

Meeting:	Council
Meeting date:	22/02/2024
Report of:	Chief Finance Officer
Portfolio of:	Cllr Katie Lomas, Executive Member for Finance, Performance, Major Projects, Equalities and Inclusion

Decision Report: Recommendations of Executive on the Council's Financial Strategy 2024/25 to 2028/29, Capital Budget 2024/25 to 2028/29, Capital Financing and Investment Strategy and the Treasury Management Strategy Statement and Prudential Indicators for 2024/25 to 2028/29

Subject of Report

1. This report presents to Council the recommendations of Executive for approval in respect of the revenue budget proposals for 2024/25, the Capital Budget for the period 2024/25 to 2028/29, the Capital Financing and Investment Strategy and the Treasury Management Strategy for the period 2024/25 to 2028/29. This report should be read in conjunction with the reports presented to Executive on 25 January but contains updated information not available at that time.

Benefits and Challenges

2. The challenges continue to be the uncertainty around future funding from Government alongside managing increasing demand across all services, especially within social care, and ongoing inflationary pressures.
3. The significant financial challenges facing Local government are a national concern. As outlined in previous reports to Executive, many Councils across the country are experiencing significant financial pressures and are struggling to balance their budgets. This is a national challenge but inflationary cost pressures, increasing demand for services and short term funding settlements from Government continue to have a financial impact on the Council

4. Over the next four years the Council will see some of the most significant financial challenges we have ever experienced. The delivery of the 2024/25 budget will be extremely challenging for residents, other partners, members and officers. It is important that we continue to not underestimate the scale of the challenge ahead. The level of savings required over the next four years will inevitably require reductions in service levels and will result in some services stopping completely. Maintaining robust financial management, clear priorities and a focus on cost control is essential to ensuring our continued financial sustainability and resilience.

Policy Basis for Decision

5. The Council budget aims to ensure that, as far as possible, resources are aligned to the Council's priorities.

Financial Strategy Implications

6. This report outlines the budget proposals for the year ahead and ensures the Financial Strategy is delivered.

Recommendation and Reasons

Revenue Budget

7. Executive recommends that Council:
 - i. Approves the budget proposals outlined in the Financial Strategy report and in particular;
 - a) The net revenue expenditure requirement of £149.268m
 - b) A council tax requirement of £113.927m
 - c) The revenue growth proposals as outlined in the body of the report
 - d) The 2024/25 revenue savings proposals as outlined in annex 2
 - e) The fees and charges proposals as outlined in annex 3
 - f) The Housing Revenue Account (HRA) 24/25 budget set out in annex 5
 - g) The Dedicated Schools Grant (DSG) proposals outlined from paragraph 139
 - ii. Notes that 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 Council element of the council tax, 2% of which would relate to the social care precept.
- iii. Approves the 100% increase in council tax on second homes with effect from 1st April 2025 subject to the Levelling Up bill receive Royal Assent by 31st March 2024, as set out in paragraphs 75 to 77.
 - iv. Approves the change to charge a 100% premium on homes that have been empty for 1 year with effect from 1st April 2024, as described in paragraph 78.

In addition, following a recent announcement, Council is recommended to:

- v. Note the increase in social care funding of £1.525m and agree that this be allocated to existing pressures.
- vi. Note the increase in services grant of £76k and agree that this be allocated to the contingency.

Reason: To ensure a legally balanced budget is set

Capital Budget 2023/24 to 2027/28

8. Executive recommends that Council:

- i. Agree to the revised capital programme of **£395.186m** that reflects a net overall increase of **£56.409m** (as set out in table 2 and in Annex A). Key elements of this include:
 - a) New schemes funded by prudential borrowing totalling £3.353m as set out in table 3;
 - b) Extension of prudential borrowing funded Rolling Programme schemes totalling £25.025m as set out in table 4;
 - c) Extension of externally funded Rolling Programme schemes totalling £6.030m and new schemes funded by external grants totalling £3.844m as set out in table 5;
 - d) An increase in HRA funded schemes totalling £18.157m funded from a combination HRA balances/capital receipts as set out in table 6;
- ii. Note the total increase in Council borrowing as a result of new schemes being recommended for approval is £28.378m the details of which are considered within this report and the financial strategy report
- iii. Approve the full restated programme as summarised in Annex B totalling **£395.186m** covering financial years 2024/25 to 2028/29 as set out in table 12 and Annex B

Reason: In accordance with the statutory requirement to set a capital budget for the forthcoming financial year.

