young people across the city, including further funding for social care staff.
- A Greener and Cleaner City – further revenue investment in 2021/22 of £500k (in addition to the £500k in 2020/21) to create a new waste and street environment service, with a new neighbourhood focus to support local communities.
- A Greener and Cleaner City – further enabling investment of £150k in 2021/22 (in addition to the £150k in 2020/21) to underpin the Carbon Reduction Strategy and support towards the Climate Change delivery programme to coordinate, develop and implement the council's ten year plan to deliver a zero carbon future for York.
- Getting around sustainably - revenue investment in 2021/22 of a further £200k one off funding to refresh the Local Transport Plan.
- Creating homes and world class infrastructure - revenue investment in 2021/22 of £1.6m to fund the prior year capital programme to continue the on-going work of the Housing Delivery Programme, York Central, Castle Gateway, the Community Stadium, Highways

investment, vehicle replacement, The Guildhall and other crucial major projects.

12. The budget proposals outlined ensure that additional investment is made into both People and Place directorates with efficiency savings being made across corporate, back office functions. Ensuring that there is the capacity to invest in council priorities and accelerate recovery from the pandemic has been a critical part of the budget deliberations.
13. Due to the uncertainty of the financial situation, and the need to invest in recovery, the Council has reviewed the level of capital investment needed and has been able to reprioritise some areas of the existing capital budget to invest in the Council's priorities and to support the city's recovery from the impacts of Covid-19. The Council's main focus is to build back better from the pandemic. This Budget continues the Council's transformational £600 million Capital Programme, to drive regeneration and accelerate the city's economic recovery.
14. Some of the key capital projects include;
 - £154m to progress the York Central scheme
 - £52m to improve the city's road network infrastructure and accelerate the delivery of flood defences, in conjunction with local and regional flood defence funding
 - £19m to progress regeneration schemes in the city, including Castle Gateway and the Guildhall
 - £64m to further develop the York Outer Ring Road, including cycling and walking improvements in the vicinity of the ring road
 - £132m to deliver more housing across the city, including affordable housing
 - £12m to invest in initiatives to tackle climate change, including funding to deliver active travel measures across the city, including new cycling measures and new routes across the city
15. This report focuses on the revenue savings and growth proposals specific to the Leader and Finance & Performance portfolios. Annex 1 provides details of savings proposals and annex 2 provides details of growth proposals. Annex 3 provides feedback from the public consultation relevant to these portfolios. Annex 4 provides details of schemes in the Leader and Finance & Performance portfolios Capital Programme.

Recommendations

16. The Executive Members are asked to consider, in the context of the overall budget;
- The 2021/22 revenue savings proposals for their portfolio as set out in annex 1
 - The 2021/22 revenue growth proposals for their portfolio as set out in annex 2
 - The feedback from consultation to date as set out in annex 3
 - The new schemes for inclusion in the 2021/22 to 2025/26 Capital Programme as set out in annex 4

Reason: To ensure that stakeholders have the opportunity to feed into the budget process in advance of the finalisation of the Financial Strategy 2021/22 to 2025/26.

Background

National Context and Funding Issues

17. 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. The additional pressure on Council finances due to Covid-19 has added to the uncertainty, just like the many thousands of businesses and organisations across the country. Demand for services has increased, at the same time income has significantly fallen.
18. The Government has failed to give Councils everything they need to respond to the pandemic. Although the Chancellor announced increased spending power for Councils, they have in fact given Councils the power to raise money through Council Tax and the Adult Social Care precept. The Government has transferred the burden to Council Tax payers.
19. The Council has responded by urging the Government to 'Back York' by investing more funding in the city and to seize the opportunities that are unique to York to drive recovery across the region. In the wake of the pandemic, the Council has stepped in where the Government has failed, including support for vulnerable residents and struggling businesses, and also with Covid-19 testing.

