

Meeting:	Executive
Meeting date:	21/01/2025
Report of:	Debbie Mitchell, Director of Finance
Portfolio of:	Councillor Katie Lomas, Executive Member for Finance, Performance, Major Projects, Human Rights, Equality & Inclusion.

Decision Report: FINANCIAL STRATEGY 2025/26 to 2029/30

Subject of Report

1. This report presents the financial strategy 2025/26 to 2029/30, including detailed revenue budget proposals for 2025/26, and asks Members to recommend to Council approval of the proposals. The financial strategy delivers a balanced budget for 2025/26. There are separate reports on the agenda covering the capital budget, the capital and investment strategy and the treasury management strategy.

Benefits and Challenges

2. The budget proposals outline some significant investment into both adults and children's social care to enable the Council to continue delivering vital support to our most vulnerable residents. This essential funding will deliver a financially sound budget, that reflects current pressures, whilst also ensuring a safe and effective service can be delivered across all statutory care services.
3. Additional investment totalling £300k is also being made to support those residents experiencing the ongoing effects of the cost of living crisis, with funding being made available for food and fuel vouchers through the York Financial Assistance Scheme (YFAS). More funding opportunities for organisations across the city who are supporting residents will also be available through Financial Inclusion Steering Group grants.

4. The Capital Budget report elsewhere on this agenda details the additional investment being made into a range of schemes including:
 - £500k for a Park Improvement Fund.
 - £600k in riverbank repairs to facilitate the delivery of improved walking and cycling provision between Leeman Road and the city centre.
 - £800k in repairs and modernisation of council homes.
 - £5.2m to both provide new Gypsy and Traveller pitches and invest in existing pitches and sites to improve the quality of accommodation and facilities for residents.
5. The challenges continue to be the uncertainty around future funding from Government alongside managing increasing demand across all services, especially within social care.
6. 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, and inflationary cost pressures, increasing demand for services and short term funding settlements from Government continue to have a financial impact on the Council.
7. Analysis from the Local Government Association (LGA) shows that, due to inflation and wage pressures alongside cost and demand pressures, Councils in England face a £2.3 billion funding gap in 2025/26, rising to £3.9 billion in 2026/27.
8. Changes in the way Local Government is funded have masked the reductions in funding for Councils since 2010/11. However, when comparing Core Spending Power (the measure used by Government) whilst this has increased by 22% since 2010/11, in real terms and mainly due to inflation, there has been a reduction in spending power of 11.7% for York.
9. Despite the overall improvement of the Council's financial position, the next few years will bring some of the most significant financial challenges we have ever experienced. The delivery of the Financial Strategy will remain 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.

10. Whilst the local and national financial position for local government is clearly very strained, considerable work is ongoing to secure inward investment into the city to ensure that the Council's priorities can still be achieved.
11. To date, projects across York have secured over £18 million in funding from the York and North Yorkshire Combined Authority. This includes the following funding directly awarded to the Council:
 - £430k to deliver a spatial plan for the city centre
 - £70k for the York Construction Skills initiative
 - Approval in principle of £460k for a cultural passport for young people programme
 - £1,540k for Electric Vehicle charging infrastructure
 - An initial £150k for the development of the York Movement and Place Plan, total cost circa £1m
 - £3,112k funding for brownfield housing (Lowfield phase 2 and Ordnance Lane)
12. Other funding secured includes:
 - £2.4m over two years of NHS England funding for a 24/7 mental health hub
 - Libraries Improvement Fund grant of £250k from the Department for Culture, Media and Sports.
13. Other key issues included in the budget proposals are as follows.
 - A proposed basic council tax increase of 2.99% in 2025/26. Any increase above this amount would require a referendum.
 - In addition, an increase of 2% in line with the government's adult social care precept, equating to additional income of £2m, which provides support for social care

- Revenue savings of £6.4m in 2025/26
- Ensuring a financially prudent budget by addressing known budget pressures, including likely pay awards and inflationary pressures
- A net revenue budget of £156.921m, which will be funded by:
 - i. Council tax income of £120.680m
 - ii. Retained business rates of £36.241m

Policy Basis for Decision

14. The Financial Strategy aims to ensure that, as far as possible, resources are aligned to the Council's priorities. It is vital that the Council sets a robust budget each year. Alongside the income generation and other savings included in Annex 2 to this report, the Council's transformation programme is key to the delivery of a balanced budget. The cross-cutting transformation programme will coordinate activity that ensures the Council has a sustainable and more efficient operating model, prioritising the delivery of statutory services alongside those initiatives that will contribute to the achievement of the Council Plan.

