

Executive

7 February 2022

Report of the Chief Finance Officer (s151 Officer)
Portfolio of the Executive Member for Finance and Performance

Financial Strategy 2022/23 to 2026/27

Summary

1. This report presents the financial strategy 2022/23 to 2026/27, including detailed revenue budget proposals for 2022/23, and asks Members to recommend to Council approval of the proposals. Following on from consultation with residents and business groups, the financial strategy delivers a balanced budget for 2022/23 with savings proposals totalling £6.4m, equivalent to 4.7% of the net budget. There are separate reports on the agenda covering the capital budget, the capital and investment strategy and the treasury management strategy.
2. Overall £16.135m in additional revenue funding will be added to the Council's 2022/23 budget to meet continuing pressures on adult social care and children's services, to support the Council's response to the Covid-19 pandemic and maintain progress on the objectives outlined in the Council Plan. Specific examples of revenue investment include;
 - Good Health & Wellbeing – revenue investment in 2022/23 of £4.5m in health and adult social care in addition to the £1m one off support agreed last year, to support and care for some of the most vulnerable residents in York. This includes the costs of care, supporting adult social care staff and enabling residents to remain in their homes for longer.
 - A Better start for Children and Young People - revenue investment in 2022/23 of over £4.7m, in addition to the £1m one off investment agreed last year to support children and young people across the city, including further funding for social care staff.
 - An additional £50k to support residents with the lowest incomes by extension of the winter fuel voucher scheme.
 - An additional £30k to support winter gritting.

- An additional £20k one off funding to support the resourcing need and work of the independent, inter-sectional Anti-Racist Working Group, to support the council motion 'Making York an Anti-Racist and Inclusive City' which was approved by Full Council on 21st October 2021.
 - An additional £30k to support the Executive decision in November 2021 to approve the creation of an Access Officer post to support the Strategic Review of City Centre Access and associated Action Plan to help deliver the agreed mitigation measures to improve access for blue badge holders.
 - Creating homes and world class infrastructure - revenue investment in 2022/23 of £1.6m to fund the prior year capital programme to continue the on-going work of the Housing Delivery Programme, York Central, Castle Gateway, Highways investment, vehicle replacement, The Guildhall, Station Frontage and other crucial major projects.
 - Getting around sustainably - revenue investment in 2022/23 of a further £150k one off funding to deliver the development of the Local Transport Plan subject to city wide consultation on the strategy that will help to move the city towards zero carbon by 2030 and underpin our commitment to tackling congestion and traffic pollution in York.
3. The budget proposals outlined ensure that additional investment is made into both People and Place directorates with more than £2.8m savings being made across corporate back office functions in other directorates. Ensuring that there is the capacity to invest in council priorities and accelerate recovery from the pandemic has been a critical part of the budget deliberations, including protecting the council's capacity to take forward its climate change ambitions.
4. Given the continued financial challenges due to the pandemic, the Council is addressing this by continuing to invest £1.1million in the Covid-19 Recovery Fund which was created as a one off last year. This will allow provision of the following measures, alongside a contingency amount for any further impact where we may need to react quickly to changing circumstances:
- £200k to support Covid-19 recovery efforts in local communities across the city
 - £100k will be invested to give holiday hunger support to children
 - £100k will be used to support education catch-up. To develop reintegration pathways for children who have become disengaged

from school – this will include training for all schools on trauma informed practice with specific outcomes linked to the review and development of school attendance policies and develop an attendance champions network across all schools.

- £50k to support York's bid for Great British Railways, Places for Growth and Devolution
- £50k to provide sustainable travel incentives to support recovery and build back confidence in public transport
- £150k will be used to assist households via the York Financial Assistance Fund, helping residents on the lowest incomes mitigate the financial impact of the pandemic
- £100k additional growth to extend mental health support (total budget including 21/22 allocation of £300k)
- £50k to continue to support local businesses during recovery

5. The Council continues to face unprecedented financial challenges due to the impact of the Covid-19 pandemic and demand for Council services has increased. This has generated an in-year financial pressure totalling £9.1m for the Council (mitigated to £4.5m), as noted to Executive in the latest Financial and Performance Monitor, which is also on the agenda for this meeting.
6. As a consequence of the Covid-19 pandemic, the Council must maintain a stable and resilient financial position for the next financial year in the midst of this unprecedented level of uncertainty and economic challenge.
7. It should also be recognised that, like all local authorities in England, funding from central Government grants have significantly reduced over the past decade. For example, in 2011, City of York Council received £56m from the Revenue Support Grant. Now in 2021, the Council receives only £540k of this grant which is rolled into the Council's share of Business Rates.
8. In October 2021, the Chancellor announced the Government's 3-year Spending Review. In response to the Spending Review, the Council's submission outlined the need for long-term funding certainty to address the immediate funding challenges local authorities are facing across the country; the need for more funding to support people into jobs, particularly in sectors critical for the UK's sustainable recovery; and highlighted the case to replace business rates with a model which provides a 21st century system to support innovation alongside supporting our high streets.

9. Other key issues included in the budget proposals are as follows;
- A proposed basic council tax increase of 1.99 % in 2022/23.
 - In addition an increase of 1% in line with the government's social care precept, equating to additional income of £980k, which provides support for social care
 - Revenue savings of £6.4m in 2022/23
 - Ensuring a financially prudent budget by addressing known budget pressures, including likely pay awards and inflationary pressures
 - A net revenue budget of £135.384m, which will be funded by:
 - i. Council tax income of £102.043m
 - ii. Retained business rates of £33.341m
10. Due to the uncertainty of the financial situation, and the need to invest in recovery, the Council has reviewed the level of capital investment needed. The Council's main focus is to build back better from the pandemic. This budget continues the Council's transformational £570m capital programme, to drive regeneration and accelerate the city's economic recovery.
11. The Capital Budget report sets out proposals for reprioritisation of investment. These continue the council's approach to prioritise investment in the economy, housing, transport, and to invest to save including energy efficiency. Some of the key capital projects include;
- £43m to progress the York Central scheme
 - £25m to progress the Station Frontage Scheme
 - £66m to improve the city's road network infrastructure and accelerate the delivery of flood defences, in conjunction with local and regional flood defence funding
 - £15m on the fleet replacement programme
 - £11m to progress regeneration schemes in the city, including Castle Gateway and the Guildhall
 - £63m to further develop the York Outer Ring Road, including cycling and walking improvements in the vicinity of the ring road
 - £126m to deliver more housing across the city, including affordable housing

12. The following table shows the 2022/23 budget position after taking account of the expenditure and funding changes outlined throughout the report. Further detail is provided at annex 1.

Summary	2022/23 £'000
Total investment (Table 3)	16,135
Total net funding changes (Table 4)	-3,623
Total changes in council tax (Table 5)	-3,992
Total changes in business rates income (Table 6)	0
Total savings and income generation (Table 7)	-7,870
New homes bonus funding (Table 8)	-650
Budget gap	0

Table 1 – Budget position summary

Recommendations

13. Members are asked to consider the appropriate levels of council tax that they wish to see levied by the City of York Council for 2022/23. 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
14. 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 £135.384m
 - A council tax requirement of £102.043m
 - The revenue growth proposals as outlined in the body of the report

- The 2022/23 revenue savings proposals as outlined in annex 2
- The fees and charges proposals as outlined in annex 3
- The consultation feedback as set out in annex 4
- The Housing Revenue Account (HRA) savings proposals set out in annex 6 and the HRA 2022/23 budget set out in annex 7
- The dedicated schools grant proposals outlined from paragraph 194
- The use of £650k New Homes Bonus to fund one off investment, as outlined in paragraph 118

Reason: To ensure a legally balanced budget is set

15. The effect of approving the income and expenditure proposals included in the recommendations would result in a 2.99% increase in the City of York element of the council tax, 1% of which would relate to the social care precept. It is intended that the total council tax increase including the parish, police and fire authority precepts, will be agreed at the full Council meeting on 17 February 2022.
16. Members are asked to approve the charge of a 300% premium on Council Tax for properties empty for over 10 years, as described in paragraph 130
17. Members are asked to approve the average rent increase, based on national formulas linked to RPI and CPI, of 4.1% to be applied to all rents for 2022/23, with the exception of shared ownership tenants, as described in paragraphs 188 and 190.
18. Members are asked to approve the average rent increase, based on national formulas linked to RPI and CPI, of 5.4% to be applied for shared ownership tenants that have held an equity share in their property for more than 12 months as at 1st April 2022, on the portion of the property owned by City of York Council, as described in paragraph 191.