20. Given the continued financial challenges due to the pandemic, the Council is trying to address this by creating a Covid-19 Recovery Fund (£2.5m revenue, £1m capital) that will allow provision of the following measures, alongside a prudent amount for any further impact where we may need to react quickly to changing circumstances.
- £200k to support Covid-19 recovery efforts in local communities across the city
 - £80k will be invested to give residents cheaper Minster Parking Badges as part of our efforts to mitigate the impact on the local economy
 - £40k to provide sustainable travel incentives to support recovery and build back confidence in public transport
 - £50k will be used to assist households via the York Financial Assistance Fund, helping residents on the lowest incomes mitigate the financial impact of the pandemic
 - £50k to extend existing projects that support carers most affected by the pandemic to access resources and support, particularly for carers and individuals with a diagnosis of dementia
 - £100k to work with the local Voluntary Sector to provide additional low level Mental Health Support recognising the impact the pandemic has had on emotional wellbeing with the aim of reducing the need for NHS services.
 - £40k to support business during recovery including grants, information and networking
 - £40k for promoting the benefits of business membership organisations, such as the FSB or Chamber of Commerce
 - £50k will fund support for skills development and re-training programmes, including support for new green jobs
21. The Spending Review 2020 (SR20) announced in November 2020 would have been a multi year review but due to Covid-19 is a one year only announcement for 2021/22. Most local government funding will remain at current levels with a small amount of additional funding for Adult Social Care. The government is also providing Covid-19 related support to local authorities to cover loss of income and expenditure increases, although this will not fully compensate all the pressures.

22. The provisional settlement was announced on 17 December. It is expected that the final settlement will be announced in February, but it is unlikely to differ significantly from the provisional figures.
23. Significant uncertainty remains due to the financial effect of Covid-19 on council tax and business rates income. In addition there remains ongoing uncertainty around long standing issues which have been delayed due to Covid-19; the ongoing 'fair funding' review, the ongoing review of business rates retention and details of the business rates baseline reset. All this uncertainty increases the risks facing the Council. However, this risk is mitigated by the inclusion of a Covid contingency. Without this contingency fund the budget would not, in the view of the Chief Finance Officer, be sufficiently robust to meet the challenges ahead. Nor would it properly cover potential costs for the year ahead.

Local issues and challenges

24. Despite the Covid-19 funding provided by central government, an ongoing impact in future years is still expected due to a range of issues. As the city continues to recover, it is anticipated there will be significant pressures as a result of the longer term impacts on individual residents and increase in the cost of adult social care.
25. In addition, as residents and businesses respond to the economic impacts of the pandemic, it is anticipated there will be a reduction in both Council Tax and Business Rates receipts. In response to this shortfall, the Council has had to make some difficult decisions to identify some £7.9m of savings to ensure crucial council services can continue to support local residents and businesses during the difficult year ahead.
26. In addition to the direct financial consequences of the pandemic, in terms of additional expenditure and lost income, staff time and effort over recent months has clearly been dedicated to supporting residents and communities. Focussing our resources on protecting the most vulnerable has meant actions needed to deliver savings and manage some of the underlying budget pressures being experienced in social care have not been prioritised. We are also seeing an increase in social care costs directly as a result of the pandemic. These are national issues that are not unique to York and the combination of increased costs and delays in achieving savings is having a detrimental impact on all local authorities.
27. Partner organisations in the city are also experiencing unprecedented financial challenges and it is clear that the pandemic will have lasting

financial implications both on the Council and many other organisations operating in the city. Whilst the Council continues to make every effort to manage the situation and protect critical front line service delivery, through identifying efficiencies and more robust control of costs, it is unlikely that the Government funding will fully compensate the Council and this represents a significant risk to the delivery of the Council Plan and the ongoing delivery of essential services.

28. The pandemic has caused significant changes to the way the economy operates globally, nationally and locally. The long term impacts on retail, office working and tourism are all subject to a great deal of speculation. In addition, the UK has the uncertainties of the impact of Brexit and the challenges and opportunities that may bring to the York economy. York is well placed to manage these challenges, with a highly educated workforce and excellent infrastructure however the impact on Council revenue and service demands are highly unpredictable. With this unprecedented level of uncertainty in both the national and local economy it is therefore prudent to continue to plan on the basis of the current financial picture and begin to put in place mitigation and cost control strategies to bring expenditure down to within approved budgets.
29. Putting aside the impact of Covid-19, demand for council services continues to increase, with an ageing population with increased complex needs in respect of social 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. In addition, inflation is driving costs up and there is continued pressure on many of the council's income budgets, all of which highlights the need to include a realistic and prudent contingency fund.