Financial Strategy Implications

15. The following table shows the 2025/26 budget position after taking account of the expenditure and funding changes outlined throughout the report. Further detail is provided at annex 1.

	2025/26
Summary	£'000
Total investment (Table 2)	22,011
Total net funding changes (Table 3)	-7,914
Total changes in council tax (Table 4)	-6,753
Total changes in business rates income (Table 5)	-900
Total savings and income generation (Table 6)	-6,444
Budget gap	0

Table 1 – Budget position summary

16. Should the recommendations in this report be approved, this will 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. The total council tax increase including the parish, police and fire authority precepts, will be agreed at a meeting of Full Council on 27 February 2025.
17. In considering the budget, members 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

Recommendation and Reasons

18. 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 £156.921m
 - A council tax requirement of £120.180m
 - The revenue growth proposals as outlined in paragraphs 51 to 53
 - The 2025/26 revenue savings proposals as outlined in annex 2
 - The fees and charges proposals as outlined in annex 3
 - The Housing Revenue Account (HRA) 25/26 budget set out in annex 5
 - The Dedicated Schools Grant (DSG) proposals outlined from paragraph 141

- The Flexible Use of Capital Receipts Policy set out in annex 7, including delegation to the Director of Finance to determine the costs that can be charged to the transformation programme

Reason: To ensure a legally balanced budget is set

19. Members are asked to approve the average rent increase of 2.7% to be applied to all rents for 2025/26.

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.

20. Members are asked to approve the Discretionary Rate Relief Policy set out in annex 9 and the Hardship Policy set out in annex 10.

Reason: To ensure policies reflect the latest statutory guidance.

Background

National context and funding issues

21. The Government published the provisional local government finance settlement for 2025/26 on 18th December 2024. A policy statement issued on 28th November had already announced the key principles applied in the provisional settlement.

22. At the national level the headlines were:

- Council Tax can be increased by up to 2.99% and social care authorities can apply a further 2% Adult Social Care Precept making a total increase of 4.99%
- Local authorities will receive a one year settlement for 2025/26.
- Adult Social Care grant will increase by £880m (£600m of which was announced in the 2024 budget).

23. It is expected that the final settlement will be announced in February, this will include the grant that we will receive to cover the National Insurance increases but otherwise it is unlikely to differ significantly from the provisional figures.

24. In relation to council tax, as City of York Council is a unitary authority with statutory social care responsibilities, the proposals in this report are predicated on a basic council tax increase in 2025/26

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.

Local issues and challenges

25. As outlined in previous reports to Executive, the Council is continuing to see significant financial pressures because of inflation and increased demand for our services. There remain underlying budget pressures across both adult and children's social care, despite the allocation of growth each year. All services across the Council are operating in an extremely challenging environment.
26. Demand for services continues to increase with an ageing population and with increased complex needs in respect of social care. There are also significant challenges in the health sector, including challenging financial positions for health partners, which in turn constitute a financial risk to the Council.
27. The national census in 2021 predicts that 8.27% of York's population will be over 75 years old and has raised from 7.58% in 2011. At this level York's over 75-year-old population is higher than both the national (7.84%) and regional (7.89%) comparators. POPPI, a measure of older people provided by central government, is predicting a 28% rise in the number of people aged 80-84 in York between 2023 and 2027, resulting in further demographic pressures.
28. Nationally there is significant pressure on budgets in children's services. Whilst some additional funding has been allocated to social care as part of the provisional 2025/26 settlement, it does not cover the increased costs being incurred across the sector.
29. The Council Plan 2023 to 2027, One City for All is establishing the conditions that aim to make York a healthier, fairer, more affordable, more sustainable, and more accessible place where everyone feels valued, creating more regional opportunities to help today's residents and benefit future generations.
30. It is vital that the financial strategy supports the Council's priorities as outlined in the Council Plan. However, delivering Council priorities at a time of significant financial challenge requires a more transformational, long term approach to continue to reduce costs overall whilst ensuring resources are prioritised to where they are needed most.

Council priorities

31. *One City, for all* is the Council's corporate strategy and guides the council's priorities, whilst providing a framework for financial and performance management, and helps the city identify and respond to new opportunities or challenges.
32. It sets out the Council's contribution to delivering the vision for the city and long-term ambitions contained within the 10-Year Plan and 10-Year Strategies (York 2032), which is collectively owned by, and developed with, city partners.
33. Underpinning the priorities set out in the Council Plan are Four Core Commitments that will be put at the heart of Council services and the decisions we make:
 - Equalities - providing equal opportunity, balancing human rights, standing up to hate, championing communities
 - Affordability - finding new ways so everyone benefits from the city's success, targeting support where it's most needed
 - Climate - understanding the impact our decisions have on the environment, adapting the city to prepare for extreme weather events
 - Health - improving health and wellbeing, reducing health inequalities, targeting areas of deprivation
34. The plan recognises there are significant funding challenges facing local government as a sector, and the Council will need to make difficult decisions in the coming years. To deliver against the ambition will require the Council to work closely with the city and partners to unlock investment and identify opportunities.
35. The budget reflects the Council priorities, with targeted investment in a number of areas, or protection of existing spending, as set out in both the capital budget and this report.