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

Background

National context and funding issues

19. All aspects of the public sector are continuing to face challenging times. In recent years the council has had to deal with large reductions in funding, combined with a wide range of significant pressures. The additional pressure on Council finances due to Covid-19 has added to the uncertainty, just like the many thousands of businesses and organisations across the country. Demand for services has increased, at the same time income has significantly fallen.
20. Analysis from the Local Government Association (LGA) suggests that Councils in England will face a funding gap of more than £5 billion by 2024 to maintain services at current levels. It is also suggested that this figure could double amid the huge economic and societal uncertainty caused by the Covid-19 pandemic. As part of this work, the LGA recommends to Government that £10 billion is needed to not only plug this gap, but meet growing demand pressures and improve services for communities.
21. The Spending Review 2021 was announced on 27 October 2021 to cover the 3 years from 2022/23 to 2024/25. At the national level the headlines were:
 - Local government will receive an additional £4.8bn in “core” grant funding over the next 3 years (roughly an additional £1.6bn in each year). The increase in grant funding is front-loaded, with almost all the increase in grant in 2022-23, and very little increase in the two later years.
 - Separately, local government will receive £3.6bn in grant funding through the settlement for social care reforms. The sector will receive £200m in 2022-23, £1.4bn in 2023-24 and £2.0bn in 2024-25.
 - The government allocated £5.4bn to fund the social care reforms that it announced on 7 September 2021. £3.6bn will be allocated through the settlement, and the remaining £1.7bn will be allocated separately by the Department of Health and Social Care “to improve the wider social care system”.
22. Details of the specific authority funding allocations were announced in the provisional settlement in December 2021, which was a one-year allocation only, which further adds to uncertainty and makes long-term financial planning more complex.

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. Significant uncertainty remains due to the financial effect of Covid-19 on council tax and business rates income. In addition, there remains ongoing uncertainty around long standing issues which have been delayed due to Covid-19; the ongoing 'fair funding' review, the withdrawal of New Homes Bonus (NHB) funding, the ongoing review of business rates retention and details of the business rates baseline reset, which may be delayed until perhaps 2025/26.
25. No new funding has been announced for ongoing Covid-19 pressures. Michael Gove MP appeared at the Levelling Up, Housing and Communities select committee on 8 November 2021 and has indicated that the 75% rates retention scheme is unlikely to go ahead. All this uncertainty increases the risks facing the Council.
26. However, this risk is mitigated by the continued inclusion of a Covid contingency. The contingency was created as one off in 2021/22 and the Council have reinvested £1.1m in 2022/23. Without this contingency fund the budget would not, in the view of the Chief Finance Officer, be sufficiently robust to meet the challenges ahead, nor would it properly cover potential costs for the year ahead.
27. Due to historical and outdated data held by the government, York has received significantly less funding when compared to many other local authorities. Therefore in simplistic terms, when funding allocations are distributed by central government York will receive less than a historical (and potentially out of date) high spending authority. In 2021/22, core spending power in York sat at £706 per head, - the second lowest in the country compared to councils such as Kensington and Chelsea who receive £1,305 per head. If York were to receive even the average amount of spend the city would benefit from an extra £16.5m each year The Fair Funding Review remit was set to tackle this inequity, so the further postponement increases the Council's financial challenges in the medium term. York is one of 20 authorities raising this issue with Michael Gove MP before the provisional settlement announcement in December via the F20 Group.
28. 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 2022/23 of 1.99 %, plus an additional increase of 1% in line with the government's social care precept. Further information on council tax and the social care precept is included later in the report.

Local issues and challenges

29. Despite the Covid-19 funding provided by central government, an ongoing impact in future years is still expected due to a range of issues. As the city continues to recover, it is anticipated there will be significant pressures as a result of the longer term impacts on individual residents and increase in the cost of adult social care.
30. There are serious underlying budget pressures across both adult and children's social care. Both adult and children's social care is operating in an extremely challenging environment. Despite the allocation of £4.3m to the People directorate in the 2021/22 budget. The gross financial pressures facing the council in 2021/22 are projected at £9.1m but after mitigation and further action it is considered that this can be brought down to a net position of £4.5m.
31. In addition, as residents and businesses respond to the economic impacts of the pandemic, it is anticipated there will be a reduction in both Council Tax and Business Rates receipts. In response to this shortfall, the Council has had to make some difficult decisions to identify some £6.4m of savings and efficiencies to ensure crucial council services can continue to support local residents and businesses.
32. Focussing our resources on protecting the most vulnerable during the pandemic has meant actions needed to deliver savings and manage some of the underlying budget pressures being experienced in social care have not been prioritised. We are also seeing an increase in social care costs directly as a result of the pandemic. These are national issues that are not unique to York and the combination of increased costs and delays in achieving savings is having a detrimental impact on all local authorities. For example, Manchester City Council has recently reported a £153m budget shortfall over the next three years.
33. Partner organisations in the city are also experiencing unprecedented financial challenges and it is clear that the pandemic will have lasting financial implications both on the Council and many other organisations operating in the city. Whilst the Council continues to make every effort to manage the situation and protect critical front line service delivery, through identifying efficiencies and more robust control of costs, the Government funding will not fully compensate the Council and this represents a risk to the delivery of the Council Plan and the ongoing delivery of essential services.
34. The pandemic has caused significant changes to the way the economy operates globally, nationally and locally. The long term impacts on retail,

office working and tourism are all subject to a great deal of speculation. York is well placed to manage these challenges, with a highly educated workforce and excellent infrastructure, however the impact on Council revenue and service demands is highly unpredictable. With this unprecedented level of uncertainty in both the national and local economy it is therefore prudent to continue to plan on the basis of the current financial picture and begin to put in place mitigation and cost control strategies to bring expenditure down to within approved budgets.

35. Putting aside the impact of Covid-19, demand for council services continues to increase, with an ageing population with increased complex needs in respect of social care. There are also significant challenges in the health sector, including challenging financial positions for health partners, which are in turn a significant financial risk to the council. At the time of writing, York Hospital is continuing to experience unprecedented demand and GPs are seeing a spike in appointments and we still await further detail and certainty regarding long-term funding for social care.
36. In addition, inflation is driving costs up and there is continued pressure on many of the council's income budgets, all of which highlights the need to include a realistic and prudent contingency fund.

Local issues and challenges – Adult social care

37. Locally demand for council services continues to increase, with an ageing population and increased complex needs in respect of care. There are also significant challenges in the health sector, including challenging financial positions for health partners which are in turn a significant financial risk to the council.
38. The Financial and Performance monitor 3 report, elsewhere on this agenda, sets out in more detail the current financial pressures in relation to adult social care.
39. The additional funding received in 2022/23 and areas of investment in relation to adult social care is summarised in the table below.

	2022/23
	£'000
Additional social care grant	2,423
Social care precept	980
Total Additional Social Care Income	3,403
Invested in:	
Pay and pension	900

Price inflation	1,850
Demographic Pressures	650
Children preparing for Adulthood	600
Investment to ensure budget sustainability/ ASC reform	500
Total Invested	4,500

Table 2 – Adult social care additional funding and investment

40. The budget proposals include £4.5m growth allocated in 2022/23 (in addition the £1m one off growth agreed last year) to support front line services, fund ongoing pressures resulting from Covid, and support the local provider market. Cumulative growth from 2019/20 to 2021/22 was £12.8m. It will help rebalance the system to support a greater proportion of people at home with the right level of care, including investment in short term intensive reabling support and the Social Work and occupational therapy pathways and practice to make best use of this.
41. In addition to the £4.5 million growth that is proposed for Adult Social Care in the 2022/23 budget, a reduction in £568k of savings as set out in the Decision Session Report, in Adult Social Care is also proposed, primarily in Residential and Nursing Package and Care, Yorkcraft and Supported Living. In making this reduction to savings, it will reduce the potential impact on residents who access these services, and it will also allow for the relevant services to make efficiencies and necessary changes in a greater period of time, thus giving the service the best chance to achieve their savings targets.
42. CYC have worked with the Wilberforce Trust to remodel the Supported Living provision for those with Physical & Sensory Impairments. The new scheme is due to open in April 2022 and will adopt a more reabling model whereby individuals access intermediate care with the intention of reducing ongoing support and enabling them to live as independently as possible.
43. This budget ensures investment in services based in the community that are easily accessible to residents. Such measures include a drop-in mental health support hub, which will be established to provide the low-level mental health support people tell us they need, particularly following the effects of the lockdown and the pandemic. After consultation with residents, there will be more and better use of technology. Many residents of all ages are now familiar with using technology and it can be utilised to support the health of individuals as well as keeping people in touch with each other.

44. We have also recently opened an extension to the council run Independent Living Community at Marjorie Waite court. As the scheme matures, this service will provide customers with a real alternative to residential care whereby they can maintain their independence within their own tenancy and community. The service can cater for those living with dementia and also has facility to accept customers being discharged from hospital, again working with them to ensure they regain and maintain the skills and ability to live in their own homes without the need for formal care.
45. As part of the council's commitment to ensure people receive the right care at the right time a whole system redesign of reablement and intermediate care is underway. This review will help support additional early intervention and prevention services across localities as well as integration with some health services.
46. We are also working with external providers, to ensure safe services and consistency in care delivery and our care act responsibility through market management and oversight
47. Following the publication of our Learning Disability Strategy we are working with partners to further develop a care framework and an all age approach to short breaks and day opportunities.
48. Local authorities continue to face significant financial pressures due to the ongoing impact of the pandemic. The number of people seeking help from adult social care, the number who go on to receive support and the amount and cost of support they receive all continues to increase.
49. A national challenge in delivering care services is the paucity of staff working in the care industry; both in delivering personal care but also the resource needed to assess individual needs. £500m has been earmarked nationally from the Health & Social Care Levy to address workforce concerns but the pressure will remain in the short term.
50. The Council is committed to effective management of the budget in the knowledge that resources are finite and need to be used in the most effective way to support the wellbeing of some of our most vulnerable residents. Our approach combines rigorous systems and governance to control spending with a strategic approach to a more sustainable way of supporting residents' wellbeing.
51. These budget proposals include further significant investment in Social Care, increasing overall spend by £1.1m to ensure that essential statutory services are protected. Where savings are proposed, these are focused on improving services by ensuring people receive the right care that meets

their needs, that as many people as possible are able to receive support and that support is available as early as possible.

