Executive **8 February 2018**

Report of the Deputy Chief Executive/Director of Customer and Corporate Services
(Portfolio of the Leader and Deputy Leader of the Council)

FINANCIAL STRATEGY 2018/19 to 2022/23

Summary

1. This report presents the financial strategy 2018/19 to 2022/23, including detailed revenue budget proposals for 2018/19, 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 2018/19 with savings proposals totalling almost £5m, equivalent to 4.1% of the net budget. There are separate reports on the agenda covering the capital budget and the treasury management strategy.

2. Key issues included in the proposals are as follows;

   - A proposed council tax increase of 1.99% in 2018/19. In addition an increase of 1.5% in line with the government’s social care precept, which provides support for social care

   - £2.16m to fund adult social care, including covering the cost of adults as they transition from Children’s Services

   - Revenue savings of £4.97m in 2018/19

   - Loss of the remaining Revenue Support Grant (RSG), a reduction of £8.6m, which is partly offset by a £4.6m increase in retained business rates income

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

   - Investment in key priority front line services

- Growth in Education Psychology to support specialist staff working with children with special education needs and disabilities

- £1.8m to cover increased pay and pension costs across all areas of the Council

- Growth of £759k to cover unavoidable contractual price increases mainly in waste services, concessionary fares and children's services

- £800k to fund an increase in the contingency budget to be used for adult social care, on particular winter pressures and delayed transfers of care

- One off investment of £373k to fund the continued development of the Local Plan

- A release of one off funding in the transport reserve of £450k to fund ongoing expenditure

- A net revenue budget of £121.877m, which will be funded by:

    i. Council tax income of £85.898m

    ii. Retained business rates of £34.353m

    iii. One off income of £1.626m

- Alongside these proposals, elsewhere on the agenda the Capital Strategy Report details significant capital investment in highways, ICT and housing, which together with the revenue budget proposals ensure continued investment in key frontline service delivery, and supports the councils key priorities.

Recommendations

3. Members are asked to approve the average rent decrease of 1.0% to be applied to all 'social housing rents' for 2018/19, as required by legislation. This is shown in table 14 and described in paragraph 158.

4. Members are asked to approve the average rent increase of 4.0% to be applied to all rents which fall outside the definition on 'social housing rents' for 2018/19, as described in paragraph 160.

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.

5. Members are asked to consider the appropriate levels of council tax that they wish to see levied by the City of York Council for 2018/19. 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 Deputy Chief Executive/Director of Customer and Corporate Services

6. 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 £121.877m
- A council tax requirement of £85.898m
- The revenue growth proposals as outlined in the body of the report
- The 2018/19 revenue savings proposals as outlined in annex 2
- The fees and charges proposals as outlined in annex 4
- The Housing Revenue Account (HRA) budget set out in annex 5 and the HRA savings proposals set out in annex 6
- The dedicated schools grant proposals outlined from paragraph 162
- The use of £373k New Homes Bonus funding to fund one off investment, as outlined in paragraph 54
- An £800k increase in the contingency budget to fund adult social care, in particular winter pressures and delayed transfers of care, subject to a further report to Executive

- The release of one off funding in the transport reserve of £450k to fund ongoing expenditure

- The use of £38k from the £156k funding from the Leeds City Region Business Rates Pool (budget report February 17) to support the city's cultural sector by progressing the development and promotion of a clearly defined Cultural Strategy with the Cultural Leaders Group, as set out in a recent Scrutiny report to Executive.

Reason: To ensure a legally balanced budget is set

7. The effect of approving the income and expenditure proposals included in the recommendations would result in a 3.49% increase in the City of York element of the council tax, 1.5% 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 22 February 2018.

Background

National Context and Funding Issues

8. York has the 7th lowest band D council tax, the 2nd lowest spend per head of population and the 9th lowest government funding per head of any unitary council in England. Annex 9 includes the relevant background data from all unitary authorities for 2017/18.

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

10. The settlement funding assessment (SFA), comprises revenue support grant (RSG) and a business rates baseline. Further details of the settlement figures and medium term outlook are provided later in the report.

11. In relation to council tax, the proposals in this report are predicated on a council tax increase in 2018/19 of 1.99%, plus an additional increase of 1.5% 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

12. Locally demand for council services continues to increase, with an ageing population and increased complex needs in respect of elderly 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 as described below. In addition, rising inflation is driving costs up, and there is continued pressure on many of the council's income budgets.

13. Adult Social Care services are facing significant challenges to make care and support sustainable for the future. A growing, ageing population with increasingly complex conditions are putting pressure on services. For example; demographics show that there are 2,700 older people in York with dementia; this is set to grow by 30% to around 3,500 in the next 10 years. Across York 14,000 older people live alone, this is set to grow to 16,000 by 2027 and there are an estimated 2,500 people over 65 providing 20 hours or more unpaid care each week. By 2025, it is estimated that that this level of care provided by older people will increase by 16%. These are just some of the challenges that the social care market faces in York.

14. The increased use of the Better Care Fund (BCF) to encourage the integration between health and adult social care, represents a significant risk to the council. The total BCF pooled budget for use across the health and social care sector in York is £16.6m in 2017/18, of which £7.8m is allocated to adult social care services. Clearly any future reduction in either the overall BCF or the proportion allocated to social care would have a material affect on the council's finances.

15. In addition, this needs considering in the wider context of the health and social care economy in York as both the health commissioner (Vale of York Clinical Commissioning Group) and main provider (York Teaching Hospital NHS Foundation Trust) are currently carrying significant deficits. With the CCG projecting a £44m deficit by the end of 2017/18 and the hospital already reporting an in year deficit for 2017/18 of £14m. Their challenging plans to address these deficits may well impact on the future level of funding available for social care services. Whilst there is significant investment in social care for next year, there is a significant risk of further pressures in this area, and pressure on the ability of the service to meet challenging national targets. Members should consider carefully the level of council tax in the context of these significant pressures on social care.

16. Whilst devolution of business rates presents opportunities for the council, there are also associated risks with business rates appeals. The major capital programme the Council is embarking upon brings with it some significant risks. It is important that proper provision is made for such risks in the context of consideration of the levels of revenue reserves and contingencies. This is considered within the S151 statutory statement, and the section on reserves. York Central in particular represents a potential future significant issue, as there may be a requirement for significant investment in advance of business rates from the Enterprise zone coming through. This particular issue cannot be quantified at this stage, but is a matter the Council needs to be aware of in the context of assessment of reserves and contingencies.

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

Council Priorities

18. The Council Plan for 2015/2019 is based on our statutory responsibilities and the priorities of our administration. The plan is built around three key priorities:

- **a prosperous city for all** - where local businesses can thrive and residents have good quality jobs, housing and opportunities
- **a focus on frontline services** - to ensure all residents, particularly the least advantaged, can access reliable services and community facilities
- **a council that listens to residents** - to ensure it delivers the services they want and works in partnership with local communities.

19. The plan was formally approved by Council on 8 October 2015 following consultation with residents, businesses and staff.

20. A ‘Vision For The City in 2030’ was approved at Executive in July 2016. The key elements of the vision describes how the city will be in terms of the place, its people and the council, with sustainable growth providing the means to ensure all residents can fulfil their potential. This was summarised as “The Council will secure the future of York as a prosperous, progressive, and sustainable city, giving the highest priority to the wellbeing of its residents, whilst protecting the fabric and culture of this world-famous historic city”

21. 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 capital and revenue reports. Specific examples of revenue investment include;

- Children's services – key statutory budgets are protected as outlined in annex 3. Additional funding of £100k is included to support specialist staff working with children with special education needs and disabilities.

- Adult social care – Development of the new operating model as outlined in annex 3, revenue investment in 2018/19 of £2.16m for specific increases in costs of care/other contracts (in addition to pay and pension costs).