Principles that have shaped the budget process

36. The Council's Financial Strategy continues to invest in statutory areas, including adult social care and support for children.
37. The scale of the budget reductions required will inevitably affect all services and all residents to some extent. In considering what savings can be made we have taken long term approaches to the development of future services where possible. This included an

assessment of options, risks, and links with Council priorities. This strategic approach ensures that any cross cutting implications are taken into consideration and savings in one particular area do not impact on other budgets in an unintended way. This approach will help to protect the needs of the most vulnerable people in York. We have again prioritised investment in statutory social care services.

Consultation

38. Starting back in May 2024, the council has undertaken a comprehensive budget consultation which concluded in December 2024, prior to more formal public participation both at this meeting and at Budget Council in February.
39. By following a staged approach, the council is iteratively building an understanding of both the impact of proposals on different demographics and community groups, together with how partners, businesses and residents can work together to deliver our shared ambitions for the city.
40. The stages the budget consultation has followed is set out below.

¹What	When	Purpose	Consultation activities
Stage 1 - Corporate Improvement Framework	May to June 2024	To understand how to be a more efficient and effective organisation, informing the Corporate Improvement Action Plan and Working as One City transformation programme Feedback is published on the Opendata platform: <u>Corporate Improvement</u>	Resident online and offline consultation Workshops with Trade Unions, staff and partners who participated in the LGA Peer Challenge

¹ [Our Big Budget Conversation – City of York Council](#)

		<u>Framework Consultation 2024/25 - Datasets - York Open Data</u>	
Stage 2 - Our Big Budget Conversation - ideas	July to September 2024	To understand more about what York residents and businesses believe should be the council's priorities and where they would like to see cuts or reductions in services, with all the feedback independently assessed and published on the OpenData platform	Resident and business online/offline consultations Independently facilitated workshops with residents, community groups and businesses Workshops with partners Staff ideas hub
Stage 3 - Our Big Budget Conversation - budget proposals	October to December 2024	To understand the impact and considerations of the proposed cuts or reductions in service	Resident and business online/offline consultation
Stage 4 - Budget approval	January - February 2025.	Public participation in democratic decision making	Executive Full Council

41. The final stage of Our Big Budget Conversation surveyed a total of 673 residents and businesses from various locations across York. Of these, 612 respondents were from the online survey, and 61 respondents were gathered through face-to-face surveying. 39 out of the 673 respondents indicated they were providing feedback on behalf of a business or organisation.

42. The consultation provided a robust evidence base to shape the 2025/26 draft budget proposals. Resident feedback offered key insights into attitudes toward council priorities, proposed measures, and the broader financial challenges faced by the City of York Council.

43. Awareness of the council's approximate £30 million deficit was relatively high, particularly among residents who participated in earlier consultations. Those with greater awareness provided more meaningful feedback and demonstrated empathy for the council's financial position. In contrast, residents with less knowledge about council services or the implications of inaction were less engaged and more likely to oppose proposals. This underscores the importance of ongoing communication to ensure residents are informed about the broader context of budget decisions.

44. Key themes from resident feedback are outlined below

- **Council tax:** While opposition to the proposed 4.99% increase outweighed support, concerns were largely focused on perceived inefficiencies and poor value for money. Feedback indicated that reassurance through improved transparency and a demonstrated commitment to efficiency could increase resident support.
- **Tourist-focused revenue:** Proposals perceived as primarily impacting visitors, such as increased parking fees in city centre car parks, garnered higher levels of support. Residents viewed these measures as a way to protect essential services without adding financial strain on local communities. Strong support was also shown for introducing a visitor levy or tourist tax as a fair and equitable long-term funding solution.
- **Resident impacts:** Feedback revealed a preference for budget measures with minimal direct impact on residents. Proposals such as changes to Blue Badge schemes and reducing funding for Make It York were seen as reasonable and fair. Conversely, proposals affecting road maintenance and bus subsidies faced strong opposition, as residents perceived these as disproportionately shifting the burden onto local communities.
- **A balanced strategy:** Residents consistently supported a balanced approach to addressing the deficit, which included revenue-raising, efficiency improvements, and making cuts only as a last resort. Transparent communication about the council's efforts to explore all options before reducing services helped mitigate opposition and frustration.
- **Communication preferences:** Residents expressed a strong preference for updates via newsletters and the council website,

with these being perceived as accessible and effective. While public meetings were initially less favoured, they gained popularity as residents experienced them firsthand, underscoring the value of face-to-face engagement.