52. The Council continues to work closely with colleagues in the NHS, given the dissolution of clinical commissioning groups and the introduction of Integrated Care Systems on 1st April 2022. We continue to focus on those with the most complex needs, reducing reliance on residential and nursing care to ensure more people are able to remain in their own homes for longer through short term intensive support, independent living communities and extra care housing.

Local issues and challenges – Children’s social care

53. Nationally there is significant pressure on budgets in children’s services. Demand is increasing and numbers of children in our care are also rising. There are well publicised issues with SEND and high needs funding which are subject to national review.
54. The Financial and Performance monitor 3 report, elsewhere on this agenda, sets out in more detail the current financial pressures in relation to children’s social care.
55. This budget includes the continuation of £1.4m growth allocated in 2021/22 to support front line services, fund on-going pressures resulting from Covid, support continuous improvement in children’s social care services and manage the recalibration of costs between the Dedicated Schools Grant and the General Fund. In addition to the £4.7m growth in 2022/23 there was one off investment of £1m agreed last year for 2022/23.
56. Social Care services in York are in a period of change and re calibration as part of our continuous improvement journey. Therefore the budget focuses on targeting resources more effectively in areas where there is greatest need. For example, more appropriate homes for the growing number of children in our care and stronger community and early help services to support families before the need for care, or to be reunited when care has been required. We will also put additional resources of £1m into increasing capacity in key children’s social care and SEND staffing areas where there is significant pressure.
57. Besides covering wage settlements which are required under agreements made at national level, the £4.7m of budgeted growth expenditure includes the recalibration of costs between the Dedicated Schools Grant and the General Fund. It also includes continued investment to ensure that vulnerable children and young people are supported through the ambitious

programme which is currently being delivered to improve the quality and impact of children's services and social care. Additionally, this growth is targeted at supporting children and young people to cope with pressures created by the impact of Covid.

58. This budget proposes £100k investment from the Covid Recovery Grant to support the Education Futures Plan. A key priority of this work is to improve school attendance, particularly for children known to social care, those with special needs and children eligible for free school meals. The focus of the work will be to develop reintegration pathways for children who have become disengaged from school – this will include training for all schools on trauma informed practice with specific outcomes linked to the review and development of school attendance policies. It will also develop an attendance champion's network across all schools.
59. Funding has been maintained to support fostering and adoption services. By protecting core capacity, the services will provide enhanced support to ensure children and young people receive care closer to home. Investment in extra work with the City of York Safeguarding Children's Partnership will support a city-wide response, providing early intervention to identify need and keep children and young people safe without the need for higher levels of intervention.
60. The Council is also committed to work with partners to review services in a number of areas to ensure we are having the maximum possible positive impact from joint investment.
61. In addition, the capital programme includes investment in excess of £22m in school infrastructure, including significant improvements and expansions at Fulford School, Applefields Special School and the Danesgate Community to meet increases in secondary school pupil numbers. The Applefields and Danesgate schemes also ensure there will be sufficient and suitable special school places to provide for children and young people with special educational needs and/or disabilities. A further part of the capital programme includes further investment to support foster carers by adapting home environments to allow children and young people to maintain their independence; it will also be used to provide additional 24/7 care home support within the city.
62. The Dedicated Schools Grant (DSG) is a ring fenced grant that must be used in support of the schools budget. In consultation with the York Schools' Forum, the local authority makes decisions about the delegation of funds to schools and on the spending of funds held centrally, most of

which is used for making provision for children and young people with special educational needs and disabilities.

63. Nationally, DSG's are projecting an overspend and LAs are in overall deficit. York is facing similar pressures and, while calling on government to provide a fairer funding settlement in the interim, a 3 year recovery plan is needed to address the current pressures. Significant mitigations will therefore be required to bring the in-year pressure back down to a balanced position and to start to make inroads into the cumulative deficit. This will be considered further with input from Members and the Schools Forum, and the development of the recovery plan will be reported to the Executive. It is vital for the success of this process that the national SEND Review initiated by the Government in September 2019 be determined as soon as possible.

64. The DSG and School Funding is covered in further detail later in the report.

Council priorities

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

- **A greener and cleaner city** – York's environment is protected and enhanced through investment in the Council's frontline services working towards becoming a carbon neutral city by 2030
- **Good health and wellbeing** – Every resident enjoys the best possible health and wellbeing throughout their life
- **A better start for children and young people** – Families, carers and schools are supported so that every child and young person has the opportunity to develop, learn and achieve their aspirations
- **Well-paid jobs and an inclusive economy** – High skilled and better paid jobs in sustainable businesses, providing opportunities for all York's people in an inclusive economy
- **Getting around sustainably** – More people chose to travel by public transport, walking or cycling, benefiting from improved roads, footpaths and cycle routes across the city, cutting congestion, pollution and carbon emissions, as part of renewed efforts to tackle the climate emergency
- **Creating homes and world-class infrastructure** – The right housing is available, affordable and environmentally sustainable for

everyone with good quality infrastructure that supports community and local businesses

- **Safe communities and culture for all** – Residents live safe from harm as part of strong and vibrant communities, participating in their local area and have access to a range of quality cultural activities
- **An open and effective Council** – We work as an efficient, open, transparent, democratically-led and accountable organisation, in partnership with key stakeholders, to deliver on residents priorities and achieve the council plan outcomes for our city

66. The plan focuses on outcomes rather than just on the services we provide, to help the Council and our partners work better together, rather than as a collection of individual services and activities.
67. The plan was formally approved by Council on 31 October 2019 following consultation with residents, businesses and staff.
68. The budget reflects the Council priorities, with significant revenue and capital investment in a number of critical areas, or protection to existing spending, as set out in both the capital budget and this report.

Principles that have shaped the budget process

69. The Council's Financial Strategy includes significant investment to stabilise our finances to protect against the economic effects of Covid-19 and continues to invest in priority areas as outlined in the Council Plan, including adult social care and support for children, frontline services and the city's economic recovery.
70. Recognising the unprecedented economic challenge of the pandemic and support needed for local residents, we are including growth of £9.2 million on adult social care and support for children, whilst investing additional funding to protect frontline services and to accelerate our economic recovery.
71. To enable this investment, the Council has put forward back office efficiencies of £2,777k as savings to ensure financial prudence and that the Council is prepared to respond to future challenges and deliver services to residents and businesses more effectively.
72. The scale of the budget reductions required will inevitably affect all services and all residents to some extent. In considering what savings can be made we have taken long term approaches to the development of

future services. This 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.

73. Anticipating that the council would be self-funded from council tax and business rates by 2022/23, it was recognised some years ago that a successful economy is critical to the council's financial future, with strong and growing business rates and the ability to attract better paid employment to the city.
74. Ensuring that there is a strong link between the capital and revenue budgets to support the delivery of council priorities is essential. The capital budget sets out significant capital investment, and details regarding some of the major capital schemes that will impact on the economy of the city.
75. Set out in the separate capital budget report are proposals for further major investment in a variety of schemes. These continue the council's approach to prioritise investment in the economy, housing, transport, and tackling climate change. In addition, the council is continuing to make a significant investment in ICT, recognising that the need for high quality technology will be crucial to delivering services in the most effective manner in the future, particularly in relation to adult and children's services and customer services.

Consultation

76. 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.
77. The budget consultation launched in October and closed on 8 December 2021.
78. This year there were 369 responses, a decrease compared to 2,251 last year.
79. The consultation replicated a number of question sets from previous years on council tax and the social care precept, to allow us to track feedback.
80. The consultation was promoted to residents through various channels via Our City publication, social media, local media, forum groups, newsletters,

published on the council's consultation page, and promoted in Council Buildings such as Libraries and Leisure Centres.

81. The survey was promoted;

- Within the business community via existing business network links and distribution groups including York Business Week, Make It York, The Business Improvement District, York Chamber of Commerce and the York Federation of Small Businesses. Promotion was through social media, website channels and email. These key stakeholders were asked to pass on details of the consultation to their members.
- To equalities groups via the equalities network.
- Our City was delivered to all households from 24 October.

82. Paper responses are sent back at no cost to residents via Freepost to West Offices.

83. A trial focus group was consulted in early November which allowed a more in-depth discussion with participants. Further focus groups are expected to take place before the final Executive decision in February 2022.

84. The key messages from the consultation were;

- To balance the budget, 51% of respondents were in favour of an increase in council tax, rather than an increase in charges (41%) or a reduction in service provision (23%)
- 69% supported some form of increase in basic council tax, and of those supporting an increase 49% favoured the maximum increase of 1.99%.
- 65% supported a maximum increase in the social care precept.
- Respondents were asked if they agreed with various areas for priority investment. The area most thought was a priority was the maintenance and upkeep of schools, followed by providing financial support for those that need it most and also to maintain and refurbish parks, play areas and libraries.

