CITY OF YORK COUNCIL

Executive **9 February 2023**

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

Financial Strategy 2023/24 to 2027/28

Summary

1. This report presents the financial strategy 2023/24 to 2027/28, including detailed revenue budget proposals for 2023/24, 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 2023/24 with savings proposals totalling £5.5m, equivalent to 4% of the net budget. There are separate reports on the agenda covering the capital budget, the capital and investment strategy and the treasury management strategy.

2. Overall £19m in additional revenue funding will be added to the Council's 2023/24 budget to meet continuing pressures on adult social care and children's services and maintain progress on the objectives outlined in the Council Plan. Specific examples of revenue investment include.

    - Good Health & Wellbeing – revenue investment in 2023/24 of £3m in health and adult social care in addition to the £1.6m support agreed last year, to support and care for some of the most vulnerable residents in York. This includes the costs of care, supporting adult social care staff and enabling residents to remain in their homes for longer.

    - A Better start for Children and Young People - revenue investment in 2023/24 of over £2m, in addition to the £2.7m investment agreed last year to support children and young people across the city, including further funding for social care staff.

    - Creating homes and world class infrastructure – the capital programme continues the on-going work of the Housing Delivery Programme, York Central, improvements to schools, highways maintenance, Station Frontage and other crucial major projects.

3. In addition to the revenue investment made, one off financial investment totalling £1m will be made utilising funding from the Business Rates Pool and Venture Fund:

   - £250k to provide additional support to financially vulnerable residents facing the current Cost of Living Crisis
   - £250k to allow local wards to invest directly in improvements to local communities, from installing new benches to repairing local roads
   - £150k to improve community safety, tackling anti-social behaviour hotspots, including through funding of specialist Youth Support Workers
   - £100k to support recovery of residents facing substance misuse problems
   - £100k to support critical services that promote better mental health and wellbeing and provide support to those residents with autism
   - £100k to incentivise the use of public transport locally to ensure the local bus network can be maintained
   - £50k to continue existing winter maintenance of key cycle and pedestrian routes

4. A total of £5.5m will also be utilised to invest in initiatives to tackle climate change and support local businesses from the UK Shared Prosperity Fund, including:

   - £200k to support local business decarbonisation whilst growing the local economy
   - £500k to support local skills development, particularly green skills
   - £175k to support residents to reduce their energy bills through energy efficiency measures
   - £730k to support local businesses through training hubs, incubators, voucher schemes and support schemes in the micro business community
   - £100k to increase levels of digital inclusion, and support development of essential digital skills
   - £725k to support more residents to find employment

- £1.1m to deliver improvements to the city's secondary shopping areas in Acomb and Haxby, as well as deliver public space and accessibility improvements in the city centre

- £275k to support local volunteering and community organisations

5. The Council continues to face unprecedented financial challenges due to the impact of the cost of living crisis and continued increased demand for Council services. This has generated an in-year financial pressure totalling £8.5m for the Council (mitigated to £3.7m), as noted to Executive in the latest Financial and Performance Monitor, which is also on the agenda for this meeting.

6. As a consequence of the current economic uncertainty and increasing financial pressures on local government, the necessity for the Council to maintain a stable and resilient financial position is now as important as ever.

7. In October 2022 it was confirmed that inflation had reached 11.1%, its highest level for 40 years. Whilst largely driven by the impact of Russia's invasion of Ukraine on food and energy prices and a global supply crunch following the coronavirus pandemic, these pressures are being directly felt by people, businesses, and local authorities across England.

8. On the 3rd November 2022 the Bank of England raised interest rates by an historic 75 basis points, its largest increase in 33 years. The Bank of England stated that the UK faced its longest recession since records began and described the outlook for Britain's economy as "very challenging", noting that unemployment would likely double during the country's two year slump.

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 and increased demand for services, particularly in adult social care.

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

    - A proposed basic council tax increase of 2.99% in 2023/24. This follows Government rising the previous referendum cap as part of the Autumn Statement. Any increase above this amount would require a referendum.

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

- Revenue savings of £5.5m in 2023/24

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

- A net revenue budget of £141.624m, which will be funded by:

    i. Council tax income of £107.783m

    ii. Retained business rates of £33.841m

11. Due to the challenging financial situation, and the need to ensure the revenue impact of the capital programme is reduced, the Council has reviewed the level of capital investment needed and has been able to identify reductions in some areas of the existing capital budget along with a review of assets that could be used to generate further income to support investment in the city. This budget continues the Council's transformational £480 million Capital Programme, to drive regeneration, support communities and continue the city's economic recovery.

12. The Capital Budget report sets out full details of the proposed programme which continue the council's approach to prioritise investment in the economy, housing, transport, and to invest to save through, for example, energy efficiency measures. Some of the key capital projects include;

    - £45m to improve the city's road network infrastructure and accelerate the delivery of flood defences, in conjunction with local and regional flood defence funding
    - £102m to deliver more housing across the city, including affordable and low carbon housing
    - £38m to progress the York Central scheme
    - £17m to progress the Station Frontage Scheme
    - £21m on the fleet replacement programme
    - £8m to upgrade and improve schools to help better support the needs of children with SEND
    - £57m to further develop the York Outer Ring Road, including cycling and walking improvements in the vicinity of the ring road
    - £53m to modernise and make major repairs to Local Authority Homes

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

Summary	2023/24 £'000
Total recurring investment (Table 2) Total net funding changes (Table 3) Total changes in council tax (Table 4) Total changes in business rates income (Table 5) Total savings and income generation (Table 6)	17,178 -4,305 -5,740 -500 -6,633
Budget gap	**0**

Table 1 – Budget position summary

Recommendations

14. Members are asked to consider the appropriate levels of council tax that they wish to see levied by the City of York Council for 2023/24. In doing so they should pay due regard to factors such as;

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

15. 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 £141.624m
- A council tax requirement of £107.783m
- The revenue growth proposals as outlined in the body of the report
- The 2023/24 revenue savings proposals as outlined in annex 2
- The fees and charges proposals as outlined in annex 3
- The consultation feedback as set out in annex 4

- The Housing Revenue Account (HRA) savings proposals set out in annex 6 and the HRA 2023/24 budget set out in annex 7
- The dedicated schools grant proposals outlined from paragraph 186, including option 1 for allocating 3 & 4 year old early years funding to providers
- The use of £1m from reserves to fund one off investment, as outlined in paragraph 87

  Reason: To ensure a legally balanced budget is set

16. The effect of approving the income and expenditure proposals included in the recommendations would result in a 4.99% increase in the City of York element of the council tax, 2% of which would relate to the social care precept. It is intended that the total council tax increase including the parish, police and fire authority precepts, will be agreed at a meeting of Full Council on 23 February.

17. Members are asked to approve the 100% increase in council tax on second homes with effect from 1st April 2024 subject to the Levelling Up bill receive Royal Assent by 31st March 2023, as set out in paragraphs 1119 to 121.

18. Members are asked to approve the average rent increase, based on the national cap, of 7% to be applied to all rents for 2023/24, with the exception of shared ownership tenants, as described in paragraphs 171, 172 and 184.

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

Background

National context and funding issues

19. In October 2022 inflation reached 11.1%, its highest level for 40 years. Whilst largely driven by the impact of Russia's invasion of Ukraine on food and energy prices and a global supply crunch following the coronavirus pandemic, these pressures are hitting people, businesses and local authorities across England.

20. On the 3rd November 2022 the Bank of England raised interest rates by an historic 75 basis points, its largest increase in 33 years. The Bank of England stated that the UK faced its longest recession since records

began and described the outlook for Britain's economy as "very challenging", noting that unemployment would likely double during the country's two year slump.

21. 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 and increased demand for services, particularly in adult social care.

22. Analysis from the Local Government Association (LGA) suggests that Councils in England are facing additional cost pressures of £2.4 billion in 2022/23 since budgets were set in Autumn last year. In 2023/24 the forecast budget gap is £3.4 billion, rising to £4.5 billion in 2024/25. The LGA were clear that without additional funding to cover these costs, councils would need to start making savings across all services even if council tax levels were raised to the new referendum cap level.

23. On the 17th November the Chancellor's Autumn Statement announced the Government's spending plans for 2023/24. Further information was published in the form of a policy statement on the 12th December before individual council allocations were published on the 19th December.

24. At the national level the headlines were:

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

- Local authorities will receive a one year settlement for 2023/24 with high level indicative figures for 2024/25.

