Meeting:	Executive
Meeting date:	25 January 2024
Report of:	Debbie Mitchell, Chief Finance Officer
Portfolio of:	Councillor Katie Lomas, Executive Member for Finance, Performance, Major Projects, Human Rights, Equality & Inclusion

Decision Report: Financial Strategy 2024/25 to 2028/29

Subject of Report

1. This report presents the financial strategy 2024/25 to 2028/29, including detailed revenue budget proposals for 2024/25, and asks Members to recommend to Council approval of the proposals. The financial strategy delivers a balanced budget for 2024/25 with savings proposals totalling £14.3m, equivalent to 9% 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.

Benefits and Challenges

2. The challenges continue to be the uncertainty around future funding from Government alongside managing increasing demand across all services, especially within social care, and ongoing inflationary pressures. This has generated an in-year gross financial pressure totalling c£11m for the Council, as noted to Executive in the latest Financial and Performance Monitor, which is also on the agenda for this meeting.

3. The significant financial challenges facing Local government are a national concern. As outlined in previous reports to Executive, many Councils across the country are experiencing significant financial pressures and are struggling to balance their budgets. This is a national challenge but inflationary cost pressures,

increasing demand for services and short term funding settlements from Government continue to have a financial impact on the Council

4. Analysis from the Local Government Association (LGA) suggests that Councils in England face a £4 billion funding gap over the next two years. LGA analysis also shows that by 2024/25 cost and demand pressures will have added £15 billion (almost 29%) to the cost of delivering council services since 2021/22.

5. Changes in the way Local Government is funded have masked the reductions in funding for Councils since 2010/11. However, when comparing Core Spending Power (the measure used by Government) whilst this has increased by 6% since 2010/11, in real terms and mainly due to inflation, there has been a reduction in spending power of 28.5% for York.

6. As highlighted in a recent report by the Institute for Fiscal Studies, York is one of the lowest funded Councils in the country, with a national rank of 143 out of 150. If all services are included, such as NHS, Police and Schools York is the lowest funded in the country ranked at 150 out of 150. Based on 2022/23 information, this shows local government funding per person of £727 in York compared to a national average of £865. Just being funded at the national average would increase City of York Council resources by some £27m per year. The continued delays to Fair Funding Reform therefore have a significant negative impact on York.

7. Over the next four years the Council will see some of the most significant financial challenges we have ever experienced. The delivery of the Financial Strategy will be extremely challenging for residents, other partners, members and officers. It is important that we continue to not underestimate the scale of the challenge ahead. The level of savings required over the next four years will inevitably require reductions in service levels and will result in some services stopping completely. Maintaining robust financial management, clear priorities and a focus on cost control is essential to ensuring our continued financial sustainability and resilience.

8. When the Medium Term Financial Strategy was approved in November, it was assumed that mitigation and other measures would be delivered that would enable a balanced budget for 2023/24. However, as can be seen in the Finance and Performance Monitor 3 report elsewhere on this agenda, the pressures have remained at a high level. Whilst mitigation

continues to be identified, and delivered, there is now a high probability that the Council will need to use the general reserve to balance in year.

9. Therefore, on the advice of the Chief Finance Officer, as well as the £10m already identified within the Medium Term Financial Strategy, further savings of £4m have been identified for delivery in 2024/25. This will ensure the budget is robust and makes proper provision for all known pressures.

10. Overall £4m in additional revenue funding will be added to the Council's 2024/25 budget to meet continuing pressures on adult social care and children's services. Considering the Council's current financial challenge, investment has been limited to dealing with inflations and existing pressures with some small investment to allow for continued progress on delivering the Council's key priorities.

11. Whilst the local and national financial position for local government is clearly very strained, considerable work is ongoing to secure inward investment into the city to ensure that the Council's priorities can still be achieved. New funding has been secured in a number of areas from grants which can fund both new and ongoing activity;

    - Collaboration with the other local authorities across our Integrated Care System to access Accelerated Reform Funding of c.£1.2m to support unpaid carers by securing additional planned break capacity to enable them to continue caring for their loved ones.

    - Stop smoking grant (£195k) due to be received in April 2024 which supports preventative work against the £3m that smoking costs CYC social care each year, according to local modelling of national data.

    - Domestic Abuse grant (£342k), which has been used to provide safe and supported accommodation and prevention of crisis escalation impacting on statutory services.

    - Drug and Alcohol grant (£331k) used to fund additional criminal justice workers to support substance use recovery and limit reoffending.

- Work with primary care using health resource to fund CYC Health Trainer sessions delivered to residents in person in GP practices and remotely via phone support.

- Successful bid for the government’s Migrant Resettlement grant £1.2m (capital).

- Additional £266k from the Government’s Rough Sleeper Initiative Grant to support the Council’s Rough Sleeper Housing Navigators and wider rough sleeper team, to continue to support the people they work with into more stable, long-term housing every year.

- Local Electric Vehicle Infrastructure (LEVI) funding has been secured for charging capacity at the Askham Bar P&R site (£1.2m capital) as well as money from the LEVI Capability Fund (£257k revenue) to develop charging infrastructure at other sites across the city.

- Local Investment in Natural Capital (LINC) Pilot – as part of a £1m devolution investment from Government to understand how to increase green finance for nature-based solutions and to attract new private sector investments that increase resilience in our natural assets. £100k to be used on a York pilot.

- Living Heritage Fund – £39k to establish two micro-woodland sites in York.

- Net Zero Fund – £3m to fund a total of 7 projects in York. Three development projects assessing the potential for new large-scale renewable energy generation sites in York; and four delivery projects, improving the energy efficiency of public buildings and street lighting, and installing renewable heating solutions at two council housing blocks.

- Accelerating York’s Net Zero Transition – £65k from Innovate UK for a research project to understand the non-technical barriers to take-up of retrofit measures and low carbon solutions.

- Decarbonisation Accelerator Programme – £2m for the region to learn from, and replicate, the Bristol City Leap approach to increase innovation and investment for net zero projects. Up to £1m available for York.

- Retrofit one-stop-shop for York (ROSSY) – End-to-end approach for supporting households in York through the retrofit journey.

- Green Streets Tree Planting - £100k from the Northern Forest Fund to support tree planting in verges and school sites.

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

    - A proposed basic council tax increase of 2.99% in 2024/25. The Government agreed in the Autumn Statement 2022, that the referendum cap would be raised for 2 years. This was confirmed in the latest Autumn Statement. Any increase above this amount would require a referendum.

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

    - Revenue savings of £14.258m in 2024/25.

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

    - A net revenue budget of £149.268m, which will be funded by:

        i. Council tax income of £113.927m;

        ii. Retained business rates of £35.341m.

Policy Basis for Decision

13. The Financial Strategy aims to ensure that, as far as possible, resources are aligned to the Council's priorities.

Financial Strategy Implications

14. The following table shows the 2023/24 budget position after taking account of the expenditure and funding changes outlined throughout the report. Further detail is provided at annex 1.