Capital and Investment Strategy

9. Executive recommends that Council:
 - i. Approve the Capital and Investment Strategy at Annex A
Reason: To meet the statutory obligation to comply with the Prudential Code 2017

Treasury Management Strategy Statement and Prudential Indicators

10. Executive recommends that Council approve;
 - i. The proposed treasury management strategy for 2024/25 including the annual investment strategy and the minimum revenue provision policy statement;
 - ii. The prudential indicators for 2024/25 to 2028/29 in the main body of the report;
 - iii. The specified and non-specified investments schedule (annex B)
 - iv. The scheme of delegation and the role of the section 151 officer (annex D)

Reason: To enable the continued effective operation of the treasury management function and ensure that all council borrowing is prudent, affordable and sustainable.

Background

11. On 25 January the Executive met to consider the revenue and capital budgets and the Treasury Management Strategy. The following reports, copies of which Members have previously received, were considered.
 - i) Financial Strategy 2024/25 to 2028/29
 - ii) Capital Budget 2024/25 to 2028/29
 - iii) Capital Financing and Investment Strategy
 - iv) Treasury Management Strategy Statement and Prudential Indicators 2024/25 to 2028/29.

12. Since the Executive Meeting the Final Local Government Settlement has been announced. Within the final settlement, additional funding has been allocated to deal with existing social care pressures. In addition, Government announced that there would be an increase in the funding guarantee from 3% to 4%.
13. The financial impact of the Final Settlement on York's budget is that an additional £1.525m has been allocated to offset pressures across both adult and children's social care. The increase in funding guarantee results in an increase of £76k and it is recommended that this be added to the contingency. These additional recommendations are reflected at paragraphs 7 v. and vi. above.

Options Analysis and Evidential Basis

14. Options open to the Council are to approve Executive's recommendations or to approve any amendments that may be moved by other Members of Council.

Organisational Impact and Implications

15. Implications in respect of setting the budget are contained in the Executive reports. Member's attention is drawn in particular to the legal advice of the Council's Monitoring Officer and the statutory advice of the Section 151 officer as set out in the Financial Strategy report and repeated in the following sections.

Legal

16. The council is required to set a council tax for 2024/25 before 11 March 2024. It may not be set before all major precepts (i.e., precepts from the Police and Fire Authorities) have been issued or before 1st March 2024, whichever is the earlier. The decision to set the level of council tax is reserved to Council and cannot be taken by Executive or delegated to officers, although Executive has to recommend a budget to Council. These comments are intended to apply to both the Executive meeting and the subsequent Council meeting.
17. There is no statutory requirement to set a detailed budget in any particular form. They are produced as an important tool to assist the

Council in setting the council tax precept and managing its finances effectively with a view to balancing its budget.

18. 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.
19. 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.
20. 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.
21. Members must also bear in mind the Council's other statutory duties to have regard to certain matters when making decisions. The report identifies proposals which, if approved, may potentially have an impact on children, older adults and persons with disabilities all of

which groups are statutorily protected under the Equalities Act 2010. In making their decision, Members must have due regard to their public sector equality duty and the need to eliminate discrimination, to advance equality of opportunity and to foster good relations between persons who share a protected characteristic and those who do not. Members must also take into consideration any crime and disorder implications of the decision. A failure to follow these principles could open the Council to judicial review.

22. There is legal authority for the proposition that if there is discretion left as to how budget envelope is spent, or if the envelope itself can be changed (virement etc) any relevant statutory duties (such as the PSED) can be discharged when spending decisions within the envelope are taken. The early consideration of potential equalities impact on service changes is however advised as set out in this report.
23. 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.
24. 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.
25. In considering the advice of officers, and the weight to be attached to that advice, Members should have regard to the personal duties placed upon the s151 Officer and the Monitoring Officer. The Council may take decisions which are at variance with their advice, providing there are reasonable grounds to do so. However, Members may expose themselves to risk if they disregard clearly expressed advice, for example as to the level of provision required for contingencies, bad debts and future liabilities. In addition, if Members wish to re-instate savings recommended by the Chief Finance Officer in order to balance the budget, they must find equivalent savings elsewhere.

26. 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.
27. 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.
28. 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.
29. 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.