- The Fair Funding Review and business rates baseline reset has been delayed until at least 2025/26.

- Re-purposed Adult Social Care charging reform funding (£1.265bn in 2023-24 and £1.877bn in 2024/25) will be distributed based on Adult Relative Needs Formula.

- Other Adult Social Care grants confirmed include: Better Care Fund (£600m in 2023/24 and £1bn in 2024/25, of which local government receives 50%); and a ringfenced adult social care grant to support capacity and discharge (£400m in 2023/24 and £683m in 2024/25).

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

26. City of York Council is a low 'core spending' authority. This means that based on historical spending data York ranks as one of the lowest spending against other local authorities. Therefore, in simplistic terms, when funding allocations are distributed by central government York will receive less from central government when compared to a historical (and potentially out of date) high spending authority.

27. The F20 (lowest funded authorities) report set out that in 2021/22, core spending power in York sat at £706 per head, the second lowest in the country compared to councils such as Kensington and Chelsea who receive £1,305 per head. If York were to receive even the average amount of spend the city would benefit from an extra £16.5m each year The Fair Funding Review remit was set to tackle this inequity, so the further postponement increases the Council's financial challenges in the medium term. York is one of 20 lowest funded authorities that are working together to continue to raise this issue with Government.

28. In relation to council tax, as City of York Council is a unitary authority with statutory social care responsibilities, the proposals in this report are predicated on a basic council tax increase in 2023/24 of 2.99 %, plus an additional increase of 2% in line with the government's social care precept. Further information on council tax and the social care precept is included later in the report.

<u>Local issues and challenges</u>

29. As previously reported to Executive, the Council is facing unforeseen pressures and demand for our services, which is having an impact on our budgets both in the current year and in the next year.

30. The 2022/23 budget was set just as the country was emerging from the Covid-19 pandemic and the crisis in Ukraine was beginning. Since then, we have seen rising energy, fuel and food prices, inflationary increases in contracts, supplies and other expenses that are making it difficult for the council to balance its budget, resulting in an in year pressure of some £8m.

31. The Council has continued to identify areas of efficiency, including through the introduction of hybrid workstyles that allow staff to work from home and from the Council's main administrative buildings, including both West Offices and Hazel Court. This has enabled the Council to consolidate working spaces in buildings which has in turn allowed further space in West Offices to be let out to partners and other organisations. This process will continue although there are no proposals to consider letting out office space at Hazel Court.

32. There are serious underlying budget pressures across both adult and children's social care. Both adult and children's social care is operating in an extremely challenging environment. Despite the allocation of growth each year, demand for and the cost of providing social care continues to increase. The gross financial pressures facing the council in 2022/23 are projected at £7.8m but after mitigation and further action it is considered that this can be brought down to a net position of £3.7m.

33. Demand for council services continues to increase, with an ageing population with increased complex needs in respect of social care. There are also significant challenges in the health sector, including challenging financial positions for health partners, which are in turn a significant financial risk to the council. At the time of writing, York Hospital is continuing to experience unprecedented demand, GPs are seeing a spike in appointments and we still await further detail and certainty regarding long-term funding for social care.

34. In addition, record high levels of inflation are driving costs up and there is continued pressure on many of the council's income budgets, all of which highlights the need to include a realistic and prudent contingency fund.

<u>Local issues and challenges – Adult social care</u>

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

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

37. The budget proposals include £3m growth allocated in 2023/24 to support front line services, fund ongoing pressures resulting from Covid, and support the local provider market. Cumulative budget growth from 2019/20 to 2022/23 was £17.3m. This additional funding will support existing budget pressures as well as enabling a move to early intervention approaches, which will result in more people support to remain in their own home with the right level of care and support, including responsive therapy assessment and support.

38. Additional investment in community support will ensure people can access support closer to where they live. For example, the implementation of the Mental Health Hub has resulted in easier access for people to use this

service as well as enabling other local community providers to use the centre to provide additional advice and information. Further work is ongoing in regard to locality level service delivery with health and voluntary sector providers.

39. We have also recently opened an extension to the council run Independent Living Community at Marjorie Waite court. As the scheme matures, this service will provide customers with a real alternative to residential care whereby they can maintain their independence within their own tenancy and community. The service can cater for those living with dementia and has the facility to accept customers being discharged from hospital, again working with them to ensure they regain and maintain the skills and ability to live in their own homes without the need for formal care.

40. As part of the council's commitment to ensure people receive the right care at the right time a whole system redesign of reablement and intermediate care is underway. This review will help support additional early intervention and prevention services across localities as well as integration with some health services.

41. We are also working with external providers, to ensure safe services and consistency in care delivery and our care act responsibility through market management and oversight

42. Following the publication of the Dementia Strategy we have a clear action plan underpinning the strategy to support individuals and their carers.

43. Local authorities continue to face significant financial pressures due to the ongoing impact of the pandemic. The number of people seeking help from adult social care, the number who go on to receive support and the amount and cost of support they receive all continues to increase.

44. A national challenge in delivering care services is the paucity of staff working in the care industry; both in delivering personal care but also the resource needed to assess individual needs.

45. The Government originally proposed that reforms to adult social care charging would be implemented from October 2023. However, at the Autumn Statement 2022, delivered on 17 November 2022, the Chancellor announced that the reforms would be delayed for two years, with the planned funding allocated "to allow local authorities to provide more care packages." The decision to delay the reforms adds to the continued uncertainty in relation to financial planning in the medium term, as outlined elsewhere in the report.

46. The Council is committed to effective management of the budget in the knowledge that resources are finite and need to be used in the most effective way to support the wellbeing of some of our most vulnerable residents. Our approach combines rigorous systems and governance to control spending with a strategic approach to a more sustainable way of supporting residents' wellbeing.

47. These budget proposals include further significant investment in Social Care to ensure that essential statutory services are protected. Where savings are proposed, these are focused on improving services and making best use of alternative funding streams to ensure people receive the right care that meets their needs as early as possible.

48. The Council continues to work closely with colleagues in the NHS and we continue to focus on those with the most complex needs, reducing reliance on residential and nursing care to ensure more people are able to remain in their own homes for longer through short term intensive support, independent living communities and extra care housing.

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

49. Nationally there is significant pressure on budgets in children's services. Demand is increasing and numbers of children in our care are also rising. In the recently published National Care Review, Josh MacAlister stated:

    "Change is now both morally urgent and financially unavoidable. We have a stark choice: keep pouring money into a faltering system or reform and invest to improve people's lives and make the system sustainable for the future." Josh MacAlister, author of the review report

    MacAlister recommends an injection of £2.6 billion in order to change the trajectory of future demand and spiralling costs,

50. In addition to the historic context of insufficient national investment, we are further challenged through the impact of the most profound economic shock that we have seen in modern history. This increased pressure on families presents a real and significant risk to demand on children services through the inevitable associated risks to children in areas such as mental health and parental conflict.

51. In this context further investment in Children Services in York demonstrates our unwavering commitment as a city to ensure children have the very best start in life.

52. As with other Local Authorities nationally there is work being done to ensure we have an effective multi-agency system wide response (early

help) to reduce the need for costly statutory intervention. Providing the right support, at the right time through people who have trusted relationships will reduce increasing demand on resource intensive services.

53. Where statutory intervention is required we are investing in these services to ensure they are effective, resilient and focus on keeping children safe amongst their family and networks, therefore reducing the increasing and unsustainable demand on out of home care.

54. When alternative care is required for children we are investing in services which provide support to them locally, including the development in house residential care which will be established using evidenced based approaches that are most effective. This approach has already secured the commitment of partner agencies to provide further investment to ensure these services are delivered through a multi-disciplinary approach.

55. Furthermore, we will invest in our fostering services to ensure children are looked after in the city, reducing our reliance on costly private sector arrangements that are far from home. This approach will increase the opportunities for reunification work with families and important networks ensuring children are in care for the shortest possible time.

56. As a system we will invest in world class training that supports our workforce to deliver better outcomes for children, helps us focus on family strengths and enables us to grow safe and supportive networks that enable children to remain with their family where it is safe to do so.

57. This modest Investment will be the key enabler to deliver a 3 year whole system strategy that will improve outcomes for our most vulnerable children and safely reverse the impact of spiralling spend as described in the national care review.

58. Whilst there are modest savings within our education and skills service, the ongoing protection of budgets in this area, alongside increased national safety valve investment will ensure we continue to maintain and improve our services for children with special educational needs and disabilities.