- Traveller Support Service - additional investment of £75k to cover the creation of 2 new (grade 8) Local Area Support Practitioner posts in local area teams, to continue traveller community support when the de-delegated schools service ends at 31 March 2018

22. Additional capital investment totalling £54.8m in relation to Transport, Housing, Economy, Environment and key front line services such as Highways are outlined in the capital report.

Medium Term Financial Strategy

23. Anticipating that the council would be self funded from council tax and business rates in the medium term, it was recognised that a successful economy is critical to the council's financial future, with strong and growing business rates.

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

25. The medium term strategy focuses on delivering efficiencies across all areas and a significant amount of savings will be delivered by restructuring services. Ensuring that there is the capacity to invest in key priority areas was a critical part of the budget deliberations.

26. Annex 3 sets out the strategic direction towards achievement of savings proposals for each directorate over the medium term. This includes the directorate approach to protecting priority areas, safeguarding key

statutory services and further details of the type of savings or efficiencies under consideration.

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

Consultation

28. 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.

29. The budget consultation launched on 13 October 2017 and closed on 1 December 2017 for paper surveys and closed at midnight on 15 December 2017 for online surveys.

30. 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. Additional question areas included:

    - Previously released departmental proposals for 2016/17 to 2019/20 (released within the 2017/18 budget)
    - Capital programme
    - Equalities questions from respondents.

31. An online consultation was made available and promoted to residents through various existing channels via the Business Intelligence team, published on the council's consultation page, and promoted via the communications teams. Paper copies of the survey were available at various council buildings and 3rd party premises across the city.

32. The online survey was promoted;

    - Within the business community via existing business network links and distribution groups such as Make It York, BID, York Chamber of Commerce, York Federation of Small Businesses and asking them to pass on to their members.
    - To equalities groups via the equalities network.

- Our City was distributed to all households in the City (approx 89,000) in mid-October, with delivery taking place over a two week period. The question set shown in Our City was the same as the online budget consultation, but with a reduced number of equalities questions. As with the distributed paper copies of the budget consultation, responses were sent back via Freepost to West Offices.

33. There were four drop-in sessions with both the Leader and Deputy Leader present along with some officer support at these events.

34. There were 828 respondents to the consultation and the key messages from the consultation were;

    - 45% of respondents were more in favour of providing services more efficiently rather than increased council tax levels, increasing fees or charges or providing fewer services.

    - 32% of respondents were in favour of a 3% increase in the social care precept, although 19% were not in favour of an increase.

    - Respondents were asked if they agreed or disagreed with various areas for capital investment. The area most agreed was a priority was maintenance and upkeep of schools (82%), followed by maintenance and development of highways (81%) and maintenance and refurbishment of parks, play areas and libraries (78%). Maintenance and refurbishment of council premises (26%) and investment in the commercial property portfolio (17%) were the least favoured capital investment schemes.

    - When asked which services should have funding reduced, 28% thought that funding should be reduced for sport and leisure facilities, events and activities, followed by 17% for public transport

    - Asked whether respondents agree with certain protected service areas in each directorate; the lowest responses were in the following service areas:- Information Governance (39%), Re design adult social care services to reduce number of customers accessing care (39%), Ward Committee funding (36%), Reduction in Yorkshire Museum Trust grant contribution (33%) and Re tender of library service (31%).

    - The consultation asked if certain services should have their funding stay the same or have funding reduced or increased. The most popular answer was that funding for waste and recycling services should remain the same (68%). This was also the most popular in the consultation last year (71%). As last year, the service that most believe should have increased funding is adult social care (55%), which is down from last year (63%).

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

- Respondents favouring increased efficiency rather than increases in council tax. The council has delivered savings of more than £100m over last 10 years and there are a further £5m of savings set out in this report. Over the last 2 years, increases in council tax have been 3% (2016/17) and 3.7% (2017/18). These increases were 0.99% (16/17) and 1.29% (17/18) below the maximum limit allowable without a referendum.

- The council have prioritised capital investment in highways as detailed in the Capital Strategy report elsewhere on this agenda.

- In response to the answers on which services should have funding reduced or which services are regarded as least favourable to protect, the council's strategy regarding theatres and museums has been to move these to more sustainable funding models, with reduced reliance on council contributions. This approach continues, though the council has recognised that this does require some capital investment to reach this position.

- Waste and Recycling services have not had any funding reductions since 2016/17 and adult social care services for vulnerable people continue to be protected.

36. All views and data gathered during the consultation will in due course be published on the York's open data platform www.yorkopendata.org

37. The council has a statutory duty to consult businesses on the council's expenditure plans. The consultation was publicised through York business networks and forums including Make It York, The Business Improvement District, York Chamber of Commerce and the York Federation of Small Businesses. The council will use these forums to announce the publication of this report on 31 January and will report any further feedback received by businesses to the Executive.

Principles that have shaped the budget process

38. As outlined above, due to the reduction in government funding, it is critical that the council continues to support economic growth, recognising the significant financial benefits in the form of retained business rates, and creation of jobs. Ensuring that there is a strong link between the capital and revenue budgets to support the delivery of council priorities is essential. The Capital Strategy sets out significant capital investment, and details regarding some of the major capital schemes that will impact on the economy of the city.

39. At a time of significant reductions in grants and rising demand it is absolutely essential to set a prudent, stable and achievable budget. Many councils across the country are now experiencing very severe financial challenges. Whilst the challenges for this council are significant, through sound financial planning, and in year management, the council retains strong financial health. In response to a shift in demand led expenditure pressures and reductions in grant funding, the council is taking steps to enable itself, residents and communities to work together as equal partners to meet their future needs and priorities.

40. In terms of investment, the council spends a significant amount of its budget on protecting vulnerable people through its social care services. In 2017/18, the net cost of adult social care was £47.4m, 40% of the council's net budget.

41. 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, which are provided in further detail in annex 3. This approach will help to protect the needs of the most vulnerable people in York.

42. The budget process adopted a risk based approach, and in particular prioritised statutory services to vulnerable adults and children, and key frontline services. Whilst all areas were asked in 2015 to consider the long term implications of up to a 30% reduction in their net spend over a 4 year period, assessment of options, risks, and links with priorities took place in formulating the final proposals.

43. Alongside the revenue budget, set out in the separate Capital Strategy report are proposals for further major investment in a variety of schemes. These continue the council's approach to prioritise investment in the economy, housing, transport, and to invest to save. In addition, the

council is continuing to make a significant investment in ICT, recognising that the need for high quality technology will be crucial to delivering services in the most effective manner in the future, particularly in relation to adult and children's services and customer services.

Budget analysis

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

    i. Consideration of the 2017/18 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 Deputy Chief Executive/Director of Customer and Corporate Services as s151 officer.

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

<u>2017/18 position</u>

45. As part of the budget approved in February 2017, considerable investment was made in priority services to ensure sufficient resources to deliver statutory and priority services. The most notable example was additional funding for adult social care contracts, with the inclusion of £1.8m growth. At a time of significant financial challenges, this was a major investment to ensure the council were able to provide a better funding deal for care providers and to cover a general increase in adult contracts, including the new national living wage.

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

47. However some areas identified as pressures in 2017/18 will require additional funding going forward and these include £125k investment to cover a shortfall in ANPR income targets which have had lower revenues than those seen previously, and £75k investment to reverse a prior year saving relating to CCTV income. These are covered further in the next section of the report.

Unavoidable cost increases, priority areas and creating capacity

48. There is continued pressure on budgets from an increase in costs in elderly care due to an increase in demand and more complex needs. The cost of adult social care is forecast to increase as existing customers with high needs transition from children's services. Other factors that will affect the council include inflationary increases, the additional cost of business rates for West Offices following the revaluation appeal decision, the retender of the Park and Ride scheme, reversal of two unachievable prior year savings and the requirement to fund recurring revenue budgets which were previously funded by New Homes Bonus (NHB) grant.

49. A detailed analysis of these pressures has been conducted and additional resources have been allocated for areas where it was considered essential to invest. In addition we have identified areas where there is a need for additional investment to deliver council priorities, to ensure budgets are prudent and to protect vulnerable people.