Summary	2024/25 £'000
Total recurring investment (Table 2)	23,321
Total net funding changes (Table 3)	-1,419
Total changes in council tax (Table 4)	-6,144
Total changes in business rates income (Table 5)	-1,500
Total savings and income generation (Table 6)	-14,258
Budget gap	**0**

Table 1 – Budget position summary

Recommendation and Reasons

15. Members are asked to consider the appropriate levels of council tax that they wish to see levied by the City of York Council for 2024/25. 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.

16. 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 £149.268m.
- A council tax requirement of £113.927m.
- The revenue growth proposals as outlined in the body of the report.

- The 2024/25 revenue savings proposals as outlined in annex 2.

- The fees and charges proposals as outlined in annex 3.

- The Housing Revenue Account (HRA) 24/25 budget set out in annex 5.

- The Dedicated Schools Grant (DSG) proposals outlined from paragraph 139.

17. The effect of approving the income and expenditure proposals included in the recommendations would result in a 4.99% increase in the City of York element of the council tax, 2% of which would relate to the social care precept. It is intended that the total council tax increase including the parish, police and fire authority precepts, will be agreed at a meeting of Full Council on 22 February 2024.

18. Members are asked to approve the 100% increase in council tax on second homes with effect from 1st April 2025 subject to the Levelling Up bill receive Royal Assent by 31st March 2024, as set out in paragraphs 75 to 77.

19. Members are asked to approve the change to charge a 100% premium on homes that have been empty for 1 year with effect from 1st April 2024, as described in paragraph 78.

    Reason: To ensure a legally balanced budget is set

20. Members are asked to approve the average rent increase of 7.7% to be applied to all rents for 2024/25.

    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>

21. On the 22nd November the Chancellor's Autumn Statement announced the Government's spending plans for 2024/25. Further information was published in the form of a policy statement on the 5th December before individual council allocations were published on the 18th December.

22. At the national level the headlines were:

- Council Tax can be increased by up to 2.99% and social care authorities can apply a further 2% Adult Social Care Precept making a total increase of 4.99%.

- Local authorities will receive a one year settlement for 2024/25.

- The increase in Adult Social Care Grants in 2024/25 is in line with expectations and previous announcements made in the 23/24 settlement and the Autumn Statement.

- Compensation will be paid for lost income arising from the decision to freeze the small business rating multiplier.

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

24. In relation to council tax, as City of York Council is a unitary authority with statutory social care responsibilities, the proposals in this report are predicated on a basic council tax increase in 2024/25 of 2.99 %, plus an additional increase of 2% in line with the government's social care precept. Further information on council tax and the social care precept is included later in the report.

<u>Local issues and challenges</u>

25. As outlined in previous reports to Executive, the Council is continuing to see significant financial pressures because of inflation and increased demand for our services. There remain underlying budget pressures across both adult and children's social care, despite the allocation of growth each year. All services across the Council are operating in an extremely challenging environment. Whilst these are statutory services that the Council will always deliver to best of our ability, by looking for efficiencies now, we are able to preserve preventative investment that can help to control demand for services in future years.

26. Demand for services continues to increase with an ageing population and 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 financial risk to the Council.

27. The national census in 2021 predicts that 8.27% of York's population will be over 75 years old and has raised from 7.58% in 2011. At this level York's over 75-year-old population is higher than both the national (7.84%) and regional (7.89%) comparators. POPPI, a measure of older people provided by central government, is predicting a 28% rise in the number of people aged 80-84 in York between 2023 and 2027, resulting in further demographic pressures.

28. Nationally there is significant pressure on budgets in children's services. Despite the National Care Review, where Josh MacAlister recommended an injection of £2.6 billion to change the trajectory of future demand and spiralling costs, very little new funding has been announced.

29. A new Council Plan 2023 to 2027, One City For All has recently been approved. Over the next four years the Council will establish the conditions that aim to make York a healthier, fairer, more affordable, more sustainable, and more accessible place where everyone feels valued, creating more regional opportunities to help today's residents and benefit future generations.

30. It is vital that the financial strategy supports the Council's priorities as outlined in the new Council Plan. However, delivering Council priorities at a time of significant financial challenge will require a more transformational, long term approach to continue to reduce costs overall whilst ensuring resources are prioritised to where they are needed most.

Council priorities

31. *One City, for all* is the Council's corporate strategy for the next 4 years (2023-2027). It will guide the council's priorities, whilst providing a framework for financial and performance management, and help the city identify and response to new opportunities or challenges.

32. It sets out the Council's contribution to delivering the vision for the city and long-term ambitions contained within the 10-Year Plan and 10-Year Strategies (York 2032), which is collectively owned by, and developed with, city partners.

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

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

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

35. The plan was formally approved by Council on 21 September 2023 following consultation with residents, businesses and staff.

36. The budget reflects the Council priorities, with targeted investment in a number of areas, or protection of existing spending, as set out in both the capital budget and this report.

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

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

38. The scale of the budget reductions required will inevitably affect all services and all residents to some extent. In considering what savings can be made we have taken long term approaches to the development of future services where possible. This included an assessment of options, risks, and links with Council priorities. This strategic approach ensures that any cross cutting implications are taken into consideration and savings in one particular area do not impact on other budgets in an unintended way. This approach will help to protect the needs of the most vulnerable people in York.

Consultation

39. 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.

40. Budget consultation began in December with 2 face to face events held to discuss the budget and the financial challenge facing the Council. One event was specifically for local businesses and was webcast. The second event was targeted to community and voluntary sector organisations. Further events are scheduled for January, once this report is published, to discuss the specific proposals contained within it.

41. The consultation was promoted through various channels including social media, local media, forum groups and newsletters.

Budget analysis

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

    i. Consideration of the 2023/24 position.

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

    iii. How to best deliver services effectively for local residents, businesses and communities

    iv. Consideration of reductions in grant funding.

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

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

2023/24 position

43. As part of the budget approved in February 2023, considerable investment was made in priority services to ensure sufficient resources to deliver statutory and priority services.

44. However, despite this investment the latest finance and performance report identifies a significant forecast overspend of c£11m. Mitigation strategies have been developed during the year and strict cost control is in place across the Council to reduce spending. Despite these additional measures, there remains a high risk that we will need to use reserves to balance the final position.

45. In light of this it is proposed that, in addition to the savings required to meet the budget gap outlined in this report, a further £4m of savings should be identified in order to protect against a position whereby reserves fall below the minimum accepted level.