59. In addition, the capital programme includes investment of £23m in school infrastructure. A further part of the capital programme includes further investment to support foster carers by adapting home environments to allow children and young people to maintain their independence.

Council priorities

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

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

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

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

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

Principles that have shaped the budget process

64. The Council's Financial Strategy continues to invest in priority areas as outlined in the Council Plan, including adult social care and support for children, as well as communities facing the cost of living crisis.

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

66. It is critical that the council continues to support a strong local economy, recognising the significant financial benefits in the form of retained business rates, and the creation of jobs. Ensuring that there is a strong link between the capital and revenue budgets to support the delivery of council priorities is essential.

67. Set out in the separate capital budget report are proposals for continued major investment in a variety of schemes. These continue the council's approach to prioritise investment in the economy, housing, transport, and tackling climate change. In addition, the council is continuing to make a significant investment in ICT, recognising that the need for high quality technology will be crucial to delivering services in the most effective manner in the future, particularly in relation to adult and children's services and customer services.

Consultation

68. 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.

69. The budget consultation launched in December and closed on 9th January 2023.

70. This year there were 573 responses, an increase compared to 369 last year.

71. 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.

72. The consultation was promoted to residents through various channels via Our City publication, social media, local media, forum groups, newsletters, published on the council's consultation page, and promoted in Council Buildings such as Libraries and Leisure Centres.

73. The survey was promoted;

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

    - To equalities groups via the equalities network.

    - Our City was delivered to all households from 19 December.

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

75. A number of focus groups were consulted in December which allowed a more in-depth discussion with participants.

76. The key messages from the consultation were;

    - To balance the budget, 53% of respondents were in favour of an increase in council tax, rather than an increase in charges (46%) or a reduction in service provision (20%)

    - 78% supported some form of increase in basic council tax, and of those supporting an increase 49% favoured the maximum increase of 1.99%.

    - 71% supported a maximum increase in the social care precept.

    - Respondents were asked if they agreed with various areas for priority investment. The area most thought was a priority was the protection of frontline services, followed by providing financial support for those that need it most and also to maintain and upkeep schools.

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

- The budget proposal increases the basic council tax by 2.99% and social care precept by the maximum allowable (2%) as favoured by the majority of respondents. This decision was taken to address the significant budget pressures which the council faces, particularly in children's and adult social care, as set out in the report.

- The use of the Business Rates Pool and Venture Fund to provide assistance to those most in need, as outlined in paragraph 3.

- The council is investing £5m across both Adult and Children's Social Care.

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

Executive Member decision session consultation

79. Following the consultation, a report was taken to the Executive Member for Finance & Major Projects Decision Session on 12th January 2023.

80. This meeting provided a further opportunity for the Executive Member to obtain feedback from stakeholders, and also gave stakeholders a view of the initial budgets proposals approximately a month in advance of the Executive meeting.

Budget analysis

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

    i. Consideration of the 2022/23 position.

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

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

iv. Consideration of reductions in grant funding.

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

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

<u>2022/23 position</u>

82. As part of the budget approved in February 2022, considerable investment was made in priority services to ensure sufficient resources to deliver statutory and priority services. The most notable example was additional funding for adult social care, with the inclusion of £4.5m growth. At a time of significant financial challenges, this was a major investment to ensure the council were able to provide sufficient funding for the cost of care, supporting social care staff and enabling residents to stay in their homes longer.

83. 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.

84. Some areas identified as pressures in 2022/23 will require additional funding in the future and these include investments relating children and adult social care, which is covered further in the report. In addition the Council will need to take some concerted actions to ensure cost pressures are minimised, with cost avoidance strategies.

<u>Additional Investment</u>

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

- New Homes Bonus (NHB) funded revenue budgets **£1,107k** – As mentioned in previous budget reports, NHB funding has reduced and this is the remaining balance of ongoing revenue funded from NHB.

- Health and Adult social care - **£3,000k** to cover contractual price increases and demographic pressures, including the cost of adults as they transition from children’s services within 2023/24.

- Children’s Services - **£2,000k** to cover contractual price increases and demographic pressures, including looked after children costs within 2023/24.

- Contractual price increases **£6,000k** - to cover unavoidable contractual price increases in other service areas, mainly ICT, insurance, transport and waste.

- Pay and Pension costs - **£5,905k** is included for pay and pension costs in 2023/24. This will cover anticipated pay inflation.

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

One off Investment

87. In addition to the ongoing expenditure pressures set out above one off growth totalling **£1,000k** is included.

    - £250k to provide additional support to financially vulnerable residents dealing with the current Cost of Living Crisis

    - £250k to allow local wards to invest directly in improvements to local communities, from installing new benches to repairing local roads

    - £150k to improve community safety, tackling anti-social behaviour hotspots, including through funding of specialist Youth Support Workers

    - £100k to support recovery of residents facing substance misuse problems

    - £100k to support critical services that promote better mental health and wellbeing and provide support to those residents with autism

    - £100k to incentivise the use of public transport locally to ensure the local bus network can be maintained

    - £50k to continue existing winter maintenance of key cycle and pedestrian routes

88. The one off growth items above are funded from £1,000k one off funding from the Venture Fund and Business Rates Pool.

Investment Summary

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

Investment	2023/24 £'000
Recurring investment	
- New Homes Bonus replacement funding	1,107
- Health and Adult social care prices and demographic	3,000
- Children's Services prices and demographic	2,000
- Other Prices contingency	6,000
- Pay and pension	5,071
	17,178
One off investment	
- Support to financially vulnerable	250
- Ward investment	250
- Community Safety	150
- Substance Misuse	100
- Mental Health	100
- Public transport incentives	100
- Winter maintenance	50
	1,000
Total Investment	**18,178**

Table 2 – Summary of investment

Specific Grant Funding Changes

90. Table 3 shows the net change in specific grants, totalling £4.305m. The council will receive additional grants of £5,139k in 2023/24 to fund adult social care pressures. This will be used to fund growth in adult social care and is covered in further detail elsewhere in the report.

91. As part of the 2023-24 Local Government Settlement, the government announced that all local authorities would be guaranteed to see an increase in Core Spending Power of at least 3%. Those that fell below that level would receive a Funding Guarantee Grant. As York does not fall below that threshold, no allocation has been necessary.

92. The Council received a new grant Services Grant of £1.83m in 2022/23. This was intended to be a one-off grant (£822m) distributed to every authority using the 2013-14 settlement funding assessment (SFA). The majority of the grant was intended to support the increase in National Insurance (NI) contributions from April 2022. The Government's decision to increase the rate of NI was later reversed and as a result the Services Grant has been reduced by £800k. The grant will continue in 2023/24 at a lower level until further consideration has been made by central government as part of the 2024/25 funding distributions.

Funding Changes	**2023/24 £'000**
- Increase in ASC specific grants	-5,139
- Decrease in Services Grant - specific grant	800
- Net reduction in other grants including RSG	34
Net Funding Changes	**-4,305**

Table 3 – Grant funding changes

Council Tax Funding Changes

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

94. The first line in Table 4 shows the 4.99% increase in council tax which will generate additional income of £5.092m on the existing taxbase.

95. A further £0.648m council tax is generated due to an increase in taxbase as shown in the second line of Table 4. The taxbase is calculated by the s151 Officer each year and represents the total number of Band D equivalent properties in the city. In 2023/24, this has grown by approximately 413 properties. Taxbase can increase or decrease due to various factors including new homes and changing patterns in the number and types of discounts taxpayers are able to receive or apply for.

96. The third line is the reversal of the collection fund surplus from the prior year. There was no estimated surplus or deficit declared in 2021/22. The final outturn position was a residual deficit of £3.047m. York's share of this is £2.464m. This will need to be repaid in 2023/24 using the Collection Fund Reserve.

97. The council tax collection fund surplus or deficit for the year 2022/23 is estimated on 15 January 2023, based on current year actual figures. The surplus or deficit is a result of a change in taxbase, compared to estimates

made last year. The collection fund surplus is only available as one-off funding, but there is no surplus forecast for the year 2022/23.

98. In summary the Table 4 shows an estimated £5.740m additional income from council tax in 2023/24.

Council tax	2023/24 £'000
- Increase in charge	-5,092
- Increase in taxbase	-648
- Reversal of collection fund surplus 2021/22	0
- Collection fund surplus/deficit 2022/23	0
Net council tax changes	**-5,740**

Table 4 – Council Tax funding changes

Business rates income

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

100. In 2022/23 City of York Council were part of a 50% business rates pool with Leeds City Region and this is set to continue in 2023/24. This is covered in further detail later in the report.