- **Accessible messaging:** The consultation emphasised the need for straightforward and accessible language. When proposals were framed clearly and with context, residents were more likely to understand and support them. Overly technical or complex language led to disengagement and increased opposition.
45. Feedback from this consultation shaped key budget decisions, including prioritising investments in adult social care and children’s services while exploring revenue-raising measures, such as parking fee increases, that align with resident preferences. The consultation also provided valuable recommendations for future engagement strategies, including the importance of accessible messaging, a balanced approach to budget framing, and diversified communication methods.
 46. This evidence ensures the budget proposals align with resident priorities while providing a foundation for transparent communication about upcoming changes.
 47. Full details of the consultation responses are available through the York Open Data platform.

Budget analysis

48. The budget setting process has taken into account the following issues, which are considered in more detail in following paragraphs.
 - i. Consideration of the 2024/25 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.

2024/25 position

49. As part of the budget approved in February 2024, considerable investment was made in priority services to ensure sufficient resources to deliver statutory and priority services.
50. Despite this investment the latest finance and performance report still forecasts an overspend of c£2.6m. Whilst this is a significant improvement on the £11m forecast overspend last year at this time, and cost control measures remain in place across the Council to reduce spending, there remains a risk that we will need to use reserves to balance the final position.

Additional Investment

51. The following bullet points set out the areas where additional investment is being made.
 - Neighbourhood Caretakers - **£150k** to improve public realm spaces in our communities by improving services across departments, tapping into local knowledge and expertise and maximise the impact of volunteering.
 - Health and Adult social care - **£8m** to cover unavoidable contractual price increases and demographic pressures, including the cost of ongoing care for adults as they transition from children's services.
 - Children's Services - **£2.8m** to cover unavoidable contractual price increases and demographic pressures, including looked after children costs. This includes £369k of new grant funding.
 - Pay, pension and other contractual price increases **£9m** - to cover pay inflation and unavoidable contractual price increases in other service areas, mainly ICT, insurance, transport and waste.
52. In addition to investment outlined above, one off financial investment totalling £300k will be made:
 - £130k increase to the York Financial Assistance Scheme providing fuel and food vouchers to residents

- £50k for York Hungry Minds
- £20k to explore options for Dial and Ride replacement
- £50k for disability equality training
- £50k increase for Financial Inclusion grants to support organisations giving support to those experiencing the ongoing effects of the cost of living crisis

53. 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, with significant pressures for social care providers across the private and voluntary sector. The Council’s statutory responsibilities in respect of market management and provider failure, as well as the requirement to meet the assessed eligible care needs of older and disabled adults, requires due consideration of the social care market’s financial issues.

Investment Summary

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

Investment	2024/25 £'000
Recurring investment	
- Revenue cost of borrowing	1,800
- Adult social care prices and demographic	8,032
- Children’s Services prices and demographic	2,765
- Pay and Prices	8,964
- Other Service Growth	450
Total Investment	22,011

Table 2 – Summary of investment

Specific Grant Funding Changes

55. Table 3 shows the net change in specific grants, totalling £7.914m. The council will receive additional grants of £3.2m to fund adult existing social care pressures and this is included in the prices and demographic growth in table 2 above and is covered in further detail elsewhere in the report.
56. A new Children’s Services Prevention Grant of £369k has been included in the draft settlement. This will be used to invest in the national rollout of Family Help. The sum allocated however, is unlikely to cover the costs of the work that will need to be done.
57. New Homes Bonus funding has continued for a further year. However, it has been confirmed that this is the final year that New Homes Bonus will operate.
58. The other significant change in funding is the Extended Producer Responsibility grant of £4m. This is new funding allocated to cover the costs of recycling and disposal of household packaging. The funding is again only guaranteed for 2025/26.

	2025/26
Funding Changes	£’000
- Increase in ASC specific grants	-3,222
- New Children’s Services Prevention Grant	-369
- Net increase in other grants including RSG	-325
- New Extended Producer Responsibility Grant	-3,998
Net Funding Changes	-7,914

Table 3 – Grant funding changes

Council Tax Funding Changes

59. Table 4 shows the net changes to council tax funding.
60. The first line in Table 4 shows the 4.99% increase in council tax which will generate additional income of £5.684m on the existing taxbase.
61. A further £0.569m 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 2025/26, this has grown by approximately 328 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.