<u>Additional Investment</u>

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

- Hostile Vehicle Mitigation - **£200k** to manage the City Centre HVM barriers.
- Equalities - **£50k** to fund Equalities work within the Council.
- Free School Meals - **£100k** to continue the pilot on a recurring basis.
- Winter Maintenance - **£100k** to fund cycle path clearing.
- Health and Adult social care - **£4,000k** to cover contractual price increases and demographic pressures, including the cost of adults as they transition from children's services within 2024/25.
- Children's Services - **£3,800k** to cover contractual price increases and demographic pressures, including looked after children costs within 2024/25.
- Contractual price increases **£4,200k** - to cover unavoidable contractual price increases in other service areas, mainly ICT, insurance, transport and waste.
- Pay and Pension costs - **£5,271k** is included for pay and pension costs in 2024/25. This will cover anticipated pay inflation.

47. As set out earlier, there remain potential pressures and risks within social care. The budget provides for a significant investment within

both children's and adult care, however it is recognised there remain a number of risks in this area.

Investment Summary

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

Investment	2024/25 £'000
Recurring investment	
- Revenue pressures in Social Care	4,000
- Revenue cost of borrowing	1,600
- Health and Adult social care prices and demographic	4,000
- Children's Services prices and demographic	3,800
- Other Prices contingency	4,200
- Pay and pension	5,271
- Other Service Growth	450
Total Investment	**23,321**

Table 2 – Summary of investment

Specific Grant Funding Changes

49. Table 3 shows the net change in specific grants, totalling £1.419m. The council will receive additional grants of £2,156k in 2024/25 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.

50. As part of the 2024-25 Local Government Settlement, the government announced that all local authorities would be guaranteed to see an increase in Core Spending Power of at least 3%. Those that fell below that level would receive a Funding Guarantee Grant. Following the reduction in the Services Grant for

2024-25 (£862k) York has been allocated £79k in Funding Guarantee.

51. Overall, there has been a net increase in other grants received by the Council (£46k).

Funding Changes	2024/25 £'000
- Increase in ASC specific grants	-2,156
- Reduction in Services Grant	862
- 3% Funding Guarantee	-79
- Net increase in other grants including RSG	-46
Net Funding Changes	**-1,419**

Table 3 – Grant funding changes

Council Tax Funding Changes

52. Table 4 shows the net changes to council tax funding.

53. The first line in Table 4 shows the 4.99% increase in council tax which will generate additional income of £5.378m on the existing taxbase.

54. A further £0.766m council tax is generated due to an increase in taxbase as shown in the second line of Table 4. The taxbase is calculated by the s151 Officer each year and represents the total number of Band D equivalent properties in the city. In 2024/25, this has grown by approximately 464 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.

55. The third line is the reversal of the collection fund surplus from the prior year. There was no estimated surplus or deficit declared in 2022/23. The final outturn position was a residual deficit of £3.854m. York's share of this is £3.114m. This will need to be repaid in 2024/25 using the Collection Fund Reserve.

56. The council tax collection fund surplus or deficit for the year 2023/24 is estimated on 15 January 2024, based on current year

actual figures. The surplus or deficit is a result of a change 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 2023/24. Instead a deficit of £879k is estimated of which York's share of £711k will need to be repaid during 2024/25 from the collection fund reserve, set aside for this purpose.

57. In summary the Table 4 shows an estimated £6.144m additional income from council tax in 2024/25.

Council tax	**2024/25 £'000**
- Increase in charge	-5,378
- Increase in taxbase	-766
- Reversal of collection fund surplus 2022/23	0
- Collection fund surplus/deficit 2023/24	711
- One off funding of 2023/24 deficit	-711
Net council tax changes	**-6,144**

Table 4 – Council Tax funding changes

Business rates income

58. Table 5 shows there is a net increase in the level of business rates. Further details on business rates income and assumptions are included later in the report.

59. In 2023/24 City of York Council were part of a 50% business rates pool with Leeds City Region and this is set to continue in 2024/25. This is covered in further detail later in the report.

Business rates	**2024/25 £'000**
- Business Rates increase/reduction	-1,500
Change in income	**-1,500**

Table 5 –Change in business rates Income

Savings proposals and Expenditure Reduction

60. Directorates have identified £14.258m to contribute towards the 2024/25 savings target. £2.7m of the 2024/25 savings are the full year effect of prior year savings previously agreed by Executive.

61. There is an additional full year impact of £1,699k in 2025/26 in relation to these savings proposals, as outlined in annex 2.

62. Table 6 summarises the 2024/25 savings to be delivered by each directorate and corporate services.

Savings	**2024/25 £'000**
- Adults	-2,360
- Children's	-1,845
- Place	-4,320
- Customers and Communities	-670
- Corporate	-5,063
Total expenditure reductions	**-14,258**

Table 6 – 2024/25 Expenditure Reduction

Net Budget Composition

63. Taking into account funding changes summarised in Tables 3, 4 and 5, Table 7 below summarises the funding available from council tax and business rates for 2024/25.

	2024/25 £'000
Council Tax	113,927
Business Rates	35,341
Total Net Budget	**149,268**

Table 7 – Net budget composition for 2024/25

Fees and charges

64. Whilst the Council recognise the challenges of the cost of living crisis for businesses and residents, it has been necessary to increase some fees and charges for 2024/25 to achieve a balanced budget.

65. Detailed proposals for any changes to fees and charges are attached at annex 3. The proposals have taken account of such factors as possible impact on customer numbers, knowledge of business and current market conditions and benchmarking exercises. Any increased income from this review of charges is included within the overall list of savings attached at annex 2.

66. The proposals include a general inflationary increase in parking charges of up to 30p per hour and an increase in the standard Respark permits by £10. Inflationary increases have also been applied to fees charged by Registrars and Bereavement Services, although the basic cremation fee will remain unchanged.

67. The following supplements to the fees and charges annex are provided:

- Annex 3c regarding fostering allowances;
- Annex 3j which provides details of the increased environmental Fixed Penalty Notices limits that have been set by DEFRA.

Council Tax

68. The existing components of the current (2023/24) band D council tax for a City of York Council resident are shown in Table 8 below. It should be noted that these figures exclude parish precepts which are an additional charge in some areas.

	£
City of York Council – Basic	1,360.54
City of York Council – Social Care Precept	209.88
North Yorkshire Police	295.09
North Yorkshire Fire and Rescue	80.61
TOTAL	**1,946.12**

Table 8 - Make Up of 2023/24 Council Tax

69. 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 City of York element of the council tax surplus is estimated to be nil and this is included in the budget assumptions.

Referendum Limits

70. The council tax referendum limit (excluding social care precept) for 2024/25 is 3%. If a Council wishes to set a higher council tax it must hold a referendum. It must also provide ‘substitute calculations’ which need to be presented 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.

71. 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 £315k. If the referendum could be combined with another election this would reduce the cost by approximately 50%. In addition, there are the costs of rebilling which is estimated at £65k.

Social care precept

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

73. As referred to earlier in this report, the recommendation made in these papers is that from April 2025 the City of York element of the council tax will increase by 4.99%, 2% of the increase relating to the social care precept.

74. A 2% social care precept increase generates additional income of approximately £2m 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.