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

- Pay and Pension costs - **£1,800k** is included for pay and pension costs in 2018/19. An assumption of 2% is made for a pay award. Capacity is also created to provide funding for the Living Wage.

- Contractual price increases **£1,560k** - to cover an increase in adult contracts

- Contractual price increases **£759k** - to cover unavoidable contractual price increases mainly in waste services and children's services

- Adult Social Care **£600k** – Growth is required to cover the cost of adults as they transition from Children's Services within 2018/19

- New Homes Bonus (NHB) funded revenue budgets **£400k** – As mentioned in previous budget reports, with the expectation that NHB funding will reduce in future years it is considered to prudent to begin to phase out any ongoing revenue funded from NHB from 2018/19. The total funding is currently around £2.6m and this is the initial £400k contribution towards reducing that figure.

- Education Psychology Staffing **£100k** – An investment of £100k in Education Psychology to support specialist staff working with children with special education needs and disabilities

- Traveller Support Service **£75k** – to cover the creation of 2 new (grade 8) Local Area Support Practitioner posts in local area teams, to continue traveller community support when the de-delegated schools service ends at 31 March 2018

- Reversal of prior year savings **£200k** – Savings agreed in 2017/18 will not be achievable in relation to ANPR income (£125k) and CCTV (£75k).

- Increase in contingency **£800k** – An investment of £800k in the contingency budget for adult social care, in particular winter pressures and delayed transfers of care, subject to a further report to Executive

51. There is no growth this year in respect of the impact of the capital programme. The overall growth in the capital programme proposed, combined with low interest rates, and the updated capital programme position, means that no growth is required and a reduction of £175k is proposed as a corporate saving.

52. As set out earlier, there remain potential pressures and risks within adult social care. Members should consider carefully whether at this stage additional further investment, above that set out in preceding paragraphs, should be made in this area. This could be in the form of a general budget provision, to be subject to a more detailed report, or specific proposals that would seek to deliver enhanced provision, particularly in tackling winter pressures and improving Delayed Transfers of Care performance.

53. As set out later in the report, there is the likelihood of additional business rates income during 2018/19, there is contingency funding within this budget, and an expectation of an underspend for 2017/18. These provide some mitigation against possible risks in this area. Clearly any additional

investment would require a higher Council Tax increase and/or additional savings.

One off Investment

54. In addition to the ongoing expenditure pressures set out above one off growth totalling £373k is included.

    - Local Plan **£373k** - Work on the Local Plan will be ongoing in 2018/19 and therefore additional budget of £173k is required to support delivery. It was agreed in a previous year's budget to defer a £200k saving until completion of the Local Plan. This will be funded from New Homes Bonus grant provided by central government.

Expenditure Pressures Summary

55. The expenditure pressures described above are set out in the following table;

Expenditure Pressures	**2018/19 £'000**
Recurring Investment	
- Pay and Pension Costs	1,800
- Adult Social Care Prices Contingency	1,560
- Prices Contingency	759
- Adult Social Care Demographic Growth	600
- New Homes Bonus Replacement funding	400
- Education Psychology Staffing	100
- Traveller Support Service	75
- Reversal of prior year savings	200
- Increase in contingency	800
One off Investment	
- Local Plan	373
Total Expenditure Increases	**6,667**

Table 1 – Summary of expenditure pressures

Grant Funding Changes

56. Table 2 shows the components that make up the council's change in grant funding.

57. The first line of Table 2 shows the £8.58m reduction in RSG that the council receive from central government. The total RSG grant is forgone in 2018/19 due to the inclusion of the council in the 100% business rates pilot, which is covered in further detail later in the report.

58. The second line of Table 2 shows the net change in specific grants. A reduction will be applied to Education Services Grant, which funds central services provided to schools, with an estimated reduction of £396k.

59. Public Health Grant will reduce by £212k.

60. The council received a social care grant of £735k in 2017/18 which was a non ring fenced one off grant and this will cease in 2018/19.

61. The council also received a transitional grant of £764k in 2017/18 which was a non ring fenced one off grant. This will also cease in 2018/19 but since this grant was not used to fund recurring budgets it is not taken account of in these figures.

62. In total, specific grants are estimated to reduce by £1,343k in 2018/19.

63. In summary, for 2018/19 the council has reduced grant funding available of £9,923k compared to that received in 2017/18.

Funding Changes	**2018/19 £'000**
- Reduction in RSG	8,580
- Net change in specific grants	1,343
Net Funding Changes	**9,923**

Table 2 – Grant Funding changes

Council Tax Funding Changes

64. Table 3 shows the net changes to council tax funding.

65. The first line in Table 3 shows the 3.49% increase in council tax which will generate additional income of £2.849m on the existing taxbase.

66. A further £1.419m council tax is generated due to an increase in taxbase as shown in the second line of Table 3. The taxbase is calculated by the Deputy Chief Executive/ Director of Customer and Corporate Services each year and represents the total number of Band D equivalent properties in the city. In 2018/19, this has grown by approximately 1,101 properties due to a number of factors including new homes and changing patterns in the number and types of discounts taxpayers are able to receive or apply for.

67. The third line is the collection fund surplus of £2.097m from 2016/17 which was used in the 2017/18 budget and falls out this year.

68. The fourth line is the collection fund surplus from 2017/18 of £1.626m. The council tax collection fund surplus for the full year 2017/18 is estimated on 15 January 2018, based on current year actual figures. The surplus is a result of an increase in taxbase, compared to estimates made last year. The collection fund surplus is only available as one off funding.

69. In summary the Table 3 shows an estimated £3.797m additional income from council tax in 2018/19.

Council tax	**2018/19 £'000**
- Increase in charge	-2,849
- Increase in taxbase	-1,419
- Collection Fund Surplus 2016/17	2,097
- Collection Fund Surplus 2017/18	-1,626
Net council tax changes	**-3,797**

Table 3 – Council Tax Funding changes

Business Rates Income

70. Table 4 shows a total of £7.001m additional income from business rates.

71. As explained above under 'grant funding', loss of the RSG in 2018/19 is partly offset by an increase in business rates income. If we had not been successful in the business rates pilot, the RSG for 2018/19 was set to be £4.576m. The first line in Table 4 is the additional business rates income in replacement of 2018/19 RSG.

72. The second line shows business rates growth of £2.425m. This includes £800k growth as a result of the 100% retention pilot and national changes in the rates system. There will be further one off benefits from the pilot which have not been assumed within the budget figures, and will be the subject of further consideration during 2018/19 as the amounts become more certain. This is covered in further detail later in the report.

Business rates income	**2018/19 £'000**
- Replace RSG funding	-4,576
- Business Rates growth	-2,425
Change in income	**-7,001**

Table 4 –Change in Business Rates Income

<u>Savings Proposals</u>

73. Directorates have identified £4.194m to contribute towards the 2018/19 savings target in addition to corporate savings of £600k by maximising the use of council assets and £175k in treasury management. These proposals, outlined in annex 2, include increases in income, reductions in administration costs and removal of vacant posts.

74. The savings proposals included in annex 2 provide the details of the 2018/19 impact totalling £4.969m. The first column includes savings totalling £3.1m which were agreed by Council in February 2017 and new proposals totalling £1.8m are included in the second column.

75. The third column of annex 2 (2019/20 impact) includes the remaining saving to be achieved based on the acceptance of savings proposals recommended in this budget.

76. The total savings column in annex 2 highlights the cumulative saving over years 2018/19 to 2019/20 for savings proposals approved in this budget.