Business rates	2023/24 £'000
- Business Rates increase/reduction	-500
Change in income	**-500**

Table 5 –Change in business rates Income

Savings proposals and Expenditure Reduction

101. Directorates have identified £5.5m to contribute towards the 2023/24 savings target. £0.7m of the 2023/24 savings are the full year effect of prior year savings previously agreed by Executive.

102. There is an additional full year impact of £2,720k in 2024/25 in relation to these savings proposals, as outlined in annex 2.

103. In addition to directorate savings proposals of £5.5m, there is an additional saving of £1.1m due to the reduction of the Covid-19 recovery fund. A one-off fund of £2.5m was established in 2021/22 and the removal of this fund generates a saving of £1.1m.

104. Table 6 summarises the 2023/24 savings to be delivered by each directorate, corporate services and reduction in the Covid-19 fund.

Savings	**2023/24 £'000**
- Adults	-2,624
- Children's	-178
- Place	-745
- Customers and Communities	-395
- Governance	-295
- Corporate	-1,296
Total savings changes	**-5,533**
Reduction to Covid contingency	-1,100
Total expenditure reductions	**-6,633**

Table 6 –2023/24 Expenditure Reduction

New homes bonus (NHB) grant

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

106. In the September 2019 settlement the government announced a reduction in legacy payments and a phasing out of the NHB funding by 2023/24. Although the government has continued to provide funding to local authorities for the NHB in 2023/24, York's allocation has reduced significantly due to the of new homes being built and the end of legacy payments in the allocation. As a result, growth of £1,107k has been provided for to phase out the ongoing revenue that was funded by the NHB.

107. The total NHB funding available in 2023/24 is £63k.

Net Budget Composition

108. Taking into account funding changes summarised in Tables 3, 4 and 5, Table 7 below summarises the funding available from council tax and business rates for 2023/24.

	2023/24 £'000
Council Tax	107,783
Business Rates	33,841
Total Net Budget	**141,624**

Table 7 – Net budget composition for 2023/24

Fees and charges

109. Whilst the Council recognise the challenges of the cost of living crisis for businesses and residents, it has been necessary to increase some fees and charges for 2023/24 to achieve a balanced budget.

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

111. The proposals include a general inflationary increase in parking charges of up to 30p per hour and an increase in the non Minster Badge evening rate from £3 to £4. There are also proposals to reduce the number of vehicles that attract a discounted permit price so the discount is limited to those that are electric powered / hybrid in line with DVLA changes.

Council Tax

112. The existing components of the current (2022/23) band D council tax for a City of York Council resident are shown in Table 8 below. It should be noted that these figures exclude parish precepts which are an additional charge in some areas.

	£
City of York Council - Basic	1,315.82
City of York Council – Social Care Precept	179.96
North Yorkshire Police	281.06
North Yorkshire Fire and Rescue	75.61

TOTAL	**1,852.45**

Table 8 - Make Up of 2022/23 Council Tax

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

Referendum Limits

114. The council tax referendum limit has increased to 3% (excluding social care precept) for 2023/24. The threshold is not guaranteed to continue beyond 2023/24. 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.

115. 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 £300k. If the referendum could be combined with another election this would reduce the cost by approximately 50%. There are local elections scheduled to take place in 2023/24. In addition, there are the costs of rebilling which is estimated at £60k.

Social care precept

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

117. As referred to earlier in this report, the recommendation made in these papers is that from April 2023 the City of York element of the council tax

will increase by 4.99%, 2% of the increase relating to the social care precept.

118. A 2% social care precept increase generates additional income of approximately £2m for the council which will be used along with additional grant funding to fund adult social care increased costs, pay, pension and other pressures. The increase in the adult social care precept is in recognition of the significant budget pressures within this service area. Further details on the use of the adult social care precept are covered earlier in the report.

Second Homes Premium

119. The Government's May 2022 Levelling Up and Regeneration Bill proposes the ability for councils to charge a 100% additional council tax premium on second homes. This option would become available to billing authorities with effect from 1 April 2024 at the earliest subject to the Bill receiving Royal Assent before 31st March 2023.

120. Billing authorities that wish to adopt any changes arising from the Bill are required to make a Council decision confirming their requirements at least 12 months prior to the financial year in which the changes will come into effect; meaning that the Bill will need to obtain Royal Assent prior to 31st March 2023 in order to adopt the changes for the financial year commencing 1 April 2024.

121. The council currently has 386 live properties listed as 2nd Homes on the council tax base. As there is no additional premium currently charged there is no dispute around occupation, but this may change once additional liability can be applied. The 2022 net liability for these properties is £702,269. This paper will recommend that the council approves the increase from 1st April 2024 if the Bill receives Royal Assent by 31st March 2023 or the earliest possible financial year should the Bill be delayed.

Precepts

122. In addition to the council tax to be charged by the City of York, the overall charge must include the precepts from the North Yorkshire Police, North Yorkshire Fire and Rescue Authority and parish councils. Due to the timing of this report these precepts are not yet available but will be included in the report which is considered by full Council on 23 February.

123. Table 9 demonstrates both the cash and percentage increase in 2022/23 for these which resulted in a total band D council tax for a York property of £1,852.45.

	2021/22	2022/23		
	Charge (£)	Increase (£)	Increase (%)	Council Tax (£)
CYC	1,452.36	43.42	2.99%	1,495.78
Police	271.06	10.00	3.69%	281.06
Fire	74.14	1.47	1.99%	75.61
Total	1,797.56	54.89	3.05%	1,852.45

Table 9 – 2022/23 Council Tax Figures for City of York Area

124. 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)

125. The business rate multiplier will continue to be frozen in 2023/24 and will remain at 49.9p.

126. In November 2022, the Government announced that a Business Rates Revaluation would take effect from 1st April 2023. The Council has subsequently been issued with an updated list of rateable value of all business and other non-domestic property.

127. The impact of the 2023 Revaluation for York is a decrease in the Rateable Value by 3.4%, compared to the last revaluation in 2017.

128. As part of the Local Government Settlement 2023/24, it was announced that the business rates multiplier would continue to be frozen, however the impact of under-indexation for local authorities would be fully funded. York will therefore receive a compensation grant (Section 31 grant) and an uplift to its Baseline Funding level.

129. The council is projecting retained business rates/RSG income in 2023/24 of £33.841m, which is an increase of £0.5m compared 2022/23 following the impact of the Business Rates revaluation, covered later in the report.

130. A prudent approach continues to be taken in respect of Business Rates growth and there are no growth assumptions in relation to business rates

income for 2023/24. If business rates perform better than budgeted this will enable the Council to build up a reserve in light of the significant risks the Council may face after a business rates reset.

Business Rates Pooling

131. City of York Council is currently a member of the Leeds City Region (LCR) Business Rates Pool, and this will continue in 2023/24.

132. The Council is classed as a 'tariff' paying authority as its NNDR receipts are greater than its funding needs. As the impact of the 2023 Revaluation on York is a reduction in the Gross Rateable Value of all ratepayers, there will be a corresponding reduction in the tariff payable to the pool in 2023/24.

Reserves and Contingency

General reserves and contingency

133. Table 10 shows the position on the general fund reserve which, it is anticipated, will be £7.441m by the end of 2022/23. However, as noted earlier in the report and on a separate report on this agenda, several known pressures are forecast for 2022/23. The Council will continue to make every effort to reduce this forecast position but may be the case that Council general reserves will need to be called on.

134. The projected reserves at the end of 2023/24 are based on the assumption that Members agree no usage of reserves in 2023/24 as part of the final recommendations to Council.

135. In line with best practice, the council has undertaken a review of risks and known commitments in order to determine its minimum general reserve level. In considering this, it has been determined by the s151 Officer that £6.8m remains an appropriate figure. However in light of the risks facing the council, in relation to major capital programme schemes such as York Central and Castle Gateway and the budget pressures within children's and adult social care as covered earlier in the report, along with the pressures caused by the current high rate of inflation, it is considered that the Council should make every effort to maintain some headroom above the minimum level. Should the general reserve be required in 2022/23, further consideration of reserves will be made during the early part of 2023/24 and any increase needed will be considered as part of a future budget process. Reserves are covered in further detail within the s151 statutory statement at the end of the report.