Second Homes Premium

75. The Government's May 2022 Levelling Up and Regeneration Bill proposed the ability for councils to charge a 100% additional council tax premium on second homes. The Bill received Royal Assent in October 2023 as the Levelling Up and Regeneration Act 2023.

76. Billing authorities that wish to adopt any changes arising from the Bill are required to make a Council decision confirming their requirements at least 12 months prior to the financial year in which the changes will come into effect.

77. The council currently has 439 live properties listed as 2nd Homes on the council tax base. As there is no additional premium currently charged there is no dispute around occupation, but this may change once additional liability can be applied. The 2023 net liability for these properties is c£700k. This paper recommends that the council approves the increase from 1st April 2025.

Empty Properties Premium

78. In addition to the Second Homes premium, The Levelling Up and Regeneration Act 2023 also contains a provision to allow local authorities to charge a 100% council tax premium on properties which have been empty for 1 year. Currently the premium is applied on properties that have been empty for 2 years. This would be effective from 1 April 2024 a recommendation is made in this paper for council to approve this change.

Precepts

79. 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 22 February.

80. Table 9 demonstrates both the cash and percentage increase in 2023/24 for these which resulted in a total band D council tax for a York property of £1,946.12.

	2022/23	2023/24		
	Charge (£)	Increase (£)	Increase (%)	Council Tax (£)
CYC	1,495.78	74.64	4.99%	1,570.42
Police	281.06	14.03	4.99%	295.09
Fire	75.61	5.00	6.61%	80.61
Total	1,852.45	93.67	5.06%	1,946.12

Table 9 – 2023/24 Council Tax Figures for City of York Area

81. 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)

82. The business rates multipliers for standard and small business rates Have up to now been aligned together and in recent years these have been frozen at 49.9p.

83. The Non-Domestic Rating Act 2023 allowed for the de-coupling of the small and standard business rating multipliers. It also changed the indexation factor from RPI to CPI. In the Autumn statement, the government has used this new legislation to freeze the small business rates multiplier and fully index to standard multiplier to 54.6p.

84. In respect of the Small business rates multiplier, the impact of under-indexation for local authorities will be fully funded. York will therefore receive a compensation grant (Section 31 grant) and an uplift to its Baseline Funding level.

85. The council is projecting retained business rates/RSG income in 2024/25 of £35.341m, which is an increase of £1.5m compared to 2023/24 allowing for the increase in the Baseline Funding Level set by the government for York.

86. A prudent approach continues to be taken in respect of Business Rates growth and there are no further growth assumptions in relation to business rates income for 2024/25. If business rates perform better than budgeted this will enable the Council to build up a reserve in light of the significant risks the Council may face after a business rates reset.

<u>Business Rates Pooling</u>

87. City of York Council is currently a member of the Leeds City Region (LCR) Business Rates Pool, and this will continue in 2024/25.

88. The Council is classed as a 'tariff' paying authority as its NNDR receipts are greater than its funding needs.

Reserves and Contingency

<u>General reserves and contingency</u>

89. Table 10 shows the position on the general fund reserve which, it is anticipated, will remain at £7.441m by the end of 2023/24. However, as noted earlier in the report and on a separate report on this agenda, several known pressures are forecast for 2023/24. The Council will continue to make every effort to reduce this forecast position, but it is highly likely that Council general reserves will need to be called on.

90. The projected reserves at the end of 2024/25 are based on the assumption that Members agree no usage of reserves in 2024/25 as part of the final recommendations to Council.

91. In line with best practice, the council has undertaken a review of risks and known commitments in order to determine its minimum general reserve level. In considering this, it has been determined by the s151 Officer that £7.4m remains an appropriate figure. However in light of the risks facing the council, in relation to major capital programme schemes and the budget pressures within children's and adult social care, it is considered that the Council should make every effort to maintain some headroom above the

minimum level. As outlined earlier in the report, it is proposed that additional savings be identified to mitigate against the use of the general reserve in 2023/24. Further consideration of reserves will be made during the early part of 2024/25 and any increase needed will be considered as part of a future budget process. Reserves are covered in further detail within the s151 statutory statement at the end of the report.

	2023/24 Projected Out-turn £'000	**2024/25 Budget £'000**
General reserve at start of year	7,441	7,441
Increase to General Reserve (one off growth)	0	0
In Year use of reserves	0	0
General reserve at end of year	7,441	7,441
Prudent minimum reserves	6,800	6,800
Headroom (+)/Shortfall (-) in reserves	641	641

Table 10 – Projected general reserves

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

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

Venture fund

94. The balance on the venture fund reserve is anticipated to be £3.8m at the end of 2023/24.

95. As covered in previous budget reports Executive have already agreed commitments in future years to major projects including £3m to York Central and £131k to Mental Health and one-off monies in 23/24 (£750k). After taking into account these commitments, the forecast year end balances on the venture fund are included below in Table 11.

	Forecast Year end Venture Fund Balance
	£'000
2024/25	891
2025/26	925
2026/27	1,375
2027/28	1,841

Table 11 –Venture Fund Balance

Medium term planning

<u>Medium Term Outlook</u>

96. The Government published the provisional settlement on 18 December 2023. It is a one year settlement.

97. Local Government did receive the previously announced increases in funding, much of it directed towards social care. Resources for adult social care increased by £2.8bn in 2023/24 and by £4.7bn in 2024/25, through a combination of the Adult Social Care precept (2%) and new grant funding in both 2023/24 and 2024/25.

98. The previous years settlement was clear that any significant reform of the local government funding system will not be undertaken within this Comprehensive Spending Review period, meaning 2025/26 at the very earliest. Therefore, considerable uncertainty about the future method of allocating funding remains.

99. There will also be a General Election in 2024 which could impact on the timing of future funding reforms and the Local Government Settlement in 2024.

<u>Business Rates and Funding Reform</u>

100. As highlighted in previous Financial Strategy reports, the government will phase out Revenue Support Grant (RSG), to be replaced by a system which allows local government to retain business rates growth.

101. Whilst devolution of business rates presents opportunities for the council, there are also associated risks with business rates appeals and the business rates reset.

102. There has been an expectation for the last 4 years that business rates and funding reform would be implemented in the following year. This has already been postponed due to the government's focus on Brexit, and the Covid-19 pandemic. The Chancellors Autumn Statement and subsequent funding settlement announced that this has been delayed until at least April 2025.

103. The business rates review will consider an increase in the retention rate for councils from 50% although seems increasingly less likely, the process for business rates revaluations and the business rates reset. It might also lead to more fundamental change in the way that businesses are taxed. It is expected that this may finally come into effect in 2025/26.

104. The Government has indicated that they are minded to have a full business rates baseline reset. 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).

105. The Fair Funding Review focuses on the cost drivers for individual authorities. 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.

106. As a prudent measure, there are no local growth assumptions in relation to business rates income for 2024/25, to enable the Council to build up a reserve in the event that the FFR and business rates reset is not favourable for York. Only the increase in retained rates allowed by government has been reflected (£1.5m).