77. Table 5 summarises the 2018/19 savings to be delivered by each directorate and corporate services.

Savings	2018/19 £'000
- Health, Housing, Adult Social Care	-1,726
- Children, Education & Communities	-1,274
- Economy and Place	-342
- Customer and Corporate Services	-852
- Corporate	-775
Total Savings Changes	**-4,969**

Table 5 –2018/19 Savings Proposals

Use Of Transport Reserve

78. From 1st April 2017 the council has formally joined the West Yorkshire Transport Fund (WYTF) and the expenditure on delivery of its key major schemes (York Central and York Outer Ring Road) is reimbursed from West Yorkshire Combined Authority (WYCA). The council pays an annual levy to WYCA to contribute towards the overall debt costs of the capital expenditure. This is included within the overall council financial plan.

79. Prior to the arrangement to formally join the West Yorkshire Transport Fund the council had set aside funds in order to progress its major schemes in lieu of joining the fund. Over 3 years a total of £1,500k had been identified in the budget through a combination of Economic Infrastructure Fund and Council budgets. As at 31st March 2017 a total of £530k had been spent progressing theses schemes leaving a balance of £970k which was transferred to a reserve at year end.

80. Given the council is now part of the WYTF this reserve is not required in order to fund the major schemes and the balance can be reallocated to other priorities.

81. It is proposed that £450k of the remaining balance is used to fund ongoing revenue expenditure, with a further £420k provisionally planned for 2019/20.

Use of Reserves	2018/19 £'000
- Transport Reserve	-450
Change in income	**-450**

Table 6 –Use of Reserves

New Homes Bonus (NHB) Grant

82. The New Homes Bonus was introduced to provide an incentive for local authorities to encourage housing growth in their areas.

83. In the settlement announced in February 2017 a number of changes were announced to NHB from 2017/18, which include;

- A top slice of the overall funding pot to fund adult social care
- A reduction of legacy payments to 4 years from 2018/19
- A change to the funding criteria whereby authorities will only receive funding for growth above the national baseline set at 0.4%. When an authority has overall growth in excess of the baseline, it only gets rewarded for the above-baseline growth, not its entire growth. The government were considering increasing this national baseline but it has remained at the same level in 2018/19.
- Future payment may also be linked to delivery of a Local Plan. This represents a risk to the council, if the Local Plan is not finalised payment of the grant may be deferred or reduced.

84. As a result future New Homes Bonus will begin to decline. Taking account of estimated levels of grant in future years, and approved commitments, we will consider phasing out any ongoing revenue funding from New Homes Bonus. This currently totals around £2.6m and therefore over the coming years this may need to be gradually phased out. In 2018/19 an initial allocation of £400k will be made and future allocations will be considered further in the 2019/20 budget.

85. The total funding available in 2018/19 is £3.6m. As mentioned above, £2.6m of NHB funding is already allocated to fund recurring expenditure as determined by previous Council decisions. These are set out in Table 6 below.

86. Council have previously approved a total sum of £1.5m over a 5 year period towards support for Yearsley Pool. In 2018/19 a transfer of £1,044k NHB funding will be made to the Yearsley Pool reserve, which is the balance remaining to provide the full £1.5m to the reserve.

87. The budget proposals include one off investment of £373k which will be funded from NHB.

88. The remaining balance of £22k NHB funding will be transferred to a NHB reserve for future use.

New Homes Bonus	**£'000**
- Total available 2018/19	**3,647**
- Previous Council Decisions	
February 2016 Budget - recurring	1,349
July 2015 Budget Amendments - recurring	1,259
Yearsley Pool – one off	1,044
- Allocation to phase out NHB funding of previous council decisions	-400
- Allocated in this budget (one off)	373
NHB remaining – Transfer to reserves	**22**

Table 7 – New Homes Bonus Funding

Net Budget Composition

89. Taking into account funding changes summarised in Tables 2, 3 and 4, Table 8 below summarises the funding available from council tax and business rates for 2018/19.

	2018/19 £'000
Council Tax	85,898
Collection Fund Surplus	1,626
Business Rates	34,353
Total Net Budget	**121,877**

Table 8 – Net budget composition for 2018/19

Summary of Budget Changes

90. The following table shows the budget position after taking account of the expenditure and funding changes outlined.

Summary	2018/19 £'000
Total expenditure pressures (Table 1)	6,667
Total net funding changes (Table 2)	9,923
Total changes in council tax (Table 3)	-3,797
Total changes in Business Rates income (Table 4)	-7,001
Total savings and income generation (Table 5)	-4,969
Use of Reserves (Table 6)	-450
New Homes Bonus funding (Table 7)	-373
Budget gap	**0**

Table 9 – Budget position summary

Fees and charges

91. Detailed proposals for any changes to fees and charges are attached at annex 4. The proposals have taken account of such factors as current consumer price indices, possible impact on customer numbers, knowledge of business and current market conditions and benchmarking exercises. Any increased income from this review of charges is included within the overall list of savings attached at annex 2.

92. One of the major areas of income generated is from car parking fees and charges. Charges will be increased in 2018/19 at most car parks by 10p per hour and an inflationary increase on Respark permits.

93. The majority of increases are approximately in line with inflation with the exception of fees which are set by central government. The fees within Licensing have been the subject of a thorough review to reflect the amount of time each process takes to complete and anticipated levels of activity. This is to ensure that the costs of licensing activity is funded by the user of the service. The Taxi Licensing account is forecast to break even in the year with income and expenditure of c£250k.

Council Tax and the Collection Fund

94. The council tax referendum limit has increased from 2% to 3% (excluding social care precept) for 2018/19. The increase in threshold is not guaranteed to continue beyond 2018/19. If a Council wishes to set a higher council tax it must hold a referendum. It must also provide 'substitute calculations' which need to be presented to setting out what the alternative budget would be. This means that that if any proposal is made for a council tax above the referendum limit it must be accompanied by 'substitute calculations' within the referendum limit, to be used in the event that the referendum would reject the increase. If a referendum is held after the beginning of the relevant financial year, the higher rate of council tax will be payable unless and until it is overturned by a 'no' vote in the referendum. In the event that a referendum rejects the increase, the billing authority would be able to issue new bills, offer refunds at the end of the year or allow credits against liability the following year, although individual council taxpayers would be entitled to a refund on demand.

95. The costs of a referendum are not easy to estimate, and depend to an extent on whether it can be done as part of another election. If there is no other election, provision should be made for £210k. If the referendum could be combined with another election this would reduce the cost by approximately 50%, but there are no other planned elections taking place in York in 2018/19. In addition there are the costs of rebilling which is estimated at £50k.

96. A briefing paper from the House of Commons cited the cost to Bedfordshire's Police and Crime Commissioner, is estimated to have cost £600k. The Bedfordshire PCC covers three unitary local authorities and a population of circa 640,000. The paper also noted examples of rebilling costs for recently-capped authorities, such as £380k for Lincolnshire Police Authority in 2008/09 (£1.22 per household) and £626,000 for Surrey Police Authority in 2009/10 (£1.29 per household). The paper concludes that it seems reasonable to estimate the range of the cost of referendums as between £85k to £300k.

97. Local authorities with responsibilities for adult social care have been given the flexibility to charge a further 3% social care precept in addition to the 3% referendum threshold. Should local authorities decide to take up the offer to charge the adult social care precept they are required to provide information on adult social care spend to the government.

98. As referred to earlier in this report, the recommendation made in these papers is that from April 2018 the CYC element of the council tax will increase by 3.49%, 1.5% of the increase relating to the social care precept.

99. A 1.5% social care precept increase generates additional income of approximately £1.245m for the council which will be used to fund adult social care increased costs, pay, pension and other pressures. A range of investments are being made that contribute to improvement in social care. The overall net increase in social care budget, including savings and the specific contingency for social care, actually equates to 2.5% Council tax increase.

100. The existing components of the current (2017/18) 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	1,244.93
North Yorkshire Police Authority	221.32
North Yorkshire Fire Authority	67.19
TOTAL	**1,533.44**

Table 10 - Make Up of 2017/18 Council Tax

101. 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 £1.6m and this is included in the budget assumptions.

Precepts

102. 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, Fire Authority and parish councils. Due to the timing of this report these precepts are not yet available but will be included in the report which is considered by full Council on 22 February.