Medium Term Financial Strategy and approach to savings

30. The medium term financial strategy focuses on delivering efficiencies across all areas. 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.
31. 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.
32. Last year, all directorates were asked to consider the long term implications of a 2% per annum reduction in their controllable budgets over a 4 year period from 2020/21 to 2023/24, in the region of £4m in

each financial year. This included an assessment of options, risks, and links with Council priorities. In light of Covid-19 the savings requirement of £4m predicted last year for 2021/22 increased to £7.9m

33. Specific details of future year's savings proposals will be covered in future budget reports. The eventual scale of savings that are required over the next 4 year period will be driven by the outcomes of the future spending reviews and economic recovery, alongside the extent to which service demands affect the council. Looking beyond 2021/22 is difficult at this time given the wide range of uncertainties.

Principles that have shaped the budget process

34. The budget setting process has taken into account the following issues;
 - i. Consideration of the 2020/21 position.
 - ii. Consideration of unavoidable cost increases, how to create the capacity in priority areas and driving 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 Chief Finance Officer as s151 officer.
 - v. Ensuring there is a strong link between the capital and revenue budgets and that the delivery of priorities fully considers the two budgets hand in hand.
35. It is critical that the council continues to support a strong local economy, recognising the significant financial benefits in the form of retained business rates, and the 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.
36. 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 and contribute to economic recovery.
37. The Capital Programme report in February will set out proposals for reprioritisation of investment. These continue the council's approach to prioritise investment in the economy, housing, transport, and to invest to save including energy efficiency. The capital budget proposals for the Leader and Finance & Performance portfolios are included in annex 4.

Consultation

38. The council is currently consulting with residents and businesses to identify the services that matter most to them and to understand their priorities for spending the council budgets.
39. The budget consultation launched in December and closes on 31 January 2021.
40. The consultation replicated a number of question sets from previous years on council tax and the social care precept, to allow us to track and assess feedback.
41. 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.
42. The online survey was promoted;
 - Within the business community via existing business network links and distribution groups such as York Business Week, Make It York, BID, York Chamber of Commerce, York Federation of Small Businesses and asking them to pass on to their members.
 - To equalities groups via the equalities network.
 - Paper copies were distributed to all households in the City, through a flyer in Local Link in December, with delivery taking place over a two week period. Responses are sent back at no cost to residents via Freepost to West Offices.
43. A Facebook live session on 6th January gives members of the public the opportunity to ask questions in relation to the budget.
44. All views and data gathered during the consultation will in due course be published on the York's open data platform www.yorkopendata.org
45. Annex 3 provides details of consultation feedback received to date.

Council Plan

46. The Council Plan for 2019/2023 is based on the statutory responsibilities and the priorities of the Council. 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

47. 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.
48. The plan was formally approved by Council on 31 October 2019 following consultation with residents, businesses and staff.
49. The budget reflects the Council priorities with significant revenue and capital investment in a number of areas, as outlined in the summary of this report.

Options

50. Annex 1 sets out the savings proposals for the Leader and Finance & Performance portfolios for 2021/22. The figures included in the column 2022/23 impact show the full year/ ongoing impact of decisions taken in 2021/22. Annex 2 sets out the growth proposals and Annex 3 sets out the consultation responses received to date. Annex 4 sets out the new capital schemes for the Leader and Finance & Performance portfolios.
51. The options available to the Executive Members are;
- Option 1 - to retain the savings, growth and capital proposals as set out in annex 1, 2 and 4
 - Option 2 – to add, delete or amend proposals, noting that any adjustments made should have a net nil effect with reference to the overall budget.