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

- The budget proposal increases the basic council tax by 1.99% and social care precept by the maximum allowable (1%) as favoured by

the majority of respondents. This decision was taken to address the significant budget pressures which the council faces, particularly in children's and adult social care, as set out in the report.

- The continued investment in the Covid Recovery Fund will ensure investment the York Financial Assistance Scheme, which provides financial support to those that need it most.
- The council is investing £7.7m in the city's libraries in a programme of city-wide improvement which includes a new £5 million library learning centre for Clifton, a new permanent library for Haxby and Wigginton and capital investment in the Acomb Library learning centre.

86. The consultation responses to questions are summarised in Annex 4. Feedback from the Budget Consultation Focus Group and all views and data gathered during the consultation will in due course be published on the York's open data platform www.yorkopendata.org

Executive Member decision session consultation

87. Following the consultation, five decision session meetings were held for all portfolios (some of these were joint decision sessions) in the week commencing 13 February.
88. The meetings provided further opportunity for Executive Members to obtain feedback from stakeholders, and also gave stakeholders a view of the initial budgets proposals approximately a month in advance of the Executive meeting. Two elected members registered to speak to share their views, which were taken into consideration by Executive Members in advance of the finalisation of these budget proposals.

Budget analysis

89. The budget setting process has taken into account the following issues, (which are considered in more detail in following paragraphs);
- i. Consideration of the 2021/22 position.
 - ii. Consideration of unavoidable cost increases, priority areas, how to create the capacity in priority areas and creating the capacity to allow for service improvement and innovation.

- iii. Consideration of reductions in grant funding.
- iv. Ensuring that the budget is robust and prudent and is based upon the strategic financial advice of the s151 officer.
- v. Ensuring there is a strong link between the capital and revenue budgets and that the delivery of priorities fully considers the two budgets hand in hand.

2021/22 position

90. As part of the budget approved in February 2021, considerable investment was made in priority services to ensure sufficient resources to deliver statutory and priority services. The most notable example was additional funding for adult social care, with the inclusion of £4.4m recurring and £1m one off growth. At a time of significant financial challenges, this was a major investment to ensure the council were able to provide sufficient funding for the cost of care, supporting social care staff and enabling residents to stay in their homes longer.
91. As outlined earlier in the report, and in a separate report elsewhere on this agenda, the latest finance and performance report identifies a range of budget pressures.
92. Some areas identified as pressures in 2021/22 will require additional funding in the future and these include investments relating children and adult social care, which is covered further in the report. In addition the Council will need to take some concerted actions to ensure cost pressures are minimised, with cost avoidance strategies.

Additional Investment

93. The following bullet points set out the areas where additional investment is being made;
 - Revenue funding for the prior year capital programme **£1,600k**
 - New Homes Bonus (NHB) funded revenue budgets **£1,070k** – As mentioned in previous budget reports, with the expectation that NHB funding will reduce in future years it is prudent to phase out any ongoing revenue funded from NHB. The total funding is currently around £2.2m and this is the contribution towards reducing that figure.

- Health and Adult social care - **£3,600k** to cover contractual price increases and demographic pressures, including the cost of adults as they transition from children's services within 2022/23. Including an increase for officer pay and pension costs (included in the £3,935k figure below) a total investment of £4,502k has been made in the health and adult social care service, as set earlier in the report
- Children's Services - **£4,000k** to cover contractual price increases and demographic pressures, including looked after children costs within 2022/23. Including an increase for officer pay and pension costs (included in the £3,935k figure below) a total investment of £4,713k has been made in the Children's Services, as set earlier in the report
- Contractual price increases **£1,695k** - to cover unavoidable contractual price increases in other service areas, mainly ICT, insurance, transport and waste.
- Pay and Pension costs - **£3,935k** is included for pay and pension costs in 2022/23. This covers anticipated pay inflation and a 1.25% increase in National Insurance contributions.

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

- Fuel Poverty **£50k** – one off funding to support residents with the lowest incomes by extension of the winter fuel voucher scheme.
- Winter Gritting **£30k** – one off funding to support the winter gritting budget.
- Anti-Racist Working Group **£20k** - one off funding to support the resourcing need and work of the independent, inter-sectional Anti-Racist Working Group, to support the council motion 'Making York an Anti-Racist and Inclusive City' which was approved by Full Council on 21st October 2021.
- City Centre Access Officer **£30k** - to support the Executive decision in November 2021 to approve the creation of an Access Officer post to support the Strategic Review of City Centre Access and associated Action Plan to help deliver the agreed mitigation measures to improve access for blue badge holders.

95. 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.

One off Investment

96. In addition to the ongoing expenditure pressures set out above one off growth totalling **£650k** is included.

- Transport Plan refresh **£150k** - to deliver the development of the Local Transport Plan subject to city wide consultation on the strategy that will help to move the city towards zero carbon by 2030 and underpin our commitment to tackling congestion and traffic pollution in York.
- Increase General Reserve **£500k** – to ensure that there is sufficient general reserve contingency. This is covered in further detail later in the report.

97. The one off growth items above are funded from £650k one off new homes bonus grant provided by central government.

Investment Summary

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

Investment	2022/23 £'000
Recurring investment	
- Revenue funding for prior year capital schemes	1,600
- New Homes Bonus replacement funding	1,070
- Health and Adult social care prices and demographic	3,600
- Children's Services prices and demographic	4,000
- Other Prices contingency	1,150
- Pay and pension	3,935
- Fuel Poverty	50
- Winter Gritting	30
- Anti Racist Working Group	20
- City Centre Access	30
One off investment	
- Increase General Reserve	500
- Transport plan refresh	150
Total Investment	16,135

Table 3 – Summary of investment

Specific Grant Funding Changes

99. Table 4 shows the net change in specific grants, totalling £3.6m. The council will receive additional grant of £2,423k in 2022/23 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.
100. The Council received a new one off grant Services Grant of £1.83m. This is a new one-off grant (£822m) that is distributed to every authority using the 2013-14 settlement funding assessment (SFA). It is likely to be replaced by the more radical changes to funding distribution that are promised for 2023/24.
101. The Council received Education Services Grant (ESG) of £679k in 2020/21. This was replaced by the School Improvement and Monitoring Grant in 2021/22, and the amount was reduced to £267k. This was not factored into the 2021/22 budget and the shortfall was offset by underspends within Corporate Finance. The expected value of the School Improvement and Monitoring Grant in 2022/23 will reduce by a further £218k to £49k. The third line of Table 4 shows the overall reduction of Education related grants of £630k since 2020/21.

Funding Changes	2021/22 £'000
- Increase in ASC specific grants	-2,423
- Services Grant - new specific grant	-1,830
- Reduction in Education related specific grant	630
Net Funding Changes	-3,623

Table 4 – Grant funding changes

Council Tax Funding Changes

102. Table 5 shows the net changes to council tax funding.
103. The first line in Table 5 shows the 2.99% increase in council tax which will generate additional income of £2.930m on the existing taxbase.
104. A further £1.062m council tax is generated due to an increase in taxbase as shown in the second line of Table 5. The taxbase is calculated by the s151 Officer each year and represents the total number of Band D equivalent properties in the city. In 2022/23, this has grown by approximately 708 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.

105. The third line is the reversal of the collection fund surplus from the prior year. There was no surplus in 2020/21.

106. The council tax collection fund surplus or deficit for the year 2021/22 is estimated on 15 January 2022, 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 2020/21.

107. In summary the Table 5 shows an estimated £3.992m additional income from council tax in 2022/23.

Council tax	2022/23 £'000
- Increase in charge	-2,930
- Increase in taxbase	-1,062
- Reversal of collection fund surplus 2020/21	0
- Collection fund surplus/deficit 2021/22	0
Net council tax changes	-3,992

Table 5 – Council Tax funding changes

Business rates income and Revenue Support Grant (RSG)

108. Table 6 shows there is no change in the level of business rates. Further details on business rates income and assumptions are included later in the report.

109. In 2021/22 City of York Council were part of a 50% business rates pool with Leeds City Region and this is set to continue in 2022/23. This is covered in further detail later in the report.

Business rates and RSG income	2022/23 £'000
- Business Rates increase/reduction	0
Change in income	0

Table 6 – Change in business rates Income

Savings proposals and Expenditure Reduction

110. Directorates have identified £6.47m to contribute towards the 2022/23 savings target. £1.9m of the 2022/23 savings are the full year effect of prior year savings previously agreed by Executive. These proposals, outlined in annex 2, include increases in income, reductions in administration costs and removal of vacant posts.
111. There is an additional full year impact of £720k in 2023/24 in relation to these savings proposals, as outlined in annex 2.
112. In addition to directorate savings proposals of £6.47m, there is an additional saving of £1.4m due to the reduction of the Covid-19 recovery fund. A one off fund of £2.5m was established in 2021/22 and the reduction of this fund to £1.1m generates a saving of £1.4m.
113. Table 7 summarises the 2022/23 savings to be delivered by each directorate, corporate services and reduction in the Covid-19 fund.