103. Table 11 demonstrates both the cash and percentage increase in 2017/18 for these which resulted in a total band D council tax for a York property of £1,533.44.

	2016/17	2017/18		
	Charge (£)	Increase (£)	Increase (%)	Council Tax (£)
CYC	1,200.51	44.42	3.70%	1,244.93
Police	217.00	4.32	1.99%	221.32
Fire	65.88	1.31	1.99%	67.19
Total	1,483.39	50.05	3.37%	1,533.44

Table 11 – 2017/18 Council Tax Figures for City of York Area

104. 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)

105. The council is projecting retained business rates income in 2018/19 of £34.353m.

106. In the Autumn 2017 budget the Chancellor announced that the business rates multiplier will now uprate based on September CPI rather than RPI from April 2018 onwards. CPI is normally lower than RPI, and will result in lower business rate growth and income for local authorities. It is expected that the government is planning to fund the loss of income through a grant so effectively local authorities should be no worse off.

107. The small business non-domestic multiplier will increase from 46.6p to 48.0p (a 3.0% increase, in line with the September 2017 CPI). The provisional non-domestic multiplier will increase from 47.9p to 49.3p (this is the multiplier used to calculate bills for large businesses with Rateable Value greater than £15,000).

Leeds City Region (LCR) Business Rates Pool

108. Receipts of business rates in each individual local authority area may or may not match the amount the government believes the authority needs to spend, so, at the outset of the scheme in April 2013, amounts were equalised through a system of 'tariffs' and 'top-ups', according to need. Authorities that collect more than the government believes they need to spend pay over a 'tariff' to government and those that collect less receive a 'top-up' to make up the difference.

109. Tariff authorities that are successful in growing their rates are also liable for 'levies' which scale back the rewards of growth – by as much as 50% in some cases. The current scheme allows groups of authorities to join together to form business rates pools. Pooling allows groups of 'tariff' and 'top-up' authorities to gain financial advantage by enabling levy payments to be paid to the pool rather than central government. City of York Council is a member of the Leeds City Region (LCR) Business Rates Pool.

110. City of York Council is a tariff authority and paid a levy of 45% in 2017/18. Effectively, in 2017/18 the council keep c.27p of growth after shares have been paid to central government and the LCR business rates pool.

111. The amount available in the LCR pool for distribution from previous year's growth was £3.1m at 2016/17 year end. This will be allocated to economic development projects which benefit all members of the pool. There are no allocations specifically committed to York.

112. Council have previously approved the use of £156k funding from the Leeds City Region Business Rates Pool to support cultural and sporting events, which would be subject to a further report to the Executive. It is proposed, in line with a recommendation from Scrutiny to Executive, to use £38k of this the funding to support the city's cultural sector by progressing the development and promotion of a clearly defined Cultural Strategy with the Cultural Leaders Group.

LCR 100% retention pilot for 2018/19

113. In September 2017 the Government announced a decision to proceed with the expansion of the pilot programme for 100% business rates retention for 2018/19. These pilots will run for one year only.

114. These new pilots will run alongside the current 100% pilots which have been in operation since April 2017 and are intended to test more technical aspects of 100% retention, to test authorities' strategic decision-making over wider geographical areas and also to test the administrative aspects of 100% retention.

115. An application together with the current members of the Leeds City Region (LCR) business rates pool was submitted and has been successful. On 7 December 2017 Executive approved the council's inclusion in the pilot.

116. This opportunity builds on many years of successful regional collaboration, not least through the existing pool, providing members and partners with the opportunity to further develop existing relationships and processes to help in the move towards powers, resources and decision-making being undertaken at the optimum level to deliver a growing, inclusive economy.

117. The inclusion in the 100% business rates pilot in 2018/19 means that the council will forego Revenue Support Grant (RSG) in 2018/19. The council will retain 99% of business rates but the 'tariff' and baselines are recalculated so that after taking into account the loss of RSG the effect on each individual authority is cost neutral as a starting point (excluding retained growth).

118. The benefit for the council is that between the council and the LCR pool we may retain 100% of growth and no levies on growth are payable. The table below sets out the approximate percentage of growth retained under the current and pilot scheme. Under the pilot scheme the council would retain 50% of growth compared to 27% under the current scheme.

119. In addition, the LCR pool would also receive twice as much growth. The LCR pool would allocate 50% of the monies back to the individual authorities based on population and amounts paid in. The other 50% will remain in the pool, which would be distributed on the same principles which are currently in place.

	CYC	LCR	Central Government
Current Scheme	27%	23%	50%
Pilot Scheme	50%	50%	0%

Table 12 - Allocation of retained growth

120. The governance agreement for the LCR pool sets out how the pool proposes to share and use additional business rates income, how

member authorities will work together to manage risk and the provisions for dealing with residual benefits or liabilities.

121. Further devolution of Business rates income is expected to be introduced nationally in 2020/21 and this is covered in further detail later in the report. Although the pilot is for one year only in 2018/19, it is possible that this period will be extended if the government continue to roll out the scheme nationally.

122. The benefits of the 100% retention, along with national changes to business rates in future years, will see two main impacts as set out below.

123. Firstly, an increase in the amount of growth in business rates retained by the Council, which is expected to continue for future years. This is assumed at £800k for 2018/19 and this is anticipated to continue in future years. This £800k has been used to provide an additional contingency sum for 2018/19 for adult social care, in particular winter pressures and delayed transfers of care.

124. Secondly, the council will benefit from one off gains from the pilot in relation to the 100% retention of business rate growth. As the Pilot is only for 1 year, these gains cannot be assumed as ongoing. The value of these gains is anticipated to be in the region of £2m direct to CYC. Total gains from the pilot for the LCR pool (which are to be shared amongst all pool members subject to determination by the Pool Committee) are estimated at £15m. It should be recognised that as set out elsewhere in the report there are some risks and potential future investment needs relating to York Central and social care. Additional business rates growth resulting from the pilot scheme could be utilised to support these. A further report will be brought to Members during 2018/19 once more detailed figures are available for this funding.

Reserves and Contingency

General Reserves and Contingency

125. Table 13 shows the position on the general fund reserve which, it is anticipated, will be £7.442m by the end of 2017/18. The projected reserves at the end of 2017/18 are based on the assumption that Members agree no usage of reserves in 2018/19 as part of the final recommendations to Council. It should be noted that the figures below

also assume that there will be no requirement to fund an overspend against the 2017/18 budget.

	2017/18 Projected Out-turn £'000	2018/19 Budget £'000
General Reserve at start of year	6,896	7,442
Transfer to reserves - 2016/17 underspend	546	
In Year use of reserves	0	0
General Reserve at end of year	7,442	7,442
Prudent minimum reserves	6,400	6,400
Headroom (+)/Shortfall (-) in Reserves	1,042	1,042

Table 13 – Projected General Reserves

126. 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 Deputy Chief Executive/ Director of Customer and Corporate Services that a level of £6.4m remains an appropriate figure. However in light of the risks facing the council, it is considered that headroom should remain above the minimum level. This is covered in further detail within the S151 statutory statement at the end of the report.

127. In addition to general fund reserves, the budget includes a £500k general contingency. In recent years this has always been required. As set out elsewhere in this report, it is recommended that the contingency is increased by £800k to provide additional resource to fund pressures in adult social care.

128. As mentioned earlier in the report, due to significant risks associated with major capital projects, reduction in New Homes Bonus and health budgets it is appropriate to provide an adequate contingency on an ongoing basis. This is critical in terms of the setting of a prudent budget.

Venture Fund

129. The balance on the venture fund reserve is anticipated to be £2.8m at the end of 2017/18.

130. In March 2016 Members agreed that the Venture Fund be used to fund £1.0m of the Community Stadium capital expenditure which will be

repaid from later year's leisure revenue budget savings and this advance will be provided in 2018/19. In addition, up to £300k was allocated for dealing with any early year shortfall in the revenue budget in 2018/19.