62. The third line is the reversal of the collection fund surplus from the prior year. There was an estimated deficit declared in 2023/24 of which York's share was £711k. This was funded in year from the collection fund reserve.
63. The council tax collection fund surplus or deficit for the year 2024/25 is estimated on 15 January 2025, 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 2024/25. Instead, a deficit of £584k is estimated of which York's share of £473k will need to be repaid during 2025/26 from the collection fund reserve, set aside for this purpose.
64. In summary the Table 4 shows an estimated £6.753m additional income from council tax in 2025/26.

	2025/26
Council tax	£'000
- Increase in charge	-5,684
- Increase in taxbase	-569
- Second Homes Premium	-500
- Reversal of collection fund surplus 2023/24	0
- Collection fund surplus/deficit 2024/25	473
- One off funding of 2024/25 deficit	-473
Net council tax changes	-6,753

Table 4 – Council Tax funding changes

Business rates income

65. 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.
66. In 2024/25 City of York Council were part of a 50% business rates pool with Leeds City Region and this is set to continue in 2025/26. This is covered in further detail later in the report.

Business rates	2025/26 £'000
- Business Rates increase/reduction	-900
Change in income	-900

Table 5 –Change in business rates Income

Savings proposals and Expenditure Reduction

67. Proposals totalling £6.4m have been identified to contribute towards balancing the 2025/26 budget. £1.7m of the 2025/26 savings are the full year effect of prior year savings previously agreed by Executive.
68. Table 6 summarises the 2025/26 savings to be delivered.

Savings	2025/26 £'000
-Fees & charges	-2,810
-Transport, Environment & Planning	-135
- Corporate	-3,499
Total expenditure reductions	-6,444

Table 6 – 2025/26 Expenditure Reduction

Net Budget Composition

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

2025/26 £'000

Council Tax	120,680
Business Rates	36,241
Total Net Budget	156,921

Table 7 – Net budget composition for 2025/26

Fees and charges

70. Whilst the Council recognise the challenges of the cost of living crisis for businesses and residents, it has been necessary to increase fees and charges for 2025/26 to achieve a balanced budget. The proposals are to use a 5% increase in most instances where possible which is higher than current inflation levels but reduces the need for other budget savings.
71. Detailed proposals for any changes to fees and charges are attached at annex 3. The proposals have taken account of such factors as possible impact on customer numbers, knowledge of business and current market conditions and benchmarking exercises. Any increased income from this review of charges is included within the overall list of savings attached at annex 2.
72. The proposals include a significant increase in parking charges in order to promote the use of sustainable transport options to visit the city centre with minimum charge per hour for the first two hour of £4.85 meaning that the first two hours charge of £9.70 is more reflective of the cost of using public transport. It is also proposed to introduce a 10% supplement for using council car parks and on-street when the city is busiest, including on Fridays and Saturdays all year round and over the period from the beginning of the St Nicholas Fayre in mid-November through to the New Year.
73. Inflationary increases have also been applied to fees charged by Registrars and Bereavement Services, although the basic cremation fee will remain unchanged.

Council Tax

74. The existing components of the current (2024/25) 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	1,407.49
City of York Council – Social Care Precept	241.29
North Yorkshire Police	306.86
North Yorkshire Fire and Rescue	83.02
TOTAL	2,038.66

Table 8 - Make Up of 2024/25 Council Tax

75. 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

76. The council tax referendum limit (excluding social care precept) for 2025/26 is 3%. If a Council wishes to set a higher council tax it must hold a referendum. It must also provide 'substitute calculations' which need to be presented to setting out what the alternative budget would be. This means that that if any proposal is made for a council tax above the referendum limit it must be accompanied by 'substitute calculations' within the referendum limit, to be used in the event that the referendum would reject the increase. If a referendum is held after the beginning of the relevant financial year, the higher rate of council tax will be payable unless and until it is overturned by a 'no' vote in the referendum. In the event that a referendum rejects the increase, the billing authority would be able to issue new bills, offer refunds at the end of the year or allow credits against liability the following year, although individual council taxpayers would be entitled to a refund on demand.

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

Social care precept

78. 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.
79. As referred to earlier in this report, the recommendation made in these papers is that from April 2026 the City of York element of the council tax will increase by 4.99%, 2% of the increase relating to the social care precept.
80. 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 partly 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.

Precepts

81. 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 27 February.
82. Table 9 demonstrates both the cash and percentage increase in 2024/25 for these which resulted in a total band D council tax for a York property of £2,038.66.