	2022/23 Projected Out-turn £'000	2023/24 Budget £'000
General reserve at start of year	7,441	7,441
Increase to General Reserve (one off growth)	0	0
In Year use of reserves	0	0
General reserve at end of year	7,441	7,441
Prudent minimum reserves	6,800	6,800
Headroom (+)/Shortfall (-) in reserves	641	641

Table 10 – Projected general reserves

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

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

Venture fund

138. The balance on the venture fund reserve is anticipated to be £4.3m at the end of 2022/23.

139. As covered in previous budget reports Executive have already agreed commitments in future years to major projects including £300k to the Community Stadium, £3m to York Central, £131k to Mental Health and £200k to Burnholme Community Centre. After taking into account these commitments, the forecast year end balances on the venture fund is included below in Table 11.

	Forecast Year end Venture Fund Balance
	£'000
2023/24	745
2024/25	964
2025/26	1,183
2026/27	1,404
2027/28	1,626

Table 11 –Venture Fund Balance

140. In light of the current financial pressures and the need to maintain services to residents, it is considered appropriate to use £650k from the Venture Fund to support one off investment, as outlined earlier in the report.

Medium term planning

Medium Term Outlook

141. The Government published the provisional settlement on 19 December 2022. It is a one year settlement with high level indications for 2024/25.

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

143. The Services Grant introduced in 2022/23 to fund the expected increase in National Insurance Contributions has been reduced accordingly, given the planned increase will no longer go ahead.

144. It was disappointing that the settlement again only announced detailed funding allocations for 2023/24 although the settlement did give some direction on 2024/25, stating that it would "continue in a similar manner for 2024/25. The major grants will continue as set out for 2023/24". However, at the time of writing we are still awaiting allocations for several grants, including Public Health.

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

Business Rates and Funding Reform

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

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

148. There has been an expectation for the last 3 years that business rates and funding reform would be implemented in the following year. This has already been postponed due to the government's focus on Brexit, and the

Covid-19 pandemic. The Chancellors Autumn Statement and subsequent funding settlement announced that this has been delayed until at least April 2025.

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

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

151. The Fair Funding Review focuses on the cost drivers for individual authorities. As part of the funding reform, additional responsibilities will transfer to local government, potentially the administration of housing benefits for pensioners and funding of public health.

152. As a prudent measure, there are no growth assumptions in relation to business rates income for 2023/24, to enable the Council to build up a reserve in the event that the FFR and business rates reset is not favourable for York.

Medium term strategy and approach to savings

153. Recognising some of the risks set out in preceding paragraphs, in particular the state of the UK economy, and the distribution of local government funding, the table below, Table 12, sets out the headline figures for the Council’s medium term financial forecast to 2026/27.

154. It is difficult to predict beyond this timescale.

	2024/25	**2025/26**	**2026/27**
	£’000	**£’000**	**£’000**
GROWTH			
Pay and price inflation	10,000	9,000	8,000

Demographic (mainly social care) and overspend pressures	6,000	6,000	6,000
Capital Programme	1,600	1,600	1,600
Total growth	**17,600**	**16,600**	**15,600**
RESOURCES			
Council Tax at 3.99%	4,000	4,800	5,600
Business Rates Growth	0	0	0
Total resources	**4,000**	**4,800**	**5,600**
FUNDING GAP	**13,600**	**11,800**	**10,000**

Table 12 – Medium Term Forecast to 2026/27

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

156. The funding gap figure in Table 12 represents the amount of savings that are required each year to balance the budget.

157. Whilst settlements for local government have been better in recent years, this is not guaranteed to continue in future years in light of the factors outlined earlier in the ‘medium term outlook’ section of the report.

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

159. The impact of the capital programme will have an effect on the revenue budget in terms of cost of borrowing. Whilst this is spread over a number of years, the broad requirement in future years is for an increase in the treasury budget of around £1.6m every year.

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

161. To achieve the savings, and ensure budget pressures are contained, it is essential that the Council further develops the delivery of digital services, its use of assets, ensures efficient cost control, develops new sources of income, secures grant funding and reviews the method of delivery of a number of service areas.

162. Based on the current assumptions above, based on a 3.99% increase in future year's Council tax, there remains a funding gap of between £10m and £14m each year, over the next 3 years. The Council will need to consider the relevant balance of savings, variation in council tax, and potential changes in funding and income from business rates.

163. Specific details of future year's savings proposals will be covered in future budget reports. Looking beyond 2023/24 is difficult given a wide range of uncertainties already described. The scale of savings is to a large extent dictated by the overall level of council tax increase that will be set.

Housing Revenue Account (HRA) Budget

Housing Revenue Account

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

165. The HRA has been impacted by a number of external factors since setting the budget for 2022/23. The rent increase of 4.1% applied in 2022/23 which raised c£1.3m has not covered the additional expenditure pressures that have arisen due to the cost of repairs, staff pay rises and utility bills. The latest budget monitoring position for Housing this financial year shows the HRA overspending by £2m and expenditure being greater than income. The account continues to be impacted by high inflationary increases which are expected to continue into 2023/24.

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

167. As part of the budget setting and business plan forecasts for 2023/24 the Housing Revenue Account was forecasting an in year surplus of £2.1m prior to debt repayment. The table below (Table 13) shows the changes to those assumptions since that time:

	£'000	£'000
Budgeted surplus		-2,112

Inflationary Pressures • Repairs • Utilities • Pay Award • Depreciation • Other	 900 1,230 680 820 200	 3,830
Revised Budgeted Deficit		1,718

Table 13 – HRA Forecasts 2023/24

168. The above shows a significant turnaround from the assumed business plan position (based on 3% rent increase) to the latest projection. The position is unsustainable in the long term and therefore needs to be addressed over the coming years.

169. Government announced in October 2017 that rents would be able to increase by CPI +1% from 2020/21 for a period of at least 5 years. The CPI rate at September 2022 was 10.1% meaning that rents could be increased by up to 11.1%. This would have raised up to £2,670k. This level would have brought the HRA annual balance above £1m but would have had significant impact on tenants particularly those who are not supported through benefits.

170. As part of the Autumn Statement the Chancellor announced that rents will be capped by a maximum 7% for financial year 2023/24. Whilst this is a significant increase for tenants to pay, it is lower than the CPI +1% formula that would otherwise be the maximum rent increase. The additional rent that a 7% rate would raise is £1,300k.

171. Given the need to balance the impact on individual tenants with the impact on the ability of the HRA to fund repairs, maintenance and tenant support, the 7% rate is recommended. The impact of balancing the budget through reducing services such as repairs and tenant support is considered too severe.

172. In order to support tenants in the greatest financial difficulty, it is recommended that a one-off hardship fund of £100k is created. 68% of people living in York's council properties are on Housing Benefit or Universal Credit Housing Support, which means that any rent increase will be covered by benefits. Officers will continue to work with tenants who are struggling to help manage their rental payments, maximise benefit entitlement and draw on the Hardship Fund for additional support where needed.

173. Even with a 7% rate increase which is recommended there is a need to make further efficiencies and also to mitigate some of the additional £1.2 utility costs identified above by increasing service charges particularly where heating in individual rooms is provided and paid for by the council.

174. There are savings proposed totalling £310k which are shown in Annex 6.

175. It is also necessary to ensure that the increases in utility costs are fairly split between the tenants and the HRA whilst also recognising the current cost of living pressures. The £1.2m increase cannot be solely absorbed by all tenants across the HRA. It is proposed that service charges at hostels and Independent Living Schemes are reviewed in order that only a quarter of the additional costs are passed direct to the tenants who are most in receipt of the service. These tenants are currently paying service charges that are based on prices significantly lower than actual. They are also in receipt of government energy support schemes.

176. It is also proposed to recognise a number of corporate savings that would impact the level of charges to the HRA and cash limit the increase providing a £120k saving as well an adjustment in appropriation assumptions, reducing charges to the HRA by £42k.

177. The impact of these changes are shown in Table 14 below:

	£’000	£’000
Budgeted Deficit		1,718
Rent Increase	-1,300	
Less Tenant Support Fund	+100	
Service Charges	-300	
Other Income (eg Leasehold charges)	-70	
Cash Limit Support Services	-120	
Debt adjustment	-42	
Savings	-310	-2,042
Budgeted Surplus		-324

Table 14 – HRA Budget Summary Position

178. This level of budgeted surplus is significantly lower than before and reduces much of the flexibility of the HRA to deal with ongoing pressures and to increase investment in new and improved stock. It is the view of the Chief Finance Officer that the budgeted surplus should not reduce any further below this level.