Savings	2022/23 £'000
- People	-2,102
- Place	-1,403
- Customers and Communities	-663
- Governance	-169
- Finance and HR	-133
- Corporate	-2,000
Total savings changes	-6,470
Reduction to Covid contingency	-1,400
Total expenditure reductions	-7,870

Table 7 –2022/23 Expenditure Reduction

New homes bonus (NHB) grant

114. The new homes bonus was introduced to provide an incentive for local authorities to encourage housing growth in their areas. Authorities receive funding for growth above the national baseline set at 0.4%. When an authority has overall growth in excess of the baseline, it gets rewarded for the above-baseline growth, not its entire growth.
115. In the September 2019 settlement the government announced a reduction in legacy payments and a phasing out of the NHB funding by 2023/24. It

is unclear if the government intend to replace NHB funding when new funding arrangements are announced for 2023/24.

116. As mentioned earlier in the report, with the expectation that NHB funding will phase out next year it is prudent to phase out any ongoing revenue funded from NHB. The total funding is currently around £2.2m and this growth of £1.070m is the contribution towards reducing that figure. Future allocations will be considered in future budgets once there is a better understanding of any potential replacement funding.

117. The total NHB funding available in 2022/23 is £1.838m.

118. The budget proposals include one off investment of £650k which will be funded from NHB.

New Homes Bonus	£'000
- Available 2022/23	-1,838
- Previous Council decisions	
February 2016 budget - recurring	1,349
July 2015 budget amendments - recurring	1,259
February 2019 budget - recurring	50
- 18/19 Allocation to phase out NHB funding	-400
- 22/23 Allocation to phase out NHB funding	-1,070
- Allocated in this budget (one off)	650
NHB remaining	0

Table 8 – New homes bonus funding

Net Budget Composition

119. Taking into account funding changes summarised in Tables 4, 5 and 6, Table 9 below summarises the funding available from council tax and business rates for 2022/23.

	2022/23 £'000
Council Tax	102,043
Business Rates	33,341
Total Net Budget	135,384

Table 9 – Net budget composition for 2022/23

Fees and charges

120. Whilst the Council recognise that the challenges of Covid-19 remain for businesses and residents, it has been necessary to increase some fees and charges for 2022/23 to achieve a balanced budget.
121. 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.
122. The proposals include a general increase in parking charges of 10p per hour (reflecting increased bus fares so as not to undercut competitiveness of park and ride services) and the introduction of a new evening parking charge for Minster Badge holders of £1. One of the impacts of the pandemic has been a significant reduction in payment by cash across the car park estate and it is recommended to undertake consultation over how we can phase out the option of cash payments (to make savings on machine maintenance and cash collections). There is also a proposal to introduce parking charges at targeted city centre streets which currently have no parking restrictions. These will be primarily introduced to encourage people to use off street car parks or other forms of sustainable travel.

Council Tax

123. The existing components of the current (2021/22) band D council tax for a CYC resident are shown in Table 10 below. It should be noted that these figures exclude parish precepts which are an additional charge in some areas.

	£
City of York Council - Basic	1,286.92
City of York Council – Social Care Precept	165.44
North Yorkshire Police	271.06
North Yorkshire Fire and Rescue	74.14
TOTAL	1,797.56

Table 10 - Make Up of 2021/22 Council Tax

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

Referendum Limits

125. The council tax referendum limit has remained at 2% (excluding social care precept) for 2022/23. The threshold is not guaranteed to continue beyond 2022/23. 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 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.

126. 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 £280k. If the referendum could be combined with another election this would reduce the cost by approximately 50%. There are no local elections scheduled to take place in 2022/23. In addition there are the costs of rebilling which is estimated at £50k.

Social care precept

127. Local authorities with responsibilities for adult social care have been given the flexibility to charge a further social care precept in addition to the 2% referendum threshold. The Council can charge up to a maximum of 1% on social care precept.

128. As referred to earlier in this report, the recommendation made in these papers is that from April 2022 the City of York element of the council tax will increase by 2.99%, 1% of the increase relating to the social care precept.

129. A 1% social care precept increase generates additional income of approximately £980k 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.

Empty Homes Premium

130. In November 2012 the Government announced that from 1st April 2013 councils could charge a Council Tax premium for domestic properties that have been unoccupied and unfurnished 2 years or more as follows:

- Empty 2-5 years: 100%
- Empty 5-10 years: 200%

131. Member's approval was gained in 2012 to charge the above from 1st April 2013, which has been levied and available for customers to see on CYC Council Tax web-pages.

132. In 2020 Parliament expanded this charge to allow councils to charge a premium of 300% for properties empty for over 10 years. In York it is estimated that this would apply to approximately 10-15 properties, and would yield additional annual Council Tax income circa £21k. Included in the recommendations of this report, is a proposal to levy this additional charge tier from 1st April 2022 of 300% for properties empty for longer than 10 years.

Precepts

133. 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 17 February.

134. Table 11 demonstrates both the cash and percentage increase in 2021/22 for these which resulted in a total band D council tax for a York property of £1,797.56.

	2020/21	2021/22		
	Charge (£)	Increase (£)	Increase (%)	Council Tax (£)
CYC	1,383.33	69.03	4.99%	1,452.36
Police	265.77	5.29	1.99%	271.06
Fire	72.69	1.45	1.99%	74.14
Total	1,721.79	75.77	4.40%	1,797.56

Table 11 – 2021/22 Council Tax Figures for City of York Area

135. 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)

136. The business rate multiplier will be frozen in 2022/23 and will remain at 49.9p.

137. The council is projecting retained business rates/RSG income in 2022/23 of £33.341m, the same level as 2021/22.

138. As a prudent measure, there are no growth assumptions in relation to business rates income for 2022/23. 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. This is covered in further detail later in the report.

Business Rates Pooling

139. City of York Council is currently a member of the Leeds City Region (LCR) Business Rates Pool, and this will continue in 2022/23.

Reserves and Contingency

General reserves and contingency

140. Table 12 shows the position on the general fund reserve which, it is anticipated, will be £6.941m by the end of 2021/22. However, as noted earlier in the report and on a separate report on this agenda a number of known pressures are forecast for 2021/22. The Council will continue to make every effort to reduce this forecast position but it is considered unlikely that it will be reduced to the point that the outturn will be within the

approved budget, and therefore it is expected that Council general reserves will need to be called on.

141. These budget proposals include one off growth to reinstate the General Reserve back to the 2020/21 level, by an increase of £500k. The projected reserves at the end of 2022/23 are based on the assumption that Members agree no usage of reserves in 2022/23 as part of the final recommendations to Council.

142. 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 an increase of £400k to a level of £6.8m is an appropriate figure. However in light of the risks facing the council, in relation to Covid-19, major capital programme schemes such as York Central and Castle Gateway and the budget pressures within children’s and adult social care as covered earlier in the report, it is considered that the Council should make every effort to maintain some headroom above the minimum level. Should the general reserve be required in 2021/22, further consideration of reserves will be made during the early part of 2022/23 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.

	2021/22 Projected Out-turn £'000	2022/23 Budget £'000
General reserve at start of year	6,941	6,941
Increase to General Reserve (one off growth)		500
In Year use of reserves	0	0
General reserve at end of year	6,941	7,441
Prudent minimum reserves	6,400	6,800
Headroom (+)/Shortfall (-) in reserves	541	641

Table 12 – Projected general reserves

143. In addition to general fund reserves and the Covid Recovery Fund, the budget includes a £500k general contingency. In recent years this has always been required.

144. As mentioned earlier in the report, due to significant risks associated with Covid-19, major capital projects and the reduction in NHB grant it is

appropriate to provide an adequate contingency on an ongoing basis. This is critical in terms of the setting of a prudent budget.

Waste Reserve

145. It is anticipated that there will be three further phases of the Local Plan Examination in 2022/23 which will result in significant expenditure both in supporting the enquiries as well as costs that will be incurred dealing with updating plans and potential further consultation which is a normal part of an Examination process. It is estimated that these costs could be up to £500k depending on the length and complexity of the issues that arise from the examinations. It is proposed that a contribution of £500k from the Waste Reserve is made to cover these anticipated costs. Currently there is c £2m in the Waste reserve which is set aside to cover ongoing section 106 contributions and also potential one-off liabilities arising from the Long Term Waste facility at Allerton Park of which there are none predicted at this time therefore the £500k contribution to the Local Plan will not impact on any of the Allerton Park arrangements.

Venture fund

146. The balance on the venture fund reserve is anticipated to be £4.529m at the end of 2021/22.

147. As covered in previous budget reports Executive have already agreed commitments in future years to major projects including £300k to the Community Stadium, £3m to York Central, £131k to Mental Health and £200k to Burnholme Community Centre. After taking into account these commitments, the forecast year end balances on the venture fund is included below in Table 13.

	Forecast Year end Venture Fund Balance
	£'000
2021/22	4,529
2022/23	4,526
2023/24	1,541
2024/25	1,759
2025/26	1,979
2026/27	2,200

Table 13 – Venture Fund Balance

148. The Council have notionally ring fenced any remaining balance in the Venture Fund for a letter of credit on behalf of York Museum Trust (YMT) up to a maximum of £1.95m, although it is not expected that amount would be required. Since this is notional and the amount is still uncertain it has not yet been reflected in Table 13 above. The council has also agreed to a loan of up to £300k to Make it York if required to support its cashflow that would be funded from the Venture Fund. For this reason and in recognition of the future commitments described above, the use of Venture Fund is not recommended in 2022/23.