131. The revised opening balance of the Venture Fund after the above known commitments will be £1.5m.

132. The balance on the Venture Fund reserve provides some mitigation in terms of the need to consider an increase in revenue reserves given the potential risks as highlighted above.

Medium term planning

Medium Term Economic Outlook

133. The Autumn 2017 budget announced some significant changes to economic forecasts (productivity and GDP).

134. The Office for Budget Responsibility (OBR) has revised down the forecast for productivity growth and GDP growth. Future GDP growth is now expected to trend at about 1.5% rather than the previous estimate of 2.0%. The lower GDP growth forecasts have been caused by the under performance of productivity in the UK economy.

135. The downgrades in GDP growth will have an effect on public sector finances. Although this will not have an impact in the short term. In the medium term (from 2020/21) the lower growth forecasts are very likely to translate into lower increases in public sector funding.

Revenue Support Grant (RSG)

136. Since 2016/17 the government finance settlement has changed from an annual settlement to a multi-year settlement, including principles for maximum council tax increases over the same period. The current spending review period ends in 2019/20, so we can assume that there will be no significant changes to the multi year funding package which has already been announced.

137. The council's inclusion in the 100% business rates pilot in 2018/19 means that the council will forego the remaining Revenue Support Grant

(RSG) in 2018/19 of £8.6m. This is partly offset by a £4.6m increase in retained business rates. For comparison, under the old scheme the Council would have received RSG of £4.6m in 2018/19, a reduction of £4m compared to 2017/18.

138. In the Autumn 2017 budget, the Chancellor did not announce any new funding for local government services. Exceptionally, additional funding was awarded to the NHS in addition to the £10bn extra real terms funding by 2020 which the government had already committed to. It is likely that the additional funding announced for the NHS will stay within the NHS rather than helping local authorities' social care budgets.

Business Rates and Funding Reform

139. As highlighted in previous Financial Strategy reports, the government intended to phase out Revenue Support Grant (RSG) by 2020/21, to be replaced by a system which allows local government to retain 100% of business rates.

140. The government has further signalled it's commitment to this principle through the extension of the 100% business rates pilot in 2018/19 and by increasing local authorities' retention of business rates from 50% to 75% from 2020/21, as announced in the recent provisional local government finance settlement.

141. Following the most recent general election, there remains some uncertainty as to exactly when this will happen because of the significant amount of legislation required for Brexit, it will be very difficult to reintroduce the Local Government Finance Bill and it would not be able to do so before 2020/21. However government will still be able to move forward with this using existing legislation and the outcome of the pilots.

142. The government are currently working on the Fair Funding Review (FFR) which focuses on the cost drivers for individual authorities. The FFR is expected to be implemented in 2020/21. 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.

143. A further fundamental change to the operation of the business rates system announced in the Autumn budget is the change to the pattern of revaluations. After the next revaluation (in 2022/23), revaluations will

take place every 3 years. This should help to reduce volatility in the system.

Social Care Funding

144. The Social Care Green Paper will be published in Summer 2018. This is expected to consider with the longer-term challenges in adult social care, and its purpose will be to build a sustainable, long-term, reliable system. As set out elsewhere in this report there are ongoing pressures within social care funding, linked to the financial challenges within the NHS.

Use of Capital Receipts

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

146. As set out in the latest Financial and Performance report elsewhere on this agenda, the Older Persons' Accommodation Project have utilised capital receipts generated by the sale of homes to offset revenue overspends in 2017/18 during the transitional period, and this will continue in 2018/19.

Medium Term Strategy and Approach to Savings

147. Under the 100% business rate retention scheme the council becomes self funded from council tax and business rates and this will continue to be the case in the future. Therefore, it is critical that the council continues to support Economic growth, recognising the significant financial benefits in the form of retained business rates, and creation of jobs.

148. The scale of savings that are required over this period will be driven by the outcomes of the devolution agenda, alongside the extent to which spending pressures affect the council. Factors that will affect the council will include potential increased costs in elderly care, inflationary pressures, implications of the capital programme and the thresholds to

increase council tax. Estimated annual savings required are anticipated to be in the region of £4m to £6m for 2019/20.

149. Specific details of future year’s savings proposals will be covered in future budget reports. Looking beyond 2020 is difficult given a wide range of uncertainties, including central government funding, business rates, and pressures within social care. It is however anticipated that the scale of savings required will be lower than in recent years. However this is to a large extent dictated by the overall level of council tax increase that will be set.

150. The financial planning process has considered the scale of the challenge over the coming years, and services have been reviewing opportunities for changing the delivery of services.

151. Annex 3 sets out the strategic direction towards achievement of savings proposals for each directorate over the medium term to 2022/23.This includes the directorate approach to protecting priority areas and the type of savings or efficiencies under consideration for the medium term.

Housing Revenue Account (HRA) Budget

152. 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.

153. The HRA Business Plan was updated in November 2017 taking into account latest assumptions for rents, and sales. That report showed that over the 30 year period of the plan the HRA debt of c.£139m can be fully repaid. It also identified an additional £20m investment reserve created to build new council houses funded form the working balance and housing capital resources.

154. The business plan has assumed savings of £1.5m over the period In 2018/19 the detailed budget is shown at Annex 5. The in year budget shows a net deficit of £5,715k due to the £10m investment from the working balance into providing new council houses.

155. 2016/17 to 2019/20 to partly offset lost rent from ongoing rent reductions. Previous budgets have identified savings of £1,065k and there are

proposals within this budget of further savings totalling £274k. Details of the savings are shown in Annex 6.

156. The working balance forecast for 31/03/2019 is forecast to be £22,171k. This level, in line with the latest business plan, is prudent and sustainable and is committed towards the repayment of the debt allocation taken on through self-financing.

Rent Changes 2018/19

157. 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.

158. 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. The modelling assumes future CPI at 2%.

159. The expected effect on rent levels over the next 3 years is shown in table 14 below.

Year	Estimated Average Rent Per week	Estimated Average Decrease(-)/Increase per week
2018/19	£78.28	(£0.76)
2019/20	£77.50	(£0.78)
2020/21	£79.83	£2.33

Table 14 – HRA Rent changes

160. 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%. This will include garages and cookers, as well as any specialist supported housing that is exempt from the rent reduction legislation.

161. The Mobile Homes Act 1983 allows the council to increase rents by RPI. However, the RPI is slightly higher than CPI +1% and therefore it is proposed to increase the Gypsy, Roma and Traveller Community site rents by CPI+1% in line with other rent increases which are exempt from the 1% reduction.

Dedicated Schools Grant (DSG) and the Schools Budget

162. The DSG is ring-fenced for funding the provision of education or childcare for 3 to 16 year olds in all settings. As such it covers funding delegated to individual LA maintained schools, academies and PVI providers through the LMS & Early Years funding formulae, plus funding for other pupil provision which is retained centrally by the LA (e.g. SEND, Behaviour Support, Home & Hospital Tuition, School Contingencies etc.).

163. For 2018/19 there have been some significant changes to DSG allocations for LAs. The DfE have introduced new national funding formulae to allocate the DSG for schools, high needs and central school services from April 2018.

164. Currently the DSG is divided into three blocks; schools, high needs and early years. From 2018/19 the DfE is introducing a fourth block, the central school services block, which will fund LAs for the statutory duties they hold for all maintained schools and academies, which are currently funded through the existing schools block.

165. The funding LAs receive in each block is now determined by a specific national funding formula (NFF), with each block subject to its own ring-fence rules. Funding for early years has been allocated through a national funding formula since the 2017/18 academic year; therefore the latest changes do not affect the early years formula.