179. The HRA budget, taking into account the pay award, inflation and savings for 2022/23 are detailed at Annex 7.

180. The impact of the recommendations within the financial strategy have been modelled and the 30 year business plan is shown as Annex 8. The impact of the reduced level of budgeted surplus have significantly impacted the overall standing of the HRA

- Maximum debt will increase from £146m to £152m as the Housing Delivery Programme develops sites
- The HRA self-financing debt (£121.55m) will broadly be maintained over the life of the plan
- The minimum HRA year end balance can be maintained at over £15m

181. It should be noted that the HRA is currently only paying interest on the £121.5m self-financing debt and now has little flexibility to repay the debt and will be limited with respect to further borrowing above what is already assumed. The assumptions around inflation, interest rates, rent levels and efficiencies will need to be reviewed in the medium term and it is likely that further efficiencies will need to be considered in future budget rounds.

182. The impact of inflation particularly around utilities has significantly impacted the 30 year projections across the HRA. There is much uncertainty over the medium impact of such large price increases and should these costs start to fall the impact on the account will be strongly positive.

Rent Changes 2023/24

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

Year	Estimated Average Rent Per week	Estimated Average Increase per week
2022/23	£84.02	
2023/24	£89.89	£5.87

Table 15 – Rent Changes 2023/24

184. It is also proposed that rents that do not fall within the definition of “social housing rents” for the purposes of the Welfare Reform and Work Bill 2015 will similarly be capped at the 7% level set out in the report. This includes shared ownership, Gypsy Roma and Traveller accommodation as well as any specialist supported housing that is exempt from the rent reduction legislation.

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

Dedicated Schools Grant (DSG) and the Schools Budget

186. The DSG is ring-fenced for funding the provision of education or childcare for 3 to 16 year olds in all settings and high needs pupils up to age 25. As such it covers funding delegated to individual local authority (LA) maintained schools, academies and private, voluntary and independent (PVI) providers through the Local Management of Schools (LMS) & Early Years Single Funding (EYSF) formulae, plus funding for other pupil provision which is retained centrally by the LA to support such things as Special Educational Needs and some specific central education services.

187. The overall DSG is allocated to LAs via four sub blocks; schools, high needs, early years and central school services. The funding that LAs receive in each block is now determined by specific national funding formulae (NFF). These arrangements are continued for 2023/24 but with some changes to the schools NFF, and a continuing reduction in the funding allocated to the LA for centrally retained budgets.

188. The total DSG allocation for 2023/24 is estimated at £160.958m, an increase of £4.427m (2.9%) from 2022/23 and broken down as follows:

DSG Funding Block	Adjusted 2022/23 £m	2023/24 £m	Increase	
			£m	%
Schools Block	118.175	119.614	1.439	1.2%
Early Years Block	10.892	11.477	0.585	5.4%
High Needs Block	25.088	27.794	2.706	10.8%
Central School Services Block	2.375	2.074	(0.301)	(12.7%)
Total DSG	**156.531**	**160.958**	**4.427**	**2.9%**

Table 16 – DSG Allocation

<u>Schools Block</u>

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

from April 2018. For 2023/24 the LA is again proposing to follow the NFF for schools.

190. The funding factors used in the 2023/24 NFF remain the same, however the factor values will increase by the following amounts:

- 2.4% to the basic entitlement, free school meals (FSM), lower prior attainment (LPA), English as an additional language (EAL), sparsity and the lump sum
- 4.3% to free school meals at any time in the last 6 years (FSM6) and income deprivation affecting children index (IDACI)
- 0% on the premises factors, except for PFI which has increased by RPIX

191. On top of these uplifts, the DfE have increased the basic entitlement, the FSM6 and the lump sum factors to reflect the rolling in of the schools supplementary grant into the NFF. The schools supplementary grant was introduced to support schools to meet the costs of the Health and Social Care Levy and wider costs in 2022/23. The grant funding in respect of pupils from reception to year 11 (inclusive) is being rolled into the schools NFF from 2023/24.

192. The minimum per pupil levels in 2023/24 will be set at £4,405 per pupil for primary schools and £5,715 per pupil for secondary schools. This includes £119, £155 and £173 per primary, KS3 and KS4 pupil respectively for the rolling in of the schools supplementary grant, plus a further 0.5% increase.

193. The 2023/24 NFF funding floor has been set at 0.5%. This means that every school will attract an increase in their pupil-led funding of at least 0.5% per pupil, compared to their 2022/23 baseline. Funding floor baselines have also been increased to take account of the rolling in of the schools supplementary grant.

194. The aim of the DfE's approach for rolling the grant into the schools NFF is to ensure that the additional funding schools attract through the NFF is as close as possible to the funding they would have received if the funding was continuing as a separate grant in 2023/24, without adding significant additional complexity to the formula.

195. At a national level, school funding through the NFF is increasing by 1.9% overall in 2023/24 and by 1.9% per pupil. However, the average increase for York schools is estimated at 1.2% as a significant number of schools are either already receiving protection through the funding floor or the minimum per pupil amounts which only increase by 0.5% in 2023/24.

196. Local authorities will continue to determine the final allocations for all local mainstream schools in 2023/24, but the DfE are in the process of consulting on how to complete their reforms to the schools NFF in the longer term.

197. The remaining £0.342m of the Schools Block DSG is allocated to the growth fund, although this amount will be confirmed once the autumn census numbers are known. The growth fund can only be used to support increases in pre-16 pupil numbers to meet basic need, additional classes needed to meet the infant class size legislation or meet the costs of pupils in new schools commissioned to meet basic need. The growth fund may not be used to support schools in financial difficulty or general growth due to popularity; which is managed through lagged funding.

198. The amount of growth funding allocated to the LA by the DfE continues to fall, from £0.800m in 2018/19 down to £0.334m in 2023/24. The level of funding required to be allocated to schools under the current local growth criteria and formulae is difficult to predict with any certainty each year. In each of the last three years the fund has been overspent and this is likely to continue as the DSG allocation from government reduces. Therefore, for all allocations made since the 2020/21 academic year onwards, the LA has implemented a cash limit on this budget. This means that if the total of all allocations to schools in a particular year, calculated via the relevant formulae, exceeds the budget available then all allocations will be reduced pro-rata.

Early Years Block

199. Following a review of the Early Years National Funding Formula (EYNFF), the DfE has decided that the Teachers' Pay and Pensions Grants (TPPG) for school based nurseries and maintained nursery schools, which are currently separately allocated, should be rolled into the EYNFF base rates for 2023/24. In addition, increased support for Maintained Nursery Schools (MNS) has been announced through the MNS supplementary factor.

200. The hourly rates currently received by York for 2022/23 are at the minimum funding floor for both the 2 year olds and 3/4 year olds allocation. Revised 2023/24 hourly rates for York following the DfE's review are set out in the table below:

	2022/23 £/hr	**2022/23 TPPG £/hr**	**2022/23 TOTAL £/hr**	**New 2023/24 £/hr**	**Increase £/hr %**
3 & 4 Year Olds	4.61	0.06	4.67	4.87	**0.20 4.3%**

2 Year Olds	5.57	n/a	5.57	5.77	**0.20**	**3.6%**
MNS Supplement	2.39	0.54	2.93	3.80	**0.87**	**29.7%**

Table 17 – Early Years National Funding Formula Rates

201. Based on the above, York remains at the minimum funding floor for 3/4 year olds, but moves above the floor for 2 year olds and will be funded at the median value for all 151 LAs. More significantly, there is a material increase in supplementary funding for York's only MNS (St Pauls Nursery), from the current £100,421 (inc. TPPG) to £126,776 in 2023/24.

202. For allocating this funding to providers, the York early years formula currently passes on all 2 year old and MNS supplementary funding directly to providers at the same rates that they are received from the DfE.

203. For 3 & 4 year old funding York operates a local Early Years Funding Formula (EYSFF). 5% of the funding received from the DfE is retained to help fund the central EY team. The remainder is allocated to providers at a basic rate of £4.29 per hour, plus a deprivation rate of £0.42 per relevant hour. This formula applies in the same way to both PVI and maintained providers.

204. For 2023/24 we now need to include the, previously separate, funding for TPPG within the local formula. It is estimated that 6p of York's DfE hourly rate for 3 & 4 year olds in 2023/24 relates to the former TPPG. However, in 2022/23 this grant was only received by maintained school nurseries – none of the grant was allocated to PVI providers.