<u>Medium term strategy and approach to savings</u>

107. 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 12, sets out the headline figures for the Council's medium term financial forecast to 2027/28.

108. It is difficult to predict beyond this timescale.

	2025/26	2026/27	2027/28
	£'000	**£'000**	**£'000**
GROWTH			
Pay and price inflation	7,400	7,500	6,600
Demographic (mainly social care) and service growth	6,600	6,200	6,200
Capital Programme	1,600	1,600	1,600
Total growth	**15,600**	**15,300**	**14,400**
RESOURCES			
Council Tax	4,000	4,100	4.200
Business Rates Growth	1,200	1,000	1,000
Total resources	**5,200**	**5,100**	**5,200**
FUNDING GAP	**10,400**	**10,200**	**9,200**

Table 12 – Medium Term Forecast to 2027/28

109. These figures are based on the assumption that funding for adult social care continues in a similar manner, that inflationary pressures start to reduce year on year and the pay award will be approximately 3%. Clearly there are several factors that could change these figures, and uncertainty will remain until the announcement of future settlements, but they provide the broad basis on which the Council will need to consider decisions over coming years.

110. The funding gap figure in Table 12 represents the amount of savings that are required each year to balance the budget. Whilst settlements for local government have been better in recent years, this is not guaranteed to continue in future years in light of the factors outlined earlier in the 'medium term outlook' section of the report.

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

112. The impact of the capital programme will have an effect on the revenue budget in terms of cost of borrowing. Whilst this is spread

over a number of years, the broad requirement in future years is for an increase in the treasury budget of around £1.6m every year.

113. The current pressures on the social care budget are expected to continue in the medium term and are reflected in the figures in Table 12.

114. 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.

115. There remains a funding gap of c.£10m each year, over the next 3 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. These savings are likely to be cuts in a range of services. Whilst every effort will be, and is being, made to identify alternative sources of income, secure grant funding and effectively control costs – this will not be enough to deliver the scale of the savings needed.

116. In order to deliver a further £30m (on top of the £14m already identified for 24/25) the Council will need to down size the organisation and seriously consider the level of spend on a range of services. There will also need to be a further review of management structures across the organisation to identify where savings can be achieved.

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

118. This work will sit alongside the continuation of the enhanced cost control measures that have been implemented during 2023/24. These include the Procurement Challenge Panel, which reviews all procurement exercises to see where savings can be achieved, a continued freeze on non-essential recruitment and the Corporate Cost Control Board, chaired by the Chief Operating Officer, which looks at a range of costs including overtime, use of agency, etc. to identify where spend can be reduced.

<u>Use of Capital Receipts</u>

119. The government continues to allow flexibility for councils in how they make use of capital receipts – money received when an asset such as a building is sold. Councils were previously only allowed to spend such money on capital projects. The flexibility allows money from asset sales (excluding Right to Buy receipts) to be used on the revenue costs of transformation projects, subject to certain conditions.

120. The Council will be reviewing the assets it holds and no longer requires and releasing these for sale. Where possible money realised from these sales will be used to offset the internal cost of transformation work, that in turn will deliver more efficiencies in the medium term.

Housing Revenue Account (HRA) Budget

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

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

123. The HRA is also carrying a significant debt (including £121.5m from self-financing) which is forecast to rise to over £150m by the end of the decade. The first tranches of self financing debt is maturing over the coming years and current interest rates are c. 2% higher than the average rate when the debt was originally taken out. Should debt need to be refinanced on maturity additional debt costs will need to be factored into the plan.

124. When the latest HRA budget for 2023/24 was agreed in February 2023 the real annual surplus (excluding debt repayment) for the year was set at £342k which equates to less than 1% of turnover. This was due to significant increases in utility prices, repairs and pay levels whilst the rent levels were capped by government. This level of surplus given the significant level of debt within the HRA is not sustainable.

125. It is important for the HRA to be financially robust so that it can service its outstanding debt (the Council took on £121.5m of debt in 2012 as part of the self-financing settlement which removed the requirement to pass on a proportion of the HRA surplus to Government) and continue to provide an operationally effective service to its tenants within the resources available from rents.

126. As part of the budget setting and business plan forecasts for 2024/25 the Housing Revenue Account was forecasting an in-year surplus of £1.36m prior to debt repayment.

127. There have been a number of changes to assumptions that have been made since the budget was set and these are shown below

Service Area	£’000	Comment
Inflation	+60	Whilst some inflation pressures remain higher than forecast (pay / repairs) there are assumed reductions in energy costs.
Voids	+280	Whilst significant work has been undertaken speeding up the time voids take back to relet. There needs to be a recognition that the assumed financial loss from voids is understated. Increases level to 1.8% of rent
Financing Costs	+80	Additional capital financing costs arising from council decisions
Bad Debt Provision	+330	The levels of rent collection have not returned to pre Covid levels and require additional provision
Depreciation	+500	Budget required to reflect anticipated council house valuation
Interest	-800	Additional income anticipated from increased interest rates
Total	+450	

128. The table above show that inflation and service pressures across the HRA have worsened by £450k since the last business plan was produced and should be taken into account when agreeing to the rent increase and other savings.

129. The business plan agreed in February 2023 assumed a rent increase of 5%. The rent standard allows council to increase rents by CPI+1%. The increase is based on September 2023 CPI rate which stood at 6.7%. This would allow an increase of up to 7.7%.

130. Members will recall that in 2023/24 that government capped rent increases to 7% at a time that inflation was over 10% and over the last 10 years rents have been capped in 5 of those years. As a result social rents have increased by 16% over the last 10 years compared to a CPI increase of 33%. This has significantly impacted the level of resources available within the HRA. It is important to consider this impact when agreeing the revised rent increase.

131. Given the need to balance the impact on individual tenants with the impact on the ability of the HRA to fund repairs, maintenance and tenant support, the 7.7% rate is recommended. The impact of balancing the budget through reducing services such as repairs and tenant support is considered too severe.

132. In order to support tenants in the greatest financial difficulty, it is recommended that the one-off hardship fund of £100k that was created in 2023/24 is retained. Approximately two thirds of people living in York's council properties are on Housing Benefit or Universal Credit Housing Support, which means that any rent increase will be covered by benefits. Officers will continue to work with tenants who are struggling to help manage their rental payments, maximise benefit entitlement and draw on the Hardship Fund for additional support where needed.

133. The HRA budget for 2024/25, including the pay award, inflation, service pressures and rent increase shows a revised surplus of c£2m excluding repayment of debt interest. The detailed budgets are shown at Annex 5.