166. The total DSG allocation for 2018/19 is estimated at £124.528m, broken down as follows:

DSG Funding Block	2018/19 £m	Increase £m	Increase %
Schools Block	94.134	5.044	5.4%
Early Years Block	10.397	-	-
High Needs Block	16.343	0.242	1.5%
Central School Services Block	3.653	(0.005)	(0.1%)
Total DSG	**124.528**	**5.281**	**4.4%**

Table 15 – DSG Allocation

Schools Block

167. The vast majority of the schools block DSG (£93.334m) is used to fund the local funding formula for mainstream schools (maintained and academies). The government's long-term aim is that individual schools' budgets should be set on the basis of a single 'hard' NFF; however this represents a significant change. As a result, in 2018/19 and 2019/20 the schools formula will be based on a 'soft' NFF approach.

168. Under a soft system, the DfE uses the NFF to set national budgets for each school, which are then aggregated to give the total schools block budget for each LA. LAs will continue to set a local formula to distribute their schools block funding for the time that the soft approach is adopted. After setting a local formula, LAs will then distribute their schools block allocation between maintained schools and academies in their area.

169. At its meeting in September 2017 the York Schools Forum unanimously agreed with the LA's recommendation that we should move to the new NFF funding amounts for schools immediately for 2018/19 – as opposed to a phased local transition. It was felt that the advantages of simplicity and transparency in using the information widely published by the DfE outweighed the advantage of some additional flexibility offered by the more complex transitional option.

170. However, a full detailed statutory consultation with all maintained schools and academies in the city was still required on the recommended formula for 2018/19 and 2019/20, setting out the impact of the proposed new formula on each individual maintained school and academy. This consultation was launched on the 20 November and ran for eight weeks closing on 12 January. All views and data gathered during the

consultation will in due course be published on the York's open data platform www.yorkopendata.org.

171. Fourteen schools (24%) responded to the consultation, with 13 (93%) of those in favour of the proposed formula. One response was unclear. Full details of the responses received are set out in Table 15.

	Number of Schools	Number of Responses		In Favour		Against		Not Sure	
Primary Maintained	33	8	24%	7	88%	0	0%	1	13%
Primary Academy	17	3	18%	3	100%	0	0%	0	0%
Primary Total	**50**	**11**	**22%**	**10**	**91%**	**0**	**0%**	**1**	**9%**
Secondary Maintained	4	1	25%	1	100%	0	0%	0	0%
Secondary Academy	5	2	40%	2	100%	0	0%	0	0%
Secondary Total	**9**	**3**	**33%**	**3**	**100%**	**0**	**0%**	**0**	**0%**
Total All Schools	**59**	**14**	**24%**	**13**	**93%**	**0**	**0%**	**1**	**7%**

Table 15 – Consultation Responses

172. The overwhelming response from schools through the consultation, and previous discussions at the Schools Forum, is to support a move to the DfE's national funding formula factors and methodology from April 2018.

173. There was some concern from some schools about other aspects of the DfE's proposals. In particular, the impact on the LA's high needs budget and its ability to support SEND pupils in schools. The LA shares this concern and will take this into account as part of the current inclusion review work.

174. The questions from schools showed some concern about the continuation of some other funding streams for schools (e.g. Infant Class Sizes, pupil growth and the minimum per pupil funding increases) from April 2020. As 2020/21 is after the next government Comprehensive

Spending Review (CSR), the DfE will give no commitments on future funding until the CSR is completed.

175. In relation to the new de-delegation for education functions introduced from September 2017, schools should note that this will be increased to a full 12 months for 2018/19. However, as agreed previously with the schools forum, an additional sum of £66 per pupil will be allocated to schools in excess of the new NFF values to ensure that this continues to have a neutral impact on school budgets.

176. Given the response to the consultation, officers recommend that York moves to the DfE's national funding formula for schools from April 2018, including the proposals for education functions de-delegations referred to above.

Early Years Block

177. York's government funding rates for 2018/19 through the Early Years block remain unchanged from the 2017/18 rates at £4.30 per hour for 3 & 4 year olds and £5.20 per hour for 2 year olds. This followed an 18% increase in funding for York in 2017/18 under the new Early Years NFF. In light of this the LA is not proposing any changes to the Early Years Single Funding Formula for York providers in 2018/19.

EYSFF Funding Rates

	Base Rate £/hour	**Deprivation Rate £/hour**	**Nursery School Lump Sum £**
3 & 4 Year Olds	4.00	0.40	107,065
2 Year Olds	5.20	Nil	Nil

Table 16 – EYSFF Funding Rates

High Needs Block

178. The high needs block DSG increases by £0.242m (1.5%) in 2018/19. It should be noted that the high needs budget is continuing to come under significant pressure due to rising demand from increased numbers of SEND pupils. This increase in funding will not be sufficient to cover the annual increase in costs of current SEND numbers. Further work, as part of the inclusion review that is currently underway, will be required to

ensure that high needs expenditure is maintained within the funding available through the high needs block of the DSG.

Central School Services Block

179. This new funding block has been created in 2018/19 from elements of the previous schools block and the former Education Services Grant (ESG). There is a small reduction of £0.005m from the equivalent allocations in 2017/18 which the LA proposes to manage by making efficiency savings within the small number of LA central services that are funded by this block. Other than this, the LA proposes no other changes to the budgets funded by the central school services block DSG.

Scrutiny

180. In accordance with constitutional practice Corporate Scrutiny and Management Policy Scrutiny Committee have considered at its meeting on 22 January 2018 what level of budget is appropriate in the coming year to support scrutiny reviews. The Committee take into account existing levels of spend in 2017/18 and the councils overall financial position. In the light of those considerations the Committee has decided to maintain the current funding level of £5k and not request any increase.

One Planet/ Equalities

181. An assessment has been completed on the overall impact of the budget proposals using the Better Decision Making Tool and this is available at annex 7. 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.

182. The financial strategy will impact on all residents and has carefully considered the local demand for services whilst also ensuring the budget set is prudent, protects vulnerable people and has capacity to invest. The strategy could have a negative impact on the following communities;
- Age
- Disability
- Gender
- Carers
- Lower income groups

183. 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

184. By reviewing and reshaping services for young people, particularly those in relation to prevention and early intervention, the route into identifying support will be made simpler for customers and the services more tailored to the needs to each community. This will have a positive impact on young people and promote equality of opportunity for those growing up in the city.

185. 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.

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

Specialist Implications

187. This report has the following implications;

Financial

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

Human Resources (HR)

189. The council currently employs 2,497 (2001 FTE) non school staff. The budget proposals which are contained within this report highlight the likely reduction of approximately 30 FTE posts in 2018/19.

190. 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 2018/19 is likely to be a mixture of post reductions and working for redesigned services, some of which may no longer be delivered by the council.

191. 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.

192. 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

193. The council is required to set a council tax for 2018/19 before 11 March 2018. 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 2018, 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.

194. 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.

195. 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.

196. In reaching decisions on these matters, Members are bound by the general principles of administrative law. Lawful discretions must not be abused or fettered and all relevant considerations must be taken into account. No irrelevant considerations may be taken into account, and any decision made must be one which only a reasonable authority, properly directing itself, could have reached. Members must also balance the interests of service users against those who contribute to the Council's finances. The resources available to the Council must be deployed to their best advantage. Members must also act prudently. Members must also bear in mind their other statutory duties to have regard to certain matters when making decisions. In particular the "equalities duty" to have 'due regard' to the need to eliminate discrimination and to promote equality when making decisions and 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.

197. 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.

198. 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.

199. 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 Deputy Chief Executive/Director of Customer and Corporate Services as Chief Financial Officer. Members are obliged under the Code of Conduct to have regard to the advice of the Chief Finance Officer and Monitoring Officer. The Council may take decisions which are at variance with his 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 Deputy Chief Executive/ Director of Customer and Corporate Services in order to balance the budget, they must find equivalent savings elsewhere.

200. The Deputy Chief Executive/Director of Customer and Corporate Services 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. He is in addition subject to the requirements set out above.

201. 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.

202. 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.