205. The DfE's Early Years Operational Guide for 2023/24 encourages LAs to introduce an additional quality supplement within their formulae for 2023/24 to continue to support some of the costs for which the original grants were introduced; i.e. teachers' pay and pensions costs in maintained settings. There are therefore two options to consider for the 2023/24 local early years formula:

206. **Option 1 – Retain one basic hourly rate for all providers:** This is the preferred option of officers from both finance and early years, as it would maintain the simplicity of our current formula established through a comprehensive consultation undertaken prior to its introduction. It would also address the difference in DfE funding to PVI and maintained school nurseries, particularly given rising staff costs. This follows the approach being taken by many other Local Authorities. In addition it would limit the amount of extra administration required in establishing and maintaining an additional quality supplement. Under this option it would be relatively straight forward to calculate the base rate each year.

207. Whilst there would be a relatively small difference between the allocations to maintained school nurseries and PVI providers compared to their respective 2022/23 funding allocations including the TPPG, this option would provide the opportunity to address the issue of lack of equivalent DfE funding to PVI providers who have experienced significant staffing cost increases.

208. **Option 2 – Introduce a new supplement to channel funding to settings employing qualified teachers:** This option would more closely reflect the current allocation of funding through the TPPG and would follow the preference set out by the DfE in their operational guide. However, it would introduce additional complexity to the formula and require more administration in establishing and maintaining the new quality supplement. It would also create a financial divide between the two sectors when the original principles of the funding formula were about creating a level playing field.

209. In addition, we do have at least one school that doesn't employ a QTS at foundation stage, so would not trigger funding under the quality factor even though they will be receiving TPPG in 2022/23. As it may not be easy to predict which settings would trigger the quality supplement, under this option it may be more difficult (and less accurate) to calculate the right balance between base hourly rate and supplementary hourly rate each year. It may also not be possible to calculate and notify initial budgets to providers by 31 March.

210. The impact on 3 & 4 year old funding rates for PVI and maintained providers are estimated as follows:

	Option 1		**Option 2**	
	Maintained £/hour	**PVI £/hour**	**Maintained £/hour**	**PVI £/hour**
2022/23				
Base Rate	4.29	4.29	4.29	4.29
TPPG	0.18	-	0.18	-
Total	**4.47**	**4.29**	**4.47**	**4.29**
2023/24				
Removal of TPPG	(0.18)	-	(0.18)	-
Annual Uplift	0.19	0.19	0.19	0.19
Roll TPPG into base rate	0.06	0.06	N/A	N/A
Introduce new quality supplement	N/A	N/A	0.18	-
Total	**4.53**	**4.53**	**4.65**	**4.47**

Increase	£/hour	0.06	0.24	0.18	0.18
	%	+1.3%	+5.6%	+4.0%	+4.2%

Note: This is the general impact by sector – the impact on individual providers may vary

Table 18 – Comparison of options for the 2023/24 local EYSFF

211. The Schools Forum will be discussing this on 8 February, with officers seeking support for their preferred option 1. Any relevant comments from the forum will be reported verbally by the Executive Member for Children & Young People. If agreed, option 1 would result in early years funding rates for all York providers in 2023/24 as follows:

	Base Rate £/hour	**Deprivation Rate £/hour**	**Nursery School Lump Sum £**
3 & 4 Year Olds	4.53	0.45	126,776
2 Year Olds	5.77	Nil	Nil

Table 19 – EYSFF Funding Rates

<u>High Needs Block</u>

212. The high needs block DSG increases by £2.706m (10.8%) in 2023/24. As has been previously reported, the high needs budget is already under significant pressure due to rising demand from increased numbers of SEND pupils. For 2022/23 net in year expenditure within the high needs block is projected to be £1.748m higher than the core DSG funding allocated by government.

213. However, as part of the safety valve agreement that the LA has made with the DfE, additional grant of £2.5m is due to be received by the end of the financial year. The effect of this additional grant produces a net in year high needs block surplus of £0.752m and reduces the projected high needs deficit carry forward to 2023/24 to £5.090m

214. It should be noted that the plan agreed with the DfE, if implemented in full, would result in a balanced high needs budget by the end of 2025/26. The plan includes a commitment from the DfE to allocate additional funding to York of £9.5m on top of the £7.6m allocated in 2021/22, subject to certain conditions.

<u>Central School Services Block</u>

215. This funding block was created in 2018/19 from elements of the previous schools block and the former Education Services Grant (ESG). As part of the DfE's strategy to remove funding within this block that directly supports exceptional expenditure previously agreed between LAs and their Schools Forums (historic commitments), there is a significant net reduction of £0.301m (12.7%) in 2023/24. This follows similar reductions in the previous two financial years. This net reduction is made up of a £0.014m (1.8%) increase in the allocation for the on-going responsibilities that the LA continues to have for all schools, and a £0.315m (20%) reduction in the allocation for historic commitments.

216. For 2023/24 this means allocations of £0.813m for LA on-going responsibilities and £1.261m for historic commitments. As historic commitments currently total £1.576m in 2022/23 the LA will need to identify budget reductions totalling £0.315m for 2023/24. The LA will be consulting with the Schools Forum at its meeting on 8 February on how best to manage this reduction.

Mainstream Schools Additional Grant 2023/24

217. The 2022 Autumn Statement announced that the core schools budget will increase by £2 billion in 2023/24, over and above totals announced at the Spending Review 2021. In the 2023/24 financial year, mainstream schools will be allocated their portion of this additional funding through the mainstream schools additional grant (MSAG) 2023/24. For all of York's mainstream schools this equates to £4.003m (3.4%) in addition to schools' allocations through the schools national funding formula described at paragraphs 189 to 195 above.

218. In more detail; the original announcement for 2023/24 was for a £1.439m (1.2%) funding increase for York's mainstream schools. Now, with the additional funding included, this means an increase of £5.442m (4.6%) over 2022/23 funding levels. As there is expected to be a reduction in overall pupil numbers in York, this equates to a per pupil increase of 5.2%. In comparison, the average national increase is 5.8% per pupil and for the Yorkshire & Humber region it is 5.6% per pupil.

219. The DfE have said that they will not be issuing school level allocations until May 2023. However, they have published the rates at which the funding will be allocated to schools:

- a lump sum of £4,510 per school
- a basic per pupil rate of £119 for primary pupils, including pupils in reception
- a basic per pupil rate of £168 for key stage 3 pupils

- a basic per pupil rate of £190 for key stage 4 pupils
- an FSM6 (eligible for free school meals in any of the last 6 years) per pupil rate of £104 per eligible primary pupil
- an FSM6 per pupil rate of £152 per eligible secondary pupil

220. It has also been announced that York will receive an additional £1.066m of high needs (SEND) funding in 2023/24 from the Additional Grant.

Scrutiny

221. In accordance with constitutional practice Customer & Corporate Services Scrutiny Management Committee considered at its meeting on 9 January 2023 what level of budget is appropriate in the coming year to support scrutiny reviews. The committee take into account existing levels of spend in 2022/23 and the councils overall financial position. In the light of those considerations the committee has decided to maintain the current funding level of £5k.

Equalities

222. The Public Sector Equality Duty is a duty which requires all public authorities to consider the impact of proposed decisions on various recognised groups with protected characteristics as part of the organisations formal decision making process. The protected characteristics as defined by the Equality Act 2010 are:

- Age;
- Disability;
- Gender reassignment;
- Marriage and civil partnership;
- Pregnancy and maternity;
- Race;
- Religion or belief
- Sex; and sexual orientation.

223. For City of York the decision makers are the Leader of the Council and the Executive who make reasoned well founded decisions based on the professional advice from appropriately skilled and qualified officers. In respect of the budget, Full Council, is asked to approve the budget as recommended to it by the Executive. In respect of Officers a number hold statutory responsibilities, for example Head of Paid Service, s151 and Monitoring Officer, and as such there is a greater onus on statutory officers to ensure that the advice and recommendations given also take

into account a number of factors including the Public Sector Equality Duty as part of their role.

224. In all aspects of the budget setting for the Council it is essential that the Public Sector Equality Duty is at the forefront of all decisions made. To ensure this occurs an Equality Impact Assessment is prepared at the outset of the budget preparations and a detailed EIA has been completed on the overall impact of the budget proposals.

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

226. 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.

227. 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.

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

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

- Focussing growth where it is expected to have a positive effect on older or disabled people and their carers

Specialist Implications

229. This report has the following implications;

Financial

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

Human Resources (HR)

231. The savings proposals contained within the overall budget will require the reduction of some posts in 2023/24.

232. 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 2023/24 is likely to be a mixture of post reductions and working for redesigned services. Should there be sufficient reductions to posts and proposed redundancies, the necessary notification will be made to Redundancy Payments Service and a HR1 will be submitted.