	2023/24	2024/25		
	Charge (£)	Increase (£)	Increase (%)	Council Tax (£)
CYC	1,570.42	78.36	4.99%	1,648.78
Police	295.09	11.77	3.99%	306.86
Fire	80.61	2.41	2.99%	83.02

Total	1,946.12	92.54	4.76%	2,038.66
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Table 9 – 2024/25 Council Tax Figures for City of York Area

83. 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)

84. The business rates multipliers for standard and small business rates have up to now been aligned together and in recent years these have been frozen at 49.9p.
85. The Non-Domestic Rating Act 2023 allowed for the de-coupling of the small and standard business rating multipliers. It also changed the indexation factor from RPI to CPI. In the provisional settlement for 2025/26, the government confirmed that it will again freeze the small business rates multiplier and index the standard multiplier to 55.5p (from 54.6p in 24/25).
86. In respect of the small business rates multiplier, the impact of under-indexation for local authorities will be fully funded. York will therefore receive a compensation grant (Section 31 grant) and an uplift to its Baseline Funding level.
87. The council is projecting retained business rates/RSG income in 2025/26 of £36.241m, which is an increase of £0.9m compared to 2024/25 allowing for the increase in the Baseline Funding Level set by the government for York.
88. A prudent approach continues to be taken in respect of Business Rates growth, although some growth has been allowed for in 2025/26 (£400k).
89. The government's Autumn Statement (October 2024) removes the mandatory charitable NNDR relief from private schools with effect from 1st April 2025. This will raise additional NNDR revenue of approx. £350k. This change to our NNDR relief policy requires member approval. This paper asks members to approve this change.

90. In addition, a budget of £150k is being set for income redistributed back to member authorities in the Leeds City Region Business Rates Pool. The performance of the pool over the past 3 years gives assurance that this is a reasonable assumption although this will need to be assessed each year once the continuance of the pool has been confirmed to government.
91. These adjustments allow for an increase in business rates income of £900k in 2025/26. 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

92. City of York Council is currently a member of the Leeds City Region (LCR) Business Rates Pool, and this will continue in 2025/26.
93. The Council is classed as a 'tariff' paying authority as its NNDR receipts are greater than its funding needs.

Reserves and Contingency

General reserves and contingency

94. Table 10 shows the position on the general fund reserve which, it is anticipated, will remain at £7.441m by the end of 2024/25.
95. The projected reserves at the end of 2024/25 are based on the assumption that Members agree no usage of reserves in 2025/26 as part of the final recommendations to Council.
96. In line with best practice, the council has undertaken a review of risks and known commitments in order to determine its minimum general reserve level. In considering this, it has been determined by the s151 Officer that £7.4m remains an appropriate figure. However, in light of the risks facing the council, in relation to major capital programme schemes and the budget pressures within children's and adult social care, it is considered that the Council should make every effort to maintain some headroom above the minimum level. Further consideration of reserves will be made during the early part of 2025/26 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.

	2024/25 Projected Out-turn	Budget
	£'000	£'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	7,400	7,400
Headroom (+)/Shortfall (-) in reserves	41	41

Table 10 – Projected general reserves

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

98. 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

99. The balance on the venture fund reserve is anticipated to be £3.9m at the end of 2024/25.

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

	Forecast Year end Venture Fund Balance
	£'000

2025/26	2.991
2026/27	1,440
2027/28	1,905
2028/29	2,351

Table 11 –Venture Fund Balance

Medium term planning

Medium Term Outlook and Funding Reform

101. The Government published the provisional settlement on 18 December 2025. It is a one year settlement. Additional funding has been allocated to both adult and children’s social care, however the funding remains insufficient to meet the increased costs of demand and complexity being seen.
102. As part of the 2025/26 settlement, there has been a redistribution of funds towards areas with higher levels of deprivation and less ability to generate income from council tax. This was achieved by abolishing the Rural Services Delivery Grant and creating a new Recovery Grant. No additional funding was allocated to York.
103. Government also announced consultation seeking views on the approach to local authority funding reform through the local government finance settlement from 2026/27.
104. Whilst this review has been long awaited, the continued uncertainty and lack of information about future years funding settlements remains an area of risk to the Council.
105. The consultation is clear that there will be a full business rates baseline reset. This could have significant implications for a high growth authority such as York. Whilst there will be transitional arrangements, the broad outcome expected is that Councils will lose most, or all of the business rates growth built up since 2013/14.