Medium term planning

Medium Term Outlook

149. The Government published the provisional settlement on 16 December 2021. It is a one year settlement only and there are no projected or indicative figures for the remainder of the spending review period (2023/24 and 2024/25). More fundamental changes in local government have been clearly signalled for 2023/24 so this one year settlement is really a rollover settlement with the focus very much on stability.

150. Local Government received £1.5bn in additional funding, with only 40% allocated to social care, a smaller share than had been expected. Inflation has been applied to the Better Care Fund and £636m added to the Adult Social Care Support Grant.

151. The remainder of the £1.5bn has largely been allocated through the new 2022/23 Services Grant. One unexpected item was the inclusion of a further one off payment for New Homes Bonus. However, as we have yet to build in the growth needed to cover the shortfall in NHB, we are no better off. We have a reduction of £0.5m instead of an expected (and unfunded) reduction of £1.6m. It will be essential to include the full amount of growth in the 2023/24 budget.

152. According to the settlement, work will start in the coming months to work out with the sector how to update funding distribution and 'challenges and opportunities facing the sector'. These changes in funding could be significant, and will make forecasting for 2023/24 and beyond very difficult. Some or all of the fair funding review could be resurrected, and a business rates baseline reset seems likely. Damping or transitional support should help to soften any losses in funding.

153. Within the resources allocated via the settlement, local authorities will have to fund any additional costs arising from the increase in National

Insurance Contributions (1.25% increase from April 2022). In 2022/23, the cost of the increase in NICs is funded by the new Services Grant. The cost of the NICs increases will be funded from redistributed grants from 2023/24. No new funding for NICs increases will be announced in future years.

154. There is still not much information about specific grants outside the settlement including:

- Homelessness
- Public health
- Troubled families
- Highways maintenance (capital)

Business Rates and Funding Reform

155. 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.

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

157. There has been an expectation for the last 3 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 has further set back progress on this.

158. 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 2023/24.

159. 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).

160. 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.

161. As a prudent measure, there are no growth assumptions in relation to business rates income for 2022/23, to enable the Council to build up a reserve in the event that the FFR and business rates reset is not favourable for York.

Social care funding

162. The Government announced in 'Building Back Better' that it would be introducing new social care reforms. The reforms will be funded by the Health and Social Care Levy (1.25% increase in National Insurance Contributions). From the levy, £5.4bn will be used to fund the social care reforms, of which:

- £3.6bn will be distributed to local authorities via the settlement (£0.2bn in 2022-23, £1.4bn in 2023/24, and £2.0bn in 2024/25)
- £1.7bn will be held back by DHSC to fund various elements of the reforms (some of this funding is likely to be directed through local authorities)

163. The first tranche of funding was distributed in the 2022/23 settlement. £162m will be distributed in 2022/23 via the settlement for the cost of 'market sustainability' and 'fair cost of care', with a further £600m in each of 2023/24 and 2024/25. A total of £1.4bn will be used to fund 'fair cost of care' over 3 years.

164. The £162m in 2022/23 'is designed to ensure local authorities can prepare their markets for reform and move towards paying providers a fair cost of care'. Authorities should use the funding to 'conduct a cost of care exercise', 'engage with local providers', and 'strengthen capacity to plan for, and execute, greater market oversight'. The new responsibilities, and the bulk of the costs for local government, will start in October 2023.

165. Further funding is going to be distributed to local authorities through the settlement to fund the cost of other elements of the social care reforms (e.g. cap and means test). There is an estimated £800m in 2023/24 and £1.4bn in 2024/25, although these amounts are likely to change as further estimates of cost become known. Separately, DHSC has held back £1.7bn out of the £5.4bn increase in funding.

166. There remain many questions about the funding for social care reform, and how this fits in with the amounts that have been distributed through

the settlement. It is fair to say that there is still much to be worked out by DHSC, not least how much the reforms will cost local authorities. So there is going to be continued uncertainty around both the cost of these reforms and how the funding will be determined and distributed. As a result, there is a very significant financial risk to local authorities with social care responsibilities.

Medium term strategy and approach to savings

167. 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 14, sets out the headline figures for the Council's medium term financial forecast to 2025/26.

168. It is difficult to predict beyond this timescale with the absence of multi-year settlements and the current uncertainties due to Covid-19.

	2023/24	2024/25	2025/26
	£'000	£'000	£'000
GROWTH			
Pay and price inflation	6,000	6,800	7,600
Demographic (mainly social care) and overspend pressures	4,300	4,300	4,300
Capital Programme	1,600	1,600	1,600
Other	1,100		
Total growth	13,000	12,700	13,500
RESOURCES			
Council Tax at 3.99%	4,000	4,800	5,600
Business Rates Growth	0	0	0
Total resources	4,000	4,800	5,600
FUNDING GAP	9,000	7,900	7,900

Table 14 – Medium Term Forecast to 2025/26

169. These figures are based on the assumption that funding for adult social care continues in a similar manner and the pay award will be approximately 2%. Clearly there are a number of factors that could change these figures, and uncertainty will remain until the announcement of future settlements in Autumn 2022, but they provide the broad basis on which the Council will need to consider decisions over coming years. The longer

term impact of Covid-19 on council tax and business rates collection and the pressures on budgets are still difficult to judge at this stage.

170. The funding gap figure in Table 14 represents the amount of savings that are required each year to balance the budget.
171. Whilst settlements for local government are expected to be better than in the past, this is far from certain in light of the current one year settlement and the factors outlined earlier in the 'medium term outlook' section of the report.
172. There are three very major pressures facing the Council. These relate to social care, Covid-19 and the impact of the capital programme.
173. 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.
174. The current pressures on the social care budget are expected to continue in the medium term and are reflected in the figures in Table 14.
175. 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.
176. Due to the impact of Covid-19 there is no growth in business rates assumed. As identified earlier in the report there are further uncertainties around assumptions in business rates funding which may have a significant impact on the council's funding. This will be determined by the outcome of the fair funding review and the business rates baseline reset.
177. Based on the current assumptions above, based on a 3.99% increase in future year's Council tax, there remains a funding gap of between £7.9m and £9m 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.
178. Specific details of future year's savings proposals will be covered in future budget reports. Looking beyond 2022/23 is difficult given a wide range of uncertainties already described. The scale of savings is to a large extent dictated by the overall level of council tax increase that will be set.

Housing Revenue Account (HRA) Budget

179. Local Authorities are required, by legislation, to keep a HRA. The Local Government and Housing Act 1989 stated that items of income and expenditure only relating to council housing must be contained within the account. Authorities have a duty to ensure that the HRA balances, to keep the budget under review and to take all reasonable steps to avoid a deficit.
180. It is also important to ensure that the HRA does operate efficiently and a number of savings totalling £268k, have been identified. Details of these savings are shown in Annex 6.
181. The HRA budget, taking into account the pay award, inflation and savings for 2022/23 are detailed at Annex 7.
182. Elsewhere in the capital programme, additional investment has been identified for further aids and adaptations across the housing estate to support tenants to remain in their homes, further investment in energy efficiency measures to reduce the carbon footprint of council housing and additional funding to improve the external environment of our housing estates through the Housing Environmental Improvement Programme (HEIP).
183. The impact of the recommendations within the financial strategy have been modelled and the 30 year business plan is shown as Annex 8. The impact of the growth and savings have been broadly neutral over the years. The headlines of the plan are that
- Maximum debt will increase from £146m to £154m as the Housing Delivery Programme develops sites
 - The HRA self-financing debt (£121.55m) will be fully repaid by the end of the plan
 - The minimum HRA year end balance can be maintained at over £15m
184. The plan remains financially robust as the ongoing HRA debt can be serviced whilst continuing to deliver in year surpluses (prior to debt repayment) in every year of the plan.

Rent Changes 2022/23

185. Since April 2002, the rent increase has been calculated with the key aim of converging rents across all social housing providers whether local authority landlord or other registered provider. This involved a phased change in rents, known as rent restructuring, based on a formula for rent

setting created by central government. This government formula rent took account of various factors including the number of bedrooms a property has, property valuation, average earnings and the date at which all rents were expected to converge.

186. Central government policy has now changed and rent restructuring has been brought to an end. The subsequent policy of increasing rents by the Consumer Prices Index (CPI) + 1% that was applied for the 2015/16 increase was due to apply for ten years but in July 2015, further changes to social rents were announced in the Welfare Reform and Work Bill 2015. All social housing rents were required to be reduced by 1% for four years from 2016/17. Government made a further announcement in October 2017 confirming that social rents can be increased by CPI + 1% with effect from 2020/21 for at least a further five years. The 30 year modelling assumes future CPI at 2%, although current CPI is 3.1%.