Rent Changes 2024/25

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

Year	Estimated Average Rent Per week	Estimated Average Increase per week
2023/24	£89.90	
2024/25	£96.82	£6.92

Table 15 – Rent Changes 2024/25

135. From 2024/25 DLUHC have also introduced a rent cap of CPI +1.5% (increasing from CPI+1%) that allows Target rents to increase by a larger amount so that when properties are relet the rent set on relet will be higher. It is recommended that this increase is applied to target rents so that over time the overall rent taking will increase.

136. It is also proposed that rents that do not fall within the definition of “social housing rents” for the purposes of the Welfare Reform and Work Bill 2015 will similarly be capped at the 7.7% level set out in the report. This includes shared ownership, Gypsy Roma and Traveller accommodation as well as any specialist supported housing that is exempt from the rent reduction legislation.

137. It is also recommended that Shared Ownership rents increase at the same level of 7.7%.

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

Dedicated Schools Grant (DSG) and the Schools Budget

139. The DSG is ring-fenced for funding the provision of education or childcare for 9 months to 16 year olds in all settings and high needs pupils up to age 25. As such it covers funding delegated to individual local authority (LA) maintained schools, academies and private, voluntary and independent (PVI) providers through the Local Management of Schools (LMS) & Early Years Single Funding (EYSF) formulae, plus funding for other pupil provision which is retained centrally by the LA to support such things as Special Educational Needs and some specific central education services.

140. The overall DSG is allocated to LAs via four sub blocks; schools, high needs, early years and central school services. The funding that LAs receive in each block is now determined by specific national funding formulae (NFF). These arrangements are continued for 2024/25 but with some significant changes to the early years NFF, and a continuing reduction in the funding allocated to the LA for centrally retained budgets.

141. The total DSG allocation for 2024/25 is estimated at £174.864m, an increase of £9.802m (5.9%) from 2023/24 and broken down as follows:

DSG Funding Block	Adjusted 2023/24 £m	2024/25 £m	Increase £m	Increase %
Schools Block	123.602	125.589	1.987	1.6%
Early Years Block - Existing	11.703	12.974	1.271	10.9%
Early Years Block - Expansion	-	5.985	5.985	NA
High Needs Block	27.683	28.470	0.787	2.8%
Central School Services Block	2.074	1.846	(0.228)	(11.0%)
Total DSG	**165.062**	**174.864**	**9.802**	**5.9%**

Table 16 – DSG Allocation

<u>Schools Block</u>

142. The vast majority of the Schools Block DSG (£119.280m) is used to fund the local funding formula for mainstream schools (maintained and academies). Following a detailed consultation with all schools and the Schools Forum prior to setting the 2018/19 budget, the LA agreed to introduce the DfE’s new national funding formula (NFF) at school level from April 2018. For 2024/25 the LA is again proposing to follow the NFF for schools.

143. Apart from split site funding (see paragraph 147 below), the funding factors used in the 2024/25 NFF remain the same, however the factor values will increase by the following amounts:

- 1.4% to the basic entitlement, free school meals at any time in the last 6 years (FSM6), income deprivation affecting children index (IDACI), lower prior attainment (LPA), English as an additional language (EAL), sparsity and the lump sum
- 1.6% to pupils currently accessing free school meals (FSM),

- 0% on the premises factors, except for the PFI factor which has increased by RPIX

144. On top of these uplifts, the DfE have increased the basic entitlement, the FSM6 and the lump sum factors to reflect the rolling in of the mainstream schools additional grant (MSAG) into the NFF, with more details at paragraph 146 below.

145. The minimum per pupil levels in 2024/25 will be set at £4,610 per pupil for primary schools and £5,995 per pupil for secondary schools. These amounts include additional funding for the rolling in of the MSAG, plus a further 0.5% increase.

146. The 2024/25 NFF funding floor has been set at 0.5%. This means that every school will attract an increase in their pupil-led funding of at least 0.5% per pupil, compared to their 2023/24 baseline. Funding floor baselines have also been increased to take account of the rolling in of the MSAG.

147. The **split sites factor** targets extra funding to schools which operate across more than one site. As announced in the response to their consultation, the DfE are introducing a formulaic approach to allocating split sites funding in the NFF in 2024/25. Their intention is to ensure that split sites funding will be provided on a consistent basis across the country, replacing the previous locally determined split sites factor used by some LAs including York.

148. The split sites factor is made up of two parts:
   i. Basic eligibility funding: Schools attract a lump sum payment for each of their additional eligible sites – up to a maximum of three additional sites. Each additional site must be separated from the school's main site by a public road or a railway. Have a building on them which is primarily used for the education of 5 to 16-year-old pupils in mainstream education. This excludes playing fields, ancillary buildings and buildings leased full time by the school.
   ii. Distance funding: Additional eligible sites that are separated from the school's main site by more than 100 metres attract distance funding on top of the basic eligibility funding – up to a maximum of three additional sites.

149. Under the existing York split sites factor two schools are eligible for funding totalling £235k. The new DfE factor would still allocate funding to these two schools but with a reduced total of £161k.

However, for one school this would represent a significant reduction in their headline formula funding from £185k in 2023/24 down to an estimated £81k in 2024/25. The other school's allocation would increase from £50k under the York factor to an estimated £81k under the new DfE factor. Depending on the change in their overall total funding allocation from 2023/24 to 2024/25, both schools may then be subject to either protection under the NFF funding floor guarantee, or capping under the significant gains ceiling mechanism.

150. At a national level, school funding through the NFF is increasing by 1.90% per pupil. However, the average increase for York schools is estimated at 1.85% per pupil as a higher proportion of York schools are already receiving protection through the funding floor and the minimum per pupil amounts, which only increase by 0.5% in 2024/25.

151. Local authorities will continue to determine the final allocations for all local mainstream schools in 2024/25, but the DfE are in the process of consulting on how to complete their reforms to the schools NFF in the longer term.

152. The remaining £0.383m 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.

153. The amount of growth funding allocated to the LA by the DfE continues to fall, down from £0.800m in 2018/19. The level of funding required to be allocated to schools under the current local growth criteria and formulae is difficult to predict with any certainty each year. In each of the last four years the fund has been oversubscribed and this is likely to continue in 2024/25. Therefore, for all allocations made since the 2020/21 academic year onwards, the LA has implemented a cash limit on this budget. This means that if the total of all allocations to schools in a particular year, calculated via the relevant formulae, exceeds the budget available then all allocations will be reduced pro-rata.

Early Years Block

154. Earlier this year the DfE announced a significant phased expansion of the entitlement to free childcare, along with an in-year uplift in funding for the 2023/24 2, 3 and 4 year old provision. In addition, increased support for Maintained Nursery Schools (MNS) has been announced through the MNS supplementary factor.