233. 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.

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

235. 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

236. The council is required to set a council tax for 2023/24 before 11 March 2023. 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 2023, 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.

237. 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.

238. 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.

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

240. Members must also act prudently. Members must also bear in mind their other statutory duties to have regard to certain matters when making

decisions. The report identifies proposals which, if approved, may potentially have an impact on children, older adults and persons with disabilities all of which groups are statutorily protected equality strands under the Equalities Act 2010. In making their decision, Members must have due regard to their public sector equality duties and the need to eliminate discrimination, to mitigate against negative impacts where these are known and to promote equality when making decisions. Members must also take into consideration the need to consider any crime and disorder implications of the decision. A failure to follow these principles could open the Council to judicial review.

241. 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.

242. 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.

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

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

245. 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.

246. 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.

247. 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

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

Statutory Advice from the s151 Officer

Introduction

249. The Local Government Act 2003 places responsibilities upon the council's Chief Finance Officer to advise the council on the adequacy of its reserves and the robustness of the budget proposals including the estimates contained in this document. This section also addresses the key risks facing the council in relation to current and future budget provision. The following paragraphs outline my assessment of the budget proposals outlined in this report, including reserves and general robustness of the

process. Section 25 (2) of the 2003 Act requires the council to have regard to this assessment in approving the annual budget and setting the council tax.

Robustness of proposals and process

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

251. Considerable reliance is also placed on budget managers having proper arrangements in place to identify issues early, project the likely demand for services, and consider value for money and efficiency.

252. In order to provide assurances that the budget estimates are robust the following factors have been considered:
- overall funding available including specific grants and other funding available from central government, along with locally raised income from council tax and business rates,
- progress made in delivering 2022/23 savings
- whether the budget decisions outlined in this report are achievable
- the current and anticipated budget pressures arising from services such as social care
- the forecast impact of inflation and pay awards
- the financial sustainability of the council and the effectiveness of the financial management arrangements in place
- the affordability and sustainability of the capital investment plans outlined in the capital programme report elsewhere on this agenda and the revenue impact of this expenditure

253. In addition, the council has a demonstrable track record of delivering budget savings and has sound financial management procedures in place. This has been recognised by favourable audit reports in respect of

financial management and processes and overall the financial planning process is sound and effective.

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

Risks

255. The report outlines the key risks to the 2023/24 budget, and these are considered further in the following paragraphs.

256. Rising inflation, especially in relation to energy costs, is an area of concern with rates reaching 11% in October, falling slightly to 10.7% in November 2022. This is having an impact on all our residents. In addition, given the Councils significant capital programme, rising costs are to be expected and may result in some schemes being delayed or costing more than estimated. The Council is also experiencing difficulties in recruiting to some front line services given the high number of vacancies across the economy. This may again result in difficulties in achieving some Council Plan priorities.

257. Within the HRA the level of inflation particularly in repairs and utilities has significantly impacted the long term financial position of the HRA. The government continue to limit the level of rent increases which have resulted in expenditure increasing faster than income. The change this has had on the 30 year business plan (with large levels of debt across the whole period) leaves the account more exposed to external economic shocks such as higher inflation, interest rate increases and levels of voids and arrears. This will need to be closely monitored in the short to medium term.

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

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

260. The current pressures being experienced within both adults and children's services remain of concern and the ongoing action being taken will need to continue and be given a high priority. Specific attention is drawn to the national picture regarding these services, which are recognised as being under increased pressure. Whilst this council has invested in these services in recent years, the risks remain, and it is essential the council continues to make adequate budgetary growth provision to deal with the significant cost pressures these services are experiencing, along with savings programmes to mitigate pressures. The budget proposals properly recognise these pressures.

261. Clearly, there are risks in the achievement of some of the proposed savings and, in assessing this risk, I cannot guarantee that every single proposal will be achieved. I do however consider the overall package to be prudent. As outlined earlier, processes are in place to ensure the robustness of the proposed savings. A risk assessment of the individual savings proposals has been conducted and discussed with senior management. Where savings are not delivered, services are fully aware of the need to find compensating savings.

262. The Government announced in "Building Back Better" that it would be introducing new social care reforms funded by a Health and Social Care Levy which was subsequently abolished. There remain many questions about the future funding for social care. In the meantime, the Local Government Settlement allocated additional grant funding for social care in the short term (2 years) but there remains continued uncertainty around both the cost of any future reforms and how the funding will be determined and distributed. As a result, there remains a very significant financial risk to local authorities with social care responsibilities.

263. Finally, there remains again the potential for significant changes to the system of local government finance in coming years. The Government published the provisional settlement on 21 December 2022. It is a one

year settlement with indicative figures for 2024/25. With the Fair Funding Review now postponed until 2025, the more fundamental changes needed in local government finances are again unlikely to take place for a number of years.

264. These changes in funding could be significant and will make forecasting for 2024/25 and beyond very difficult. The government originally launched the Fair Funding Review in 2016 and the review has been postponed numerous times. This policy is likely to change the needs assessments of local authorities and therefore the distribution of funding between different councils, adding to the uncertainty in the years ahead.

Reserves

265. CIPFA guidance states that, in order to assess the adequacy of reserves when setting the budget, chief finance officers should take account of the strategic, operational and financial risks facing the authority and that the many factors involved when considering appropriate levels of reserves can only be assessed properly at a local level.

266. Determining the appropriate levels of balances is therefore a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions and other earmarked reserves and provisions. Based on the range of factors and risks outlined in this report it is my view that the general reserve should be a figure of £6.8m.

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

268. The proposed 2023/24 budget does not use the general reserve to balance and therefore reserves remain sufficient to deal with any further risks.

Summary

269. The uncertainty over recent years, created by Covid-19 and now continued with the cost of living crisis and inflationary pressures, along with increasing demand for our services, means financial planning needs to be robust.

270. For future budget planning, further action will be needed to continue to focus resources on the highest priority services to reduce demand, as well as creating capacity to make investment in key front line services and essential capital investment. Therefore, the major financial challenge facing the council in coming years remains the need to secure further savings and for cost pressures, particularly those resulting from the pandemic, to be managed effectively. Given the current financial pressures referred to in previous paragraphs there will need to be continued careful monitoring of the achievement of the savings outlined in this report.

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

Risk Management

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

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

Contact Details

Author:	**Chief Officer Responsible for the report:**			
Helen Malam Principal Accountant (Corporate Finance)	Debbie Mitchell Chief Finance Officer (s151 Officer)			
Patrick Looker Head of Service Finance	**Report Approved**	x	**Date**	*27/01/23*
Richard Hartle Finance Manager				

Specialist Implications Officer(s)
Legal – Bryn Roberts
HR – Helen Whiting

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

For further information please contact the authors of the report

Background Papers:

Executive Member for Finance & Major Projects Decision Session report 12th January 2023

Budget Consultation available at www.yorkopendata.org

Annexes:
1 – 2023/24 Budget Summary
2 – 2023/24 Savings Proposals
3 – Fees & Charges
4 – Summary Consultation Results
5 – Impact Assessment
6 – HRA 2023/24 Savings Proposals

7 – HRA 2023/24 Budget
8 – HRA 2023/24 30 Year Business Plan
9 – Risk Analysis

Abbreviations used in this report:
CIPFA – Chartered Institute of Public Finance & Accountancy
CPI – Consumer Price Index
CYC – City of York Council
DFE – Department for Education
DSG – Dedicated Schools Grant
DVLA – Driver & Vehicle Licensing Agency
EAL – English as an Additional Language
EIA – Equalities Impact Assessment
EYNFF – Early Years National Funding Formula
EYSFF – Early Years Single Funding Formula
FFR – Fair Funding Review
FSM – Free School Meals
HRA - Housing Revenue Account
ICT – Information & Communications Technology
IDACI - Income Deprivation Affecting Children Index
LA – Local Authority
LGA – Local Government Association
LCR – Leeds City Region
LMS – Local Management of Schools
LPA – Lower Prior Attainment
NFF – National Funding Formula
NI – National Insurance
NHB – New Homes Bonus
NNDR – National Non Domestic Rates
MNS – Maintained Nursery Schools
PVI - Private, Voluntary and Independent
RSG – Revenue Support Grant
SFA – Settlement Funding Assessment
TPPG - Teachers' Pay and Pensions Grant