Analysis

52. The service areas within these portfolios deliver a range of professional support (finance, legal, HR), the Councils ICT infrastructure, a wide range of customer services (customer centre, benefits,) and collects income (council tax, NNDR, service related issues e.g. adult care). These include statutory functions such as the production of the accounts, production of a budget, benefits, collection of council tax/NNDR and providing support to all other Council services.
53. The Council will focus on the use of technology to improve customer experience and drive efficiencies with a focus on improved procedures and greater web based solutions.
54. The focus of the budget is to deliver back office efficiencies to ensure resources can be targeted at supporting our most vulnerable residents and front line services are maintained. We continue to strive to deliver services to residents and businesses more effectively and efficiently.

Equalities

55. An impact assessment has been completed for each individual saving. Once the savings are finalised, an assessment will be completed on the overall impact of the budget proposals using the Better Decision Making Tool and will be published in the budget report to Executive in February. 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. Decisions taken will also consider the impact on the Councils carbon budget alongside benefits such as improvements to service users or a reduction in energy costs.

56. The financial strategy will impact on all residents and has carefully considered the local demand for services whilst also ensuring the budget set is prudent, protects vulnerable people and has capacity to invest. The strategy could have an impact on the following communities;

- Age
- Disability
- Gender
- Carers
- Lower income groups

57. This impact can be mitigated by investment targeted to these same communities. The key approaches to achieving savings whilst avoiding impacts on communities of identity include;

- Ensuring that savings are made from back office functions and universal services
- Protecting statutory services and other key services for vulnerable residents
- Increasing community involvement in service redesign and delivery
- Making services self-financing wherever practicable, including external trading
- Maximising the return from externalised service provision
- Redesign of existing services and external contracts
- Placing a focus on prevention and ceasing service provision only where this is least impact
- Streamlining services to provide focussed support and reduce areas of duplication
- Supporting carers
- Integrated working with health
- Focussing growth where it is expected to have a positive effect on older or disabled people and their carers

Specialist Implications

58. This report has the following implications;

Financial

59. The financial implications are contained within the body of the report. Due to the continued, significant uncertainty in both national and local government finances and the resulting increase in risk, a specific Covid contingency is included within the budget proposals to mitigate this risk and ensure the proposals outlined deliver a robust, balanced budget. This is also covered in the risk management section of this report.

Human Resources (HR)

60. The savings proposals contained within the overall budget will require the reduction of some posts in 2021/22. Further details will be provided in the February report to Executive.
61. As implementation plans to achieve these post reductions are produced the specific staffing implications will be clear and staff consulted on the proposals. The type of change affecting staff in 2021/22 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.
62. 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.
63. 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

64. The contents of this report are for information only at this stage. The legal implications of the budget setting process will be covered in detail in the report to Executive in February.

Risk Management

65. An assessment of risks is completed as part of the annual budget setting exercise and will be reported in the February report to Executive. These risks are managed effectively through regular reporting and corrective action being taken where necessary and appropriate.

66. The budget proposals include a COVID contingency sum to allow the Council to respond quickly during the early part of the new financial year and mitigate against any new risks as a result of the changing situation in relation to the pandemic. Without this contingency fund, the budget would not, in the view of the Chief Finance Officer, be robust enough. Nor would it properly cover potential costs for the year ahead.
67. As the Council's Section 151 Officer, the Chief Finance Officer has a statutory responsibility for ensuring that the Council makes arrangements for the proper administration of its financial affairs. Section 114 of the Local Government Finance Act 1988 requires a report to all Council members to be made by the s151 officer, in consultation with the Monitoring Officer, if there is or is likely to be an unbalanced budget.

Contact Details

Author:

Sarah Kirby
Principal Accountant

Emma Audrain
Technical Accountant

Chief Officer Responsible for the report:

Debbie Mitchell
Chief Finance Officer

**Report
Approved**

Date 31/12/20

Wards Affected: List wards or tick box to indicate all

All

For further information please contact the authors of the report

Background Papers:

Budget Consultation available at www.yorkopendata.org

Annexes:

1 – 2021/22 Savings Proposals for Leader and Finance & Performance portfolios

2 – 2021/22 Growth Proposals for Leader and Finance & Performance portfolios

3 – Consultation feedback received to date

4 - Capital Strategy 2020/21 to 2024/25 – Details of schemes for Leader and Finance & Performance portfolios