187. The expected effect on rent levels over the next 3 years is shown in table 15 below.

Year	Estimated Average Rent Per week	Estimated Average Increase per week
2021/22	£80.80	£0.97
2022/23	£84.11	£3.31
2023/24	£86.63	£2.52

Table 15 – HRA Rent changes

188. All rents that do not fall within the definition of “social housing rents” for the purposes of the Welfare Reform and Work Bill 2015 will have the previous policy applied of increasing by CPI + 1% which will be an increase of 4.1%. This will include garages as well as any specialist supported housing that is exempt from the rent reduction legislation.

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

190. The current RPI (December 2021 rate) is higher than CPI+1% (September 2021 rate), as such CPI +1% at 4.1% will be used to increase the Gypsy, Roma and Traveller Community site rents in 2022/23.

191. The rent increase for Shared Ownership tenants is governed by the RPI rate as at September 2021 which was 4.9%. In line with the lease agreement, rent on the portion of the property owned by City of York Council, will be increased by RPI +0.5%, being 5.4%. The rent increases

only applies to those tenants that have held an equity share in their property for more than 12 months as at 1st April 2022.

192. In addition rising energy costs need to be factored in to service charges across housing stock and temporary accommodation. The Council passes on costs for communal areas or where heating is supplied to individual flats. The costs of energy are expected to increase significantly in the next financial year and it is proposed that additional costs are passed on to tenants otherwise the wider HRA would have to fund the increase. The additional costs will be paid for by Housing Benefit or Universal Credit entitlement for those qualifying in full or in part.

193. Housing Management Officers will work with residents picking up this increase from other income sources to minimise the impact as usual. Wider work is ongoing to improve the Council's offer around cost of living increases, including fuel poverty, and how we can support residents with increasing fuel costs financially, through promoting energy efficiency, switching where applicable and advice around maximising income and budgeting.

Dedicated Schools Grant (DSG) and the Schools Budget

194. The DSG is ring-fenced for funding the provision of education or childcare for 3 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.

195. 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 2022/23 but with some changes to the schools NFF, and a continuing reduction in the funding allocated to the LA for centrally retained budgets.

196. The total DSG allocation for 2022/23 is estimated at £152.280m, an increase of £3.266m (2.2%) from 2020/21 and broken down as follows:

DSG Funding Block	Adjusted 2021/22 £m	2022/23 £m	Increase	
			£m	%

Schools Block	112.597	114.850	2.253	2.0%
Early Years Block	11.067	10.750	(0.317)	(2.9)%
High Needs Block	22.584	24.305	1.721	7.6%
Central School Services Block	2.766	2.375	(0.391)	(14.1%)
Total DSG	149.014	152.280	3.266	2.2%

Table 16 – DSG Allocation

Schools Block

197. The vast majority of the Schools Block DSG (£114.507m) is used to fund the local funding formula for mainstream schools (maintained and academies). This equates to an increase of £2.301m (2.1%) in the total resources available to allocate to schools in the city through the school funding formula.
198. 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 2022/23, in consultation with the Schools Forum, the LA is again proposing to follow the NFF for schools.
199. The funding factors used in the 2022/23 Schools NFF remain the same, except for the sparsity factor which is discussed below. The individual NFF factor values increase by the following amounts:
- 3% 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) and the lump sum.
 - 2% to the floor, the minimum per pupil levels and free school meals (FSM).
 - 0% on the premises factors, except for PFI which has increased by RPIX.
 - £10,000 to the maximum sparsity values.
200. Following a national consultation, the DfE have made two changes to the sparsity factor. School sparsity distances are now based on road distances, instead of straight-line distances, and a sparsity distance taper has been introduced, in addition to the existing year group size taper. Prior to these changes no York schools have benefited from sparsity funding. However, under the revised criteria five of York's smallest rural schools

will trigger this funding in 2022/23, with additional allocations ranging from £16k to £55k per school.

201. At a national level, school funding through the NFF is increasing by 3.2% overall in 2022/23 and by 2.8% per pupil. However the average increase for York schools is estimated at 2.5% per pupil as a significant number of schools are either already receiving protection through the funding floor or the minimum per pupil amounts, which only increase by 2% in 2022/23.
202. The remaining £0.342m of the Schools Block DSG is allocated to the pupil 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. The amount of growth funding allocated to the LA by the DfE continues to fall, from £0.800m in 2018/19 to £0.391m in 2021/22 and a further significant reduction, down by £0.049m (12%) in 2022/23.
203. 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 recent years the fund has been overspent and this is likely to continue as the DSG allocation from government reduces. As a result, and in consultation with the Schools Forum, all allocations made from the growth fund are being capped under a cash limited 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 would be reduced pro-rata.

Early Years Block

204. York's government funding rates for 2022/23 through the Early Years block have increased by 17p per hour from the 2021/22 rates to £4.61 per hour for 3 & 4 year olds (+3.8%) and by 22p per hour to £5.57 per hour for 2 year olds (+3.9%). In line with this the LA is proposing to increase all elements of the Early Years Single Funding Formula rates for York providers in 2022/23 in proportion to the increase in government funding. In addition, under the formula the DfE established in 2017 to support stand alone nursery schools, the provisional additional amount to be received for St Paul's Nursery has increased by £14k to £84k.

2022/23 EYSFF Funding Rates

	Base Rate £/hour	Deprivation Rate £/hour	Nursery School Lump Sum £
3 & 4 Year Olds	4.29	0.43	84,368
2 Year Olds	5.57	Nil	Nil

Table 17 – EYSFF Funding Rates

High Needs Block

205. The high needs block DSG increases by £1.721m (7.6%) in 2022/23. As has been previously reported, the high needs budget is already under significant pressure due to increased demand from rising numbers of SEND pupils and the higher complexity of individual pupils' needs. For 2021/22 there is a projected net outturn overspend on the high needs budget of £3.5m, contributing to an estimated deficit carry forward DSG balance of £13.5m into 2022/23.
206. Projections for 2022/23 show that based on the increased DSG funding, current levels of demand and expected inflationary pay and contract price increases and without any significant mitigating action, the in-year overspend would reduce to £3m. Significant mitigations will therefore be required to bring the in-year pressure back down to a balanced position and to start to make inroads into the cumulative deficit.
207. Overspends at this level are clearly unsustainable and significant financial savings are essential to ensure that high needs expenditure is maintained within the funding available through the high needs block of the DSG. Members should note that the deficit carry forward of DSG into 2021/22 of £10m has triggered a formal request from the DfE for the LA to submit a deficit recovery plan. Officers, with the assistance of DfE officials, are currently working on this plan which will need formal Member sign-off before submission.

Central School Services Block

208. 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 £0.391m (14.1%) in 2022/23. This follows similar reductions in the previous two financial years. This net reduction is made up of a £0.003m (4.4%) increase in the allocation for the on-going responsibilities that the

LA continues to have for all schools, and a £0.394m (20%) reduction in the allocation for historic commitments.

209. For 2022/23 this means allocations of £0.799m for LA on-going responsibilities and £1.576m for historic commitments. As historic commitments currently total £1.963m in 2021/22 the LA will need to identify budget reductions totalling £0.386m for 2022/23. The LA will be consulting with the Schools Forum at its meeting on 8 February on how best to manage this reduction.

Schools Supplementary Grant

210. The autumn 2021 spending review confirmed £1.6 billion of additional funding nationally for schools and high needs, for 2022/23, above the previous settlement for that year.

211. In 2022/23, schools will be allocated £1.2 billion of this additional funding, to provide support for the costs of the Health and Social Care Levy and wider cost pressures. This funding will be allocated through the schools supplementary grant 2022/23.

212. In addition to the schools supplementary grant, local authorities have been allocated £325 million additional high needs funding for 2022/23, on top of the dedicated schools grant high needs block allocations, calculated under the national funding formula.

213. York's allocation for the high needs element of the supplementary grant has been set at £0.876m for 2022/23. However, the allocations for schools will not be published by the DfE until spring 2022.

Scrutiny

214. In accordance with constitutional practice Customer & Corporate Services Scrutiny Management Committee considered at its meeting on 13 December 2021 what level of budget is appropriate in the coming year to support scrutiny reviews. The committee take into account existing levels of spend in 2021/22 and the councils overall financial position. In the light of those considerations the committee has decided to maintain the current funding level of £5k.

Equalities

215. 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.

216. 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.

217. 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.

218. The EIA is classed as a “living document” and as such it should be regularly revisited to ensure that the impacts of proposals (either negative or positive) on the protected characteristics are taken into consideration and recorded. It is accepted that the EIA accompanying the budget report will not address the impacts of every detailed aspect of the budget and therefore individual elements of the budget will, following Council approval, attract their own EIA to support delivery of that proposal and ensure that negative aspects of the protected characteristics are acknowledged and where possible mitigated.

219. 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.
220. 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.
221. 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
222. There is significant investment in the climate change delivery programme to coordinate, develop and implement the council's ten year plan to deliver a zero carbon future for York. This brings many positive outcomes in relation to energy usage, waste and sustainable transport.
223. Funding for carers will continue as the council aims to provide a more comprehensive set of support, reflecting the significant role of carers in allowing people to remain in their own homes and live independently as far as possible.
224. The changes within a new operating model for adult social care seek to reduce people's dependency on social care support through the provision of information and advice and earlier intervention to support, maintain or regain independence for those who are able. These changes are designed improve outcomes for customers, including those with one or

more protected characteristic (particularly Age and Disability). For those who require ongoing support, the offer will be made more flexible and tailored to their needs.