Statutory Advice from the s151 Officer

Introduction

30. 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

31. 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.
32. 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.
33. In order to provide assurances that the budget estimates are robust the following factors have been considered:
- overall funding available including specific grants and other funding available from central government, along with locally raised income from council tax and business rates,
 - progress made in delivering 2023/24 savings

- whether the budget decisions outlined in this report are achievable
 - the current and anticipated budget pressures arising from services such as social care
 - the forecast impact of inflation and pay awards
 - the financial sustainability of the council and the effectiveness of the financial management arrangements in place
 - the affordability and sustainability of the capital investment plans outlined in the capital programme report elsewhere on this agenda and the revenue impact of this expenditure
34. 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.
35. 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

36. The report outlines the key risks to the 2024/25 budget, and these are considered further in the following paragraphs.
37. Continued increasing costs across all areas of spend remains an area of concern. Whilst inflation levels are reducing, this only means that prices are not increasing as much – they remain at the previously high levels. Given the Council's significant capital programme, rising costs are to be expected and may result in some schemes being delayed or costing more than estimated. The current financial challenge means that we are not recruiting to vacant posts unless absolutely essential to do so. This will result in difficulties in achieving some Council Plan priorities.

38. A key risk facing the council is the number of complex capital schemes it is currently undertaking, and which are still at relatively early stages of development. Should schemes not progress to full completion there remains a risk that costs currently assumed to be capable of being capitalised must be written off to revenue. This risk has materialised in 2023/24 with abortive costs for a new multi storey car park needing to be written off in the year. There are also increased borrowing levels resulting in increased revenue costs of debt in coming years. This is highlighted in the medium term plan figures.
39. A further key risk in relation to the capital programme is that some major capital projects may have short/medium term cash flow impacts. For example, York Central will result in additional business rates but will require short term borrowing prior to income being received to cover the costs. As identified in previous budget reports, the Venture Fund will be used to support early years cash flow deficits on major strategic capital projects but given the current economic outlook and higher than previously expected interest rates, this borrowing will be more expensive than previously expected.
40. 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.
41. The budget takes account of these pressures but in light of the continued financial challenges across social care my advice is that additional 2024/25 savings of £4m should be identified over and above those originally identified within the Medium Term Financial Strategy. I believe it is highly likely that the general reserve will be needed to balance the 23/24 position and in that event, the reserve would immediately fall below the recommended minimum level and therefore identifying further savings now, will mitigate against that risk. If the outturn is better than expected, then the savings will still be required for future years and therefore I consider this a measured, prudent approach to setting the budget.

42. 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.
43. Some of the savings included at Annex 2 do require further work and additional reports to future Executive meetings to outline the impact of a number of service reviews that will need to take place over the early part of the new financial year.
44. Finally, there remains again the potential for significant changes to the system of local government finance in coming years. The Government published the provisional settlement on 18 December 2023. It is a one year settlement pending the general election in 2024. With the Fair Funding Review now postponed until 2025, the more fundamental changes needed in local government finances are again unlikely to take place for a number of years.
45. These changes in funding could be significant and make forecasting for 2025/26 virtually impossible. The government originally launched the Fair Funding Review in 2016 and the review has been postponed numerous times. This policy is likely to change the needs assessments of local authorities and therefore the distribution of funding between different councils, adding to the uncertainty in the years ahead.

Reserves

46. 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.

47. Determining the appropriate levels of balances is therefore a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions and other earmarked reserves and provisions. Based on the range of factors and risks outlined in this report it is my view that the general reserve should be a figure of £7.4m.
48. 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.
49. The proposed 2024/25 budget does not use the general reserve to balance and therefore reserves remain sufficient to deal with any further risks.

Summary

50. The uncertainty over recent years, following the pandemic, cost of living crisis and inflationary pressures, along with increasing demand for our services, means financial planning needs to be robust.
51. 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.

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

Risks and Mitigations

53. An assessment of risks is completed as part of the annual budget setting exercise and further details are included in annex 6 of the Executive report. These risks are managed effectively through regular reporting and corrective action being taken where necessary and appropriate.
54. As the Council's Section 151 Officer, the Chief Finance Officer has a statutory responsibility for ensuring that the Council makes arrangements for the proper administration of its financial affairs. Section 114 of the Local Government Finance Act 1988 requires a report to all Council members to be made by the s151 officer, in consultation with the Monitoring Officer, if there is or is likely to be an unbalanced budget.

Wards Impacted

55. All

Contact details

For further information please contact the authors of this Decision Report.

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Background papers

Background Papers:

Reports to Executive meeting held on 25 January 2024

- Financial Strategy 2024/25 to 2028/29
- Capital and Investment Strategy
- Capital Budget 2024/25 to 2028/29
- Treasury Management Strategy Statement and Prudential Indicators for 2024/25 to 2028/29

Annexes: None