155. The hourly rates received by York for 2023/24 for 2 year olds and 3/4 year olds allocation, plus the new 2024/25 hourly rates following the DfE's review and expansion, are set out in the table below:

	2023/24 Apr--Aug £/hr	2023/24 Sep--Mar £/hr	New 2024/25 £/hr	Increase £/hr %
3 & 4 Year Olds Universal & Working Parents	4.87	5.20	5.47	**0.27 5.2%**
2 Year Old Disadvantaged	5.77	7.65	7.59	**-0.06 -0.8%**
2 Year Old Working Parents	-	-	7.59	**NA**
9 Month to 2 Years Old Working Parents	-	-	10.30	**NA**
MNS Supplement	3.80	4.01	4.64	**0.63 15.7%**

Table 17 – Early Years National Funding Formula Rates

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

157. The current EYNFF for the existing 2-year-old offer is not subject to regulations regarding the arrangements for the local funding formula, in the same way as for 3&4-year-old funding.

158. The introduction of the new working parent entitlements for 2-year-old children and children aged 9 months up to 2 years old in 2024/25 means that, for the first time, there will be two separate 2-year-old entitlements. With the introduction of the new entitlement for 2-year-olds of working parents and the significant growth in funding levels, the government have decided that the same regulatory framework will be extended across all funding streams.

159. For 2024/25, the majority of the existing local funding rules are extended to the two new working parent entitlements for 2-year-olds and under. This means that LAs must determine a funding formula for the 2-year-olds and under funding and consult its schools forum, maintained schools, and early years providers when developing the formula.

160. After discussions with the Schools Forum, York's proposals for the new formulae were developed following the same principles as our existing 3/4-year-old formula. A consultation was launched with all providers in December with a closing date of 17 January.

161. Subject to the outcome of the consultation and the views of the Schools Forum on 2 February, the following early years funding rates for all York providers are proposed for 2024/25:

	Base Rate £/hour	**Deprivation Rate £/hour**	**Nursery School Lump Sum £**
3 & 4 Year Olds Universal & Working Parents	5.09	0.55	175,853
2 Year Old Disadvantaged	7.06	0.76	NA
2 Year Old Working Parents	7.06	0.76	NA
9 Month to 2 Years Old Working Parents	9.58	1.04	NA

Table 18 – York's Proposed EYSFF Funding Rates for 2024/25

High Needs Block

162. The high needs block DSG increases by £0.787m (2.8%) in 2024/25. This is a lower increase than in recent years where high

needs allocations have increased between 5% and 8% per year. As has been previously reported, the high needs budget is already under significant pressure due to rising demand from increased numbers of SEND pupils. For 2023/24 net in year expenditure within the high needs block is projected to be £1.3m higher than the core DSG funding allocated by government.

163. However, as part of the safety valve agreement that the LA has made with the DfE, additional grant of £2m is due to be received by the end of the financial year. The effect of this additional grant produces a net in year high needs block surplus of £0.7m and reduces the projected high needs deficit carry forward to 2024/25 to £2m.

164. It should be noted that the plan agreed with the DfE, if implemented in full, would result in a balanced high needs budget by the end of 2025/26. The original plan included a commitment from the DfE to allocate additional funding to York of £17m over the period 2021/22 to 2025/26, subject to certain conditions. To date £12m of this funding has been received by the LA, with a further £5m due in instalments over the next three financial years.

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 (historic commitments), there is a significant net reduction of £0.228m (11.0%) in 2024/25. This follows similar reductions in the previous two financial years. This net reduction is made up of a 3.4% increase in the allocation for the on-going responsibilities that the LA continues to have for all schools, and a 20% reduction in the allocation for historic commitments.

166. For 2024/25 this means allocations of £0.837m for LA on-going responsibilities and £1.009m for historic commitments. As historic commitments currently total £1.261m in 2023/24 the LA will need to identify budget reductions totalling £0.252m for 2024/25. The LA will be consulting with the Schools Forum at its meeting on 2 February on how best to manage this reduction.

167. The DfE is protecting any LA from having a reduction that takes their total historic commitments funding below the total value of

their ongoing prudential borrowing and termination of employment costs, in recognition of the time required for these costs to unwind. Although York isn't quite at this stage yet, we will be very soon if further 20% reductions are made. At that point no further reductions are expected to be made, until actual expenditure on termination of employment or prudential borrowing costs reduces.

168. Outturn expenditure in 2022/23 for termination of employment costs and prudential borrowing totalled £0.644m and it is expected that the DfE will continue to protect the LA's historic commitments allocation at at least this level. This means that for 2024/25 the LA is proposing to remove all of its other historic commitment budgets totalling £79k. The remainder of the required reduction (£0.173m) will then need to be found from the School Improvement Commissioning budget, reducing that budget from £0.494m in 2023/24 to £0.321m in 2024/25.

Teachers Pay Additional Grant (TPAG)

169. The TPAG was announced in July 2023 in response to higher than originally estimated pay awards for teachers from September 2023. Schools have received an allocation for the 2023/24 financial year. For 2024/25 the DfE has not rolled the TPAG into the NFF for schools. Instead, it will continue to be paid to schools in 2024/25 as separate grant in addition to the NFF funding described above.

170. The base funding rates for the 2024/25 financial year are:

- £62 per primary pupil
- £86 per key stage 3 pupil
- £98 per key stage 4 pupil
- a lump sum of £2,306
- £53 per eligible primary FSM6 pupil
- £77 per eligible secondary FSM6 pupil

DfE Funding Error

171. The DfE first published the 2024/25 NFF in July 2023. Following the discovery of a technical error made by officials during the initial calculations, an update was made to the schools NFF in October 2023. The technical error was due to the incorrect processing of pupil numbers in the initial calculations by the DfE. This error

meant that the overall cost of the schools NFF was underestimated, and incorrect factor values were published in July.

172. The figures and analysis earlier in this report reflect the new, correct, factor values as per the October update. No other changes were made to the structure of the NFF, or the rules governing the local formulae, since July. The high needs NFF and Central schools Support Budget (CSSB) were unaffected by this error.

The impact of this error on the funding originally announced for York schools in July is significant. Overall, the Schools Block allocation for York reduced by £1.166m equating to 34% of the originally communicated increase. At school level this resulted in the expected increase reducing from £152 per pupil to £100 per pupil. The equivalent of £13k for an average primary school and £55k for an average secondary school.

Equalities

173. 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.

174. 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.

175. 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.

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

177. 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.

178. 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.

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

- Ensuring that savings are made from back office functions and universal services
- Protecting statutory services and other key services for vulnerable residents
- Increasing community involvement in service redesign and delivery
- Making services self-financing wherever practicable, including external trading
- Maximising the return from externalised service provision
- Redesign of existing services and external contracts

- Placing a focus on prevention and ceasing service provision only where this is least impact
- Streamlining services to provide focussed support and reduce areas of duplication
- Supporting carers
- Integrated working with health
- Focussing growth where it is expected to have a positive effect on older or disabled people and their carers

Specialist Implications

180. This report has the following implications;

Financial

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

Human Resources (HR)

182. The savings proposals contained within the overall budget will require the reduction of some posts in 2024/25.

183. 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 2024/25 is likely to be a mixture of post reductions and working for redesigned services. Should there be sufficient reductions to posts and proposed redundancies, the necessary notification will be made to Redundancy Payments Service and a HR1 will be submitted.