225. In addition to the numerous EIA documents on the individual savings and the overall budget, the Council has used the Better Decision Making Tool to provide a high level overview and this is available at annex 5.

Specialist Implications

226. This report has the following implications;

Financial

227. The financial implications are contained within the body of the report. Due to the continued, significant uncertainty in both national and local government finances and the resulting increase in risk, a specific £1.1m Covid contingency is included within the budget proposals to mitigate this risk and ensure the proposals outlined deliver a robust, balanced budget. This is also covered in the risk management section of this report.

Human Resources (HR)

228. The savings proposals contained within the overall budget will require the reduction of some posts in 2022/23.

229. 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 2022/23 is likely to be a mixture of post reductions and working for redesigned services.

230. 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.

231. 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

232. The council is required to set a council tax for 2022/23 before 11 March 2022. 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 2022, 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.
233. 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.
234. 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.
235. 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.
236. Members must also act prudently. Members must also bear in mind their other statutory duties to have regard to certain matters when making decisions. The report identifies proposals which, if approved, may potentially have an impact on children, older adults and persons with disabilities all of which groups are statutorily protected equality strands

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

237. 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.

238. 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.

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

240. 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.

241. 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.

242. 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.

243. 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 if a party proposes a council tax above the referendum limit they must also produce "substitute calculations" within the referendum limit, to be used in the event that the referendum would reject the increase. In the event that a referendum rejects the increase, the billing authority would be able to issue new bills, offer refunds at the end of the year or allow credits against liability the following year, although individual council taxpayers would be entitled to a refund on demand.

Council Priorities

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

Statutory Advice from the s151 Officer

Introduction

245. 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

246. The preparation of a budget relies on estimates, which are made at a point in time, and clearly there are a number of factors that can influence actual expenditure throughout the year. However, there are processes in place to ensure that assurance can be given that this budget has been constructed using the best available information and assumptions at the time of preparation. These include:
- regular budget monitoring to ensure known pressures are reflected
 - involvement of directorate management teams in development of the proposals
 - regular scrutiny of the proposals by Executive members, including separate budget Executive Member Decision Sessions held during December
247. 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.
248. 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 2021/22 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
249. 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.

250. A range of pressures have been identified and built into the budget presented in this report, including a contingency sum of £500k as in previous years. There are also significant savings, reflecting the scale of the challenge facing the council. There should be no understatement of the scale of this challenge that continues to face the council, given the general upward cost profile of adult care and children's services.

Risks

251. The report outlines the key risks to the 2022/23 budget and these are considered further in the following paragraphs.

252. The Covid-19 pandemic has been the cause of unprecedented challenges and financial uncertainty which has had a significant impact on the Council's financial position. This is likely to continue to be an ongoing area of risk as the longer term impact both on businesses and on residents is still unknown and therefore I again consider the inclusion of a Covid contingency an essential aspect of the budget proposals.

253. Rising inflation, in particular in relation to energy costs, is an area of concern with CPI expected to reach almost 7% by April 2022. This will impact on all our residents. In addition, given the Council's significant capital programme, rising costs are to be expected and may result in some schemes being delayed or costing more than estimated. The Council is also experiencing difficulties in recruiting to some front line services given the high number of vacancies across the economy. This may again result in difficulties in achieving some Council Plan priorities.

254. A key risk facing the council is the number of complex capital schemes it is currently undertaking, and which are still at relatively early stages of development. Should schemes not progress to full completion there remains a risk that costs currently assumed to be capable of being capitalised must be written off to revenue. There are also increased borrowing levels resulting in increased revenue costs of debt in coming years. This is highlighted in the medium term plan figures.

255. A further key risk in relation to the capital programme is that some major capital projects may have short/medium term cash flow impacts. For example York Central, and Castle Gateway will be major schemes, which will result in additional business rates, income or capital receipts, but that may require short term borrowing prior to income being received to cover the costs. As identified in previous budget reports, the Venture Fund will be used to support early years cash flow deficits on major strategic capital projects.

256. The current pressures being experienced within both adults and children's services are 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. The budget proposals properly recognise these pressures.
257. The reduction in New Homes Bonus Funding will also require careful planning to ensure expenditure currently funded from this source can be met from council tax/retained business rates. Again, provision has been made for this in the budget.
258. 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.
259. The Government announced in "Building Back Better" that it would be introducing new social care reforms funded by a Health and Social Care Levy. There remain many questions about the funding for social care reform, and how this fits in with the amounts that have been distributed through the settlement. It is fair to say that there is still much to be worked out by DHSC, not least how much the reforms will cost local authorities. So there is going to be continued uncertainty around both the cost of these reforms and how the funding will be determined and distributed. As a result, there is a very significant financial risk to local authorities with social care responsibilities.
260. 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 16 December 2021. It is a one year settlement only and there are no projected or indicative figures for the remainder of the spending review period (2023/24 and 2024/25). More fundamental changes in local government have been clearly signalled for 2023/24.

261. These changes in funding could be significant, and will make forecasting for 2023/24 and beyond very difficult. Some or all of the fair funding review could be resurrected, and a business rates baseline reset seems likely. The government originally launched the Fair Funding Review in 2016 and the review has been postponed numerous times. As yet, there are not details as to when the review may be revisited. 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

262. 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.

263. 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 £6.8m.

264. 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.

265. The outturn report for 2020/21 required the use of general reserves to balance. As part of the 2022/23 budget provision has been made to increase reserves back to their previous level by the inclusion of one off growth of £500k. This ensures reserves are maintained at an appropriate level given the risks outlined above.

266. The proposed 2022/23 budget does not use the general reserve to balance however, given the financial pressures currently being

experienced within social care, it is expected that the general reserve will again need to be called on in 2021/22. As the budget proposals include a £1m Covid Recovery Fund to deal with the ongoing impact of the pandemic, and one off growth of £500k to return the general reserve to its previous level, it is my view that the level of reserves still remain sufficient to deal with any further risks.

Summary

267. The ongoing uncertainty created by Covid-19 means it continues to be incredibly difficult to forecast with any real certainty. Rising inflation, potential changes to local government finance signalled in the provisional settlement and the likely financial challenges of adult social care reform all have the opportunity to have a significant financial impact on the council.
268. 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 to support and accelerate recovery from the pandemic. 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. Whilst the council currently has strong financial health in terms of its overall level of unallocated reserves, a period of uncertainty is to be expected and for future budgets consideration will need to be given to increasing reserves should they be used in the short term.
269. I have given careful consideration to the proposals outlined in all the budget reports on this agenda and particularly the risks associated with the proposals. Prudent and realistic assumptions have been made and the financial implications of known pressures have been included. Therefore, I am satisfied that they represent a robust budget on which the council can rely in setting council tax.

Risk Management

270. An assessment of risks is completed as part of the annual budget setting exercise and will be reported in the February report to Executive. These

risks are managed effectively through regular reporting and corrective action being taken where necessary and appropriate.

271. The budget proposals include a Covid contingency sum to allow the Council to respond quickly during the early part of the new financial year and mitigate against any new risks as a result of the changing situation in relation to the pandemic.

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

Contact Details

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(Corporate Finance)

Chief Officer Responsible for the report:

Debbie Mitchell
Chief Finance Officer
(s151 Officer)

**Report
Approved**



Date 26/1/22

Specialist Implications Officer(s)

Legal – Janie Berry
HR – Helen Whiting

Wards Affected: List wards or tick box to indicate all

All

For further information please contact the authors of the report

Background Papers:

Financial Strategy 2022/23 to 2026/27 Equality Impact Assessment (EIA)
Executive Member Budget Decision Session reports;

- Joint Decision Session - Executive Members for Environment and Climate Change, Transport and Economy & Strategic Planning 15 December 2021
- Decision Session - Executive Members for Children, Young People & Education And Culture 14 December 2021
- Joint Decision Session - Executive Leader (incorporating Policy, Strategy and Partnerships) and Executive Member for Finance & Performance 13 December 2021
- Decision Session – Executive Member for Health and Adult Social Care 15 December 2021

- Joint Decision Session - Executive Member for Housing & Safer Neighbourhoods, Culture, Leisure & Communities 16 December 2021

Budget Consultation available at www.yorkopendata.org

Annexes:

- 1 – 2022/23 Budget Summary
- 2 – 2022/23 Savings Proposals
- 3 – Fees & Charges
- 4 – Summary Consultation Results
- 5 – Better Decision Making Tool
- 6 – HRA 2022/23 Savings Proposals
- 7 – HRA 2022/23 Budget
- 8 – HRA 2022/23 30 Year Business Plan
- 9 – Risk Analysis

Abbreviations used in this report:

- ASC – Adult Social Care
- DSG – Dedicated Schools Grant
- EYSFF – Early years single funding formula
- FTE – Full time equivalent
- HRA - Housing Revenue Account
- KCR – Key Corporate Risk
- LCR – Leeds City Region
- NHB – New Homes Bonus
- NWY – North and West Yorkshire
- RSG – Revenue Support Grant