Medium term strategy and approach to savings

106. As outlined above, alongside the provisional settlement Government also announced a consultation on updating how local authorities are funded, seeking views on the approach to determining new funding allocations. It also covers ways in which demands on local

government can be reduced and increase local flexibility. Whilst a review and subsequent reform of how councils are funded is welcomed and long overdue, this brings with it some risks in that it means, yet again, we are unable to plan beyond the next financial year. Whilst the Spending Review is an opportunity to highlight the issues facing local government finances, there is also a risk that York could lose funding as a result of the Spending Review.

107. Recognising some of the risks set out in preceding paragraphs, in particular the state of the UK economy, and the distribution of local government funding, the table below, Table 12, sets out the headline figures for the Council's medium term financial forecast to 2028/29 based on some very broad assumptions. In light of the pending 2025 spending review, these forecasts aim to outline what the expected pressures are for the Council, in particular around inflation and the impact of employer's national insurance increases on contracts.

108. It is difficult to predict beyond this timescale.

	2026/27	2027/28	2028/29
	£'000	£'000	£'000
GROWTH			
Pay and price inflation	9,800	7,000	7,350
Demographic (mainly social care) and service growth	4,500	4,200	4,200
Capital Programme	1,850	1,900	1,950
Total growth	16,150	13,100	13,500
RESOURCES			
Council Tax	6,350	6,700	6,900
Total resources	6,350	6,700	6,900
FUNDING GAP	9,800	6,400	6,600

Table 12 – Medium Term Forecast to 2028/29

109. These figures are based on the assumption that funding for adult social care continues in a similar manner and that the pay award will be approximately 3%. Clearly there are several factors that could

change these figures, and uncertainty will remain until the announcement of future settlements, but they provide the broad basis on which the Council will need to consider decisions over coming years.

110. The funding gap figure in Table 12 represents the amount of savings that are required each year to balance the budget. Whilst settlements for local government have been better in recent years, this is not guaranteed to continue in future years in light of the factors outlined earlier in the 'medium term outlook' section of the report.
111. There are three very major pressures facing the Council. These relate to inflation, social care, and the impact of the capital programme.
112. Inflation continues to cause budget pressures on external provider contracts across the Council. This pressure will increase in 2025/26 due to increases in the rate of employer's national insurance. Whilst the Council will receive Government funding for the increased cost in relation to our own staff, we will not receive any funding for the increased costs of contracts.
113. 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 £1.8m every year.
114. 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.
115. 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 across a number of service areas.
116. There remains a funding gap of between £6m and £10m each year, over the next 3 years. The Council will need to consider the relevant balance of savings, variation in council tax, and potential changes in funding following the Spending Review in 2025. Whilst every effort will be, and is being, made to identify alternative sources of income, secure grant funding and effectively control costs – this may not be enough to deliver the scale of the savings needed.

117. In order to deliver a further £23m of savings the Council will need to down size the organisation and seriously consider the level of spend across a range of services. A significant focus in 2025/26 will be on changing the way the Council works through a comprehensive and wide ranging transformation programme. This work will be funded through the use of capital receipts.

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

Use of Capital Receipts

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

120. The Council has reviewed the assets it holds and has a programme of releasing these for sale. Alongside previous capital receipts, money realised from these sales will be used to offset the internal cost of transformation work, that in turn will deliver more efficiencies in the medium term.

121. Annex 7 to this report sets out the Flexible Use of Capital Receipts policy and the Council intends to use capital receipts up to the value of £750k to fund a programme of work that will fund a series of strategic service reviews and council wide cross cutting transformational schemes that will seek to deliver both service improvement and recurring budget savings.

122. We will develop business cases that support the Medium Term Financial Strategy by establishing those conditions that effectively support residents, with streamlined interactions with council services, ensuring we manage our resources as effectively as possible.

123. As this early stage, we have identified 6 key areas of strategic review

- Safe, effective and efficient social care service. Work will continue to develop Adult Social Care strengths based practice

and steer a council wide approach to improving customer experience to prevent, reduce and delay the need for social care support.

- One contact, one story. Establishing integrated neighbourhood teams so residents only need to share their story once, to ensure joined up approaches to preventing or meeting need across health, care and communities.
- Independent living. We will refresh the way we manage homelessness and social housing, including housing allocations, adaptations, and supported housing to place people who need homes in the homes they need.
- Working closely with health, care and community partners to review development income that could improve health outcomes.
- Reviewing contracting and commissioning arrangements to encourage joint working around shared outcomes.
- Making it easier to support residents to resolve the need or query they have more quickly by automating back office processes, focussing on systems and high volume transactional services, to manage demand differently and reducing failure demand.

124. As this work progresses, regular updates will be provided to Executive through the quarterly Finance and Performance Reports.