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

Council Priorities

204. This report, alongside the Capital Strategy, 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 Deputy Chief Executive/ Director of Customer and Corporate Services

Introduction

205. 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 give my views on the budget (both 2018/19 and beyond), reserves and general robustness of the process.

Overall Assessment

206. The proposals in this budget give a balanced budget for 2018/19 and an overview of future years. The council has well established effective financial management, effective monitoring, and has received very favourable external audit reports in respect of its financial management. The council has managed expenditure within its overall budget in recent years, and the overall financial planning process remains sound.

207. Full scrutiny of the budget proposals for 2018/19 has taken place, in terms of their deliverability, and a proper risk assessment of a range of issues has been conducted.

208. There are significant savings contained within the budget proposals, reflecting the scale of the challenge facing the council. There should be no understatement of the scale of this challenge, both in terms of next year and beyond.

209. A key risk facing the Council relates to the large number of major complex capital schemes it is currently undertaking, and which are at the 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.

210. Another significant risk is the financial position of the Health system within York, which brings with it a number of significant challenges for adult care services in particular. This risk has increased recently, with massive financial challenges facing CCG's in particular and the position regarding the Better Care Fund both now and in the future represents a major risk. Members should consider carefully whether to allocate additional funds for Social Care in the light of these challenges, and the related implications for Council Tax.

211. There are also changes in New Homes Bonus Funding as described in the report, which will reduce the amount of NHB the Council receives in future years. Previous budget decisions have funded ongoing expenditure of £2.6m from New Homes Bonus, and moving forward the Council will need to plan for funding this expenditure from its council tax/retained business rates. This will require budget growth from 2018/19 for a period of around 5 years, at a level of approximately £400k to £500k each year.

212. Clearly, there are risks in the achievement of some of the proposed savings and, in assessing the risk of the savings proposed, I cannot guarantee that every single proposal will be achieved. I do however consider the overall package to be prudent, and I am assured of the robustness of the projected savings, and the extent of rigour in their calculation. They do however represent a major challenge to deliver, one that will only be achieved through full commitment across the organisation. Very careful monitoring of the progress of the savings programme will be essential. A risk assessment related to 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.

213. I consider that the overall estimates in the budget are sound and that the proposals to achieve a balanced budget are achievable, albeit demanding. The council has made provision for a number of corporate financial pressures. In addition provision is still included for a contingency sum of £500k, and I consider this an important factor in the overall budget assessment. In this budget it is recommended that the contingency is increased by a further £800k to fund adult social care. The Council also has strong financial health in terms of its overall level of unallocated reserves, anticipated additional one off business rates income for 2018/19, and unallocated Venture Fund provision. These sums, combined with a track record of delivery to budget, provide assurance on the robustness of the Council's overall financial position. This overall package is a realistic approach in dealing with the financial pressures facing the council next year. There is provision made for the estimated 2.0% pay award.

Looking Ahead

214. Looking ahead there remains a range of very significant pressures for the future. It is almost certain that there will be further reductions in government funding, and the major challenge facing the council in coming years will be to secure further savings and for cost pressures to be managed effectively. In doing so, the council will also need to provide capacity for additional investment in unavoidable costs and priorities.

215. The proposals in this report set out details for 2018/19, but also set out the strategic direction, and key issues facing services for the following year. There has been significant consideration of the medium term planning issues, and I am entirely satisfied with the extent to which the Council is aware of the challenges it faces, and the actions it will need to consider over coming years.

Reserves

216. In terms of reserves, the proposals seek to keep reserves to an amount of £1,042k above their minimum levels. This recognises that in difficult financial times, and alongside general uncertainty regarding the economy, it is advisable to ensure sufficient reserves are in place.

217. I believe that the council will outturn within budget for 2017/18 and this is reflected in the budget monitoring report presented to Executive at this same Executive meeting.

218. The recommended minimum reserves for 2018/19 are £6.4m. This is considered within the report. I have identified in earlier paragraphs the risks facing the Council. Last year I indicated a need to increase reserves and this was done as part of the 2016/17 year end position. During the last 12 months some risks have been reduced, for example in relation to the Community Stadium. I do not consider that reserves require any increase, but I would caution any reduction at this stage, as there remain risks within the Capital Programme and within Social Care in particular.

219. Whilst there is a degree of mitigation in that the Venture Fund has a significant balance (covered in the financial strategy report), and some other earmarked reserves could be permanently/temporarily used should there be any significant costs to be charged to revenue funds, it is essential the Council makes proper prudent provision for the risks it faces and has adequate provision in its stated “Unallocated” reserves.

220. The decision on the adequacy of the level of reserves is also linked to the general robustness of the budget process and the council's systems of budgetary control and risk management. These need to ensure that the Council will not be exposed to any unforeseen major financial problem requiring the use of reserves to resolve. In considering the overall budget position, I have taken assurance over the recent track record of the Council to manage expenditure within budget, and the fact that in very recent times financial pressures have been identified early in the financial year and through concerted action across the council the position has been brought in line with budget.

Other Issues

221. The council tax referendum limit has increased from 2% to 3% and local authorities with responsibilities for adult social care will be given an additional 3% flexibility on the current council tax referendum threshold to be used entirely for adult social care.

222. It is for members to determine the level of council tax increase, and to decide whether to set a council tax increase up to the 3% referendum limit or to take advantage of the government offer to set a tax at a higher level to be used for adult social care. Members naturally need to consider the implications of the different options very carefully. In

particular they need to note the implications of any proposal to set a council tax above the referendum limit, which is covered within this report.

223. I also would highlight the separate capital strategy report, and the issues that are set out within that. I would stress however that the overall balance in terms of capital investment, levels of borrowing, and revenue implications (and the impact on revenue expenditure) is something that is for Members to determine.

224. There is the potential for significant changes to the system of local government finance in coming years. Changes have occurred to New Homes Bonus and in the future will occur to Business Rates. The operational details of the devolution of the business rates system still need to be determined by government, and there remain a number of areas that will need to be addressed before the full implications will be known.

225. I am aware that as with all budgets there is the potential for amendments to be proposed/agreed which could change the overall package of proposals. In that respect, I would highlight that I would amend/add to my statement if a decision was proposed that lead to the council's reserves falling below the minimum level (assuming the current budget comes in line with budget). In addition, any other amendments I would consider against the scale of the overall budget and depending upon the extent of the amendment I may revise my statement.

Risk Management

226. A summary of risks attached to the budget is contained in annex 8. They will be monitored regularly throughout the year.

Contact Details

Author:	**Chief Officer Responsible for the report:**
Ian Floyd Deputy Chief Executive/Director of Customer and Corporate Services	Ian Floyd Deputy Chief Executive/Director of Customer and Corporate Services
Debbie Mitchell Corporate Finance and Procurement Manager	**Report Approved** √ **Date** 30/1/18
Sarah Kirby Principal Accountant	

Specialist Implications Officer(s)
Legal – Andy Docherty
HR – Trudy Forster

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

For further information please contact the authors of the report

Background Papers:
Executive 7 December 2017 – Application for 100% Business Rates Retention Pilot in 2018/19
Budget Consultation available at www.yorkopendata.org

Annexes:
1 – 2018/19 Budget Summary
2 – 2018/19 Savings Proposals
3a – Health, Housing and Adult Social Care Medium Term Plan
3b – Children, Education and Communities Medium Term Plan
3c – Economy and Place Medium Term Plan
3d – Customer and Corporate Services Medium Term Plan
4 – Fees & Charges
5 – HRA Budget 2018/19
6 – HRA 2018/19Savings Proposals
7 – Better Decision Making Tool

8 – Risk Analysis
9 - Background Information

Abbreviations used in this report:
ASC – Adult Social Care
BCF – Better Care Fund
CCG- Clinical Commissioning Group
HRA - Housing Revenue Account
LCR – Leeds City Region
NHB – New Homes Bonus
RSG – Revenue Support Grant
SFA – Settlement Funding Assessment
WYTF – West Yorkshire Transport Fund
WYCA – West Yorkshire Combined Authority