184. 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.

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

186. 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

187. The council is required to set a council tax for 2024/25 before 11 March 2024. 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 2024, 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.

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

189. 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.

190. 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.

191. In reaching decisions on these matters, Members are bound by the general principles of administrative law. Lawful discretions must not be abused or fettered and all relevant considerations must be taken into account. No irrelevant considerations may be taken into account, and any decision made must be one which only a reasonable authority, properly directing itself, could have reached. Members must also balance the interests of service users against those who contribute to the Council's finances. The resources available to the Council must be deployed to their best advantage. Members should also be conscious that, whilst Council is responsible for setting the budget envelope for the relevant financial year, Executive is responsible for individual spending decisions within that budget envelope.

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

193. There is legal authority for the proposition that if there is discretion left as to how budget envelope is spent, or if the envelope itself can be changed (virement etc) any relevant statutory duties (such as the PSED) can be discharged when spending decisions within the envelope are taken. The early consideration of potential equalities impact on service changes is however advised as set out in this report.

194. 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.

195. 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.

196. In considering the advice of officers, and the weight to be attached to that advice, Members should have regard to the personal duties placed upon the s151 Officer and the Monitoring Officer. The Council may take decisions which are at variance with their advice, providing there are reasonable grounds to do so. However, Members may expose themselves to risk if they disregard clearly expressed advice, for example as to the level of provision required for contingencies, bad debts and future liabilities. In addition, if Members wish to re-instate savings recommended by the Chief Finance Officer in order to balance the budget, they must find equivalent savings elsewhere.

197. The Chief Finance Officer is required by Section 151 of the Local Government Act 1972 and by the Accounts and Audit (England) Regulations 2011 (as amended) to ensure that the council's budgeting, financial management, and accounting practices meet relevant statutory and professional requirements. This is in addition subject to the requirements set out above.

198. 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.

199. 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.

200. 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.

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

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

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

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

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

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

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

208. **Economy**, there are no direct implications related to the recommendations. Some of the individual savings proposals may the limit the Council’s ability to engage with local businesses.

Statutory Advice from the s151 Officer

Introduction

209. 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

210. 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.

211. 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.

212. 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 2023/24 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

213. 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.

214. 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 and the significant inflationary pressures being experienced across all areas of expenditure.

Risks

215. The report outlines the key risks to the 2024/25 budget, and these are considered further in the following paragraphs.

216. Continued increasing costs across all areas of spend remains an area of concern. Whilst inflation levels are reducing, this only

means that prices are not increasing as much – they remain at the previously high levels. Given the Councils significant capital programme, rising costs are to be expected and may result in some schemes being delayed or costing more than estimated. The current financial challenge means that we are not recruiting to vacant posts unless absolutely essential to do so. This will result in difficulties in achieving some Council Plan priorities.

217. 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. This risk has materialised in 2023/24 with abortive costs for a new multi storey car park needing to be written off in the year. 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.

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

219. The current pressures being experienced within both adults and children's services remain of concern and the ongoing action being taken will need to continue and be given a high priority. Specific attention is drawn to the national picture regarding these services, which are recognised as being under increased pressure. 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.

220. The budget takes account of these pressures but in light of the continued financial challenges across social care my advice is that additional 2024/25 savings of £4m should be identified over and above those originally identified within the Medium Term Financial Strategy. I believe it is highly likely that the general reserve will be needed to balance the 23/24 position and in that event, the reserve would immediately fall below the recommended minimum level and therefore identifying further savings now, will mitigate against that risk. If the outturn is better than expected, then the savings will still be required for future years and therefore I consider this a measured, prudent approach to setting the budget.

221. 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.

222. Some of the savings included at Annex 2 do require further work and additional reports to future Executive meetings to outline the impact of a number of service reviews that will need to take place over the early part of the new financial year.

223. Finally, there remains again the potential for significant changes to the system of local government finance in coming years. The Government published the provisional settlement on 18 December 2023. It is a one year settlement pending the general election in 2024. With the Fair Funding Review now postponed until 2025, the more fundamental changes needed in local government finances are again unlikely to take place for a number of years.

224. These changes in funding could be significant and make forecasting for 2025/26 virtually impossible. The government originally launched the Fair Funding Review in 2016 and the review has been postponed numerous times. This policy is likely to change the needs assessments of local authorities and therefore

the distribution of funding between different councils, adding to the uncertainty in the years ahead.

Reserves

225. 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.

226. Determining the appropriate levels of balances is therefore a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions and other earmarked reserves and provisions. Based on the range of factors and risks outlined in this report it is my view that the general reserve should be a figure of £7.4m.

227. 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.

228. The proposed 2024/25 budget does not use the general reserve to balance and therefore reserves remain sufficient to deal with any further risks.

Summary

229. The uncertainty over recent years, following the pandemic, cost of living crisis and inflationary pressures, along with increasing

demand for our services, means financial planning needs to be robust.

230. For future budget planning, further action will be needed to continue to focus resources on the highest priority services to reduce demand, as well as creating capacity to make investment in key front line services and essential capital investment. Therefore, the major financial challenge facing the council in coming years remains the need to secure further savings and for cost pressures, particularly those resulting from the pandemic, 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.

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

Risk Management

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

233. 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.

Wards Impacted

234. All

Contact details

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Background Papers:

None.

Annexes:

Annex 1 – 2024/25 Budget Summary

Annex 2 – 2024/25 Savings Proposals

Annex 3 – 2024/25 Fees & Charges

Annex 4 – Impact Assessment

Annex 5 – HRA 2024/25 Budget

Annex 6 – Risk Analysis

Abbreviations used in this report:

CIPFA – Chartered Institute of Public Finance & Accountancy

CPI – Consumer Price Index

CYC – City of York Council

DFE – Department for Education

DSG – Dedicated Schools Grant

DVLA – Driver & Vehicle Licensing Agency

EAL – English as an Additional Language

EIA – Equalities Impact Assessment

EYNFF – Early Years National Funding Formula

EYSFF – Early Years Single Funding Formula

FFR – Fair Funding Review

FSM – Free School Meals

HRA - Housing Revenue Account

ICT – Information & Communications Technology

IDACI - Income Deprivation Affecting Children Index

LA – Local Authority

LGA – Local Government Association

LCR – Leeds City Region

LMS – Local Management of Schools

LPA – Lower Prior Attainment

NFF – National Funding Formula

NI – National Insurance

NHB – New Homes Bonus

NNDR – National Non Domestic Rates

MNS – Maintained Nursery Schools

POPPI – Projecting Older People Population Information System

PVI - Private, Voluntary and Independent

RSG – Revenue Support Grant

SFA – Settlement Funding Assessment

TPPG - Teachers' Pay and Pensions Grant