Housing Revenue Account (HRA) Budget

125. 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.

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

127. The HRA is also carrying a significant debt of £149.3m (including £119.65m from self-financing) which is forecast to rise to further over the coming years.

128. When the latest HRA budget for 2024/25 was agreed in February 2024 the real annual surplus for the year was set at £2.023m which equates to less than 1.5% of total debt and lower than a prudent level of surplus where resources are set aside for debt repayments as is practice in general fund.

129. It is important to note that the HRA is paying £5.1m interest per annum funding the debt and the average interest rate on the debt (3.4%) is lower than current interest rates meaning that refinancing is not an attractive option. The first tranches of self-financing debt are maturing over the coming years and current interest rates are circa 2% higher than the average rate when the debt was originally taken out.

130. Additionally, the HRA is planning to fund 100% affordable housing schemes at Ordnance Lane / Hospital Fields Road, Lowfield Extra Care and Willow House which will all require additional borrowing in order to develop.

Rent Increase

131. The rent standard allows council to increase rents by CPI+1%. The increase is based on September 2024 CPI rate which stood at 1.7%. This would allow an increase of 2.7%. Whilst Members have the option to increase rents by a lower amount any lower rent would reduce the surplus made by HRA.

132. The additional income from a 2.7% increase on rents will deliver additional income to HRA of £1.1m.

Spending Pressures

133. We have undertaken a review of likely cost increases across the HRA and these are primarily expected to be greater than the rent increase allowed. These are considered in the table below.

Cost Pressures		£'000
Pay incl. overheads	3% increase plus £1k per member of staff NI increase	242
Repairs	4.5% to cover materials sub-contractors and pay	465

Capital Repairs	Additional allowance to cover additional depreciation charge that funds capital repairs	284
Other	Other inflationary charges across the HRA.	309
	Total Pressures	1,300

Table 13 - HRA pressures

134. The cost pressures identified total £1,300k which is £200k higher than the additional rent that is anticipated to be received. It is necessary therefore to identify areas where budgets can be reduced. The following items have been identified through budget monitoring and reviews.

Savings		£'000
Landlord Services	Review of unused general budgets eg car allowance, stationary etc	-50
Voids	Reduction in void assumptions to be closer to 1% target	-100
Overheads	Seek to cash limit overhead increase	-50
	Total Savings	-200

Table 14 - HRA savings

135. The result of the above changes is that the HRA will be forecasting a surplus in 2025/26 of £2,023k excluding the debt repayment of £9,500k. The deficit is £7,477k including the debt repayment. The overall HRA general reserve is forecast to reduce to £16,110k by the end of 2025/26. The detailed budgets are shown at Annex 5.

136. There is a need to undertake a thorough longer term financial forecast for the HRA. It is proposed that there is a review of the assumptions within the business plan over 2025/26 to review HRA capacity particularly in light of the changes to Right to Buy legislation, likely capital investment required for HRA developments and completion of developments at Duncombe Barracks and Burnholme.

Rent Changes 2025/26

137. 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
2024/25	£97.08	
2025/26	£99.70	£2.62

Table 15 – Rent Changes 2025/26

138. 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 2.7% 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.

139. It is also recommended that Shared Ownership rents increase at the same level of 2.7%.

140. 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

141. The Dedicated Schools Grant (DSG) is ring-fenced for funding the provision of education or childcare for 2 to 16 year olds in all settings, and Special Educational Needs & Disabilities (SEND) provision for pupils up to age 25. It covers funding delegated to individual Local Authority (LA) maintained schools, academies and private, voluntary & independent (PVI) nursery providers through the Local Management of Schools (LMS) & Early Years funding formulae, plus funding for other pupil provision which is retained centrally by the LA to support SEND and some central education services.

142. The DSG does not include funding for home to school transport, assessing pupils and administering the SEND system and other statutory LA education responsibilities such as monitoring schools’ performance, all of which have to be funded from the council’s general fund budget.

143. 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 2025/26 but with some changes to the early years NFF, and a continuing reduction in the funding allocated to the LA for centrally retained budgets.

144. The total DSG allocation for 2025/26 is estimated at £195.090m, an increase of £12.748m (7.0%) from 2024/25 and broken down as follows:

DSG Funding Block	Adjusted 2024/25 £m	2025/26 £m	Increase	
			£m	%
Schools Block	132.743	133.689	0.946	0.7%
Early Years Block	19.099	29.260	10.161	53.2%
High Needs Block	28.470	30.340	1.870	6.6%
Central School Services Block	2.031	1.801	(0.230)	(11.3%)
Total DSG	182.343	195.090	12.747	7.0%

Table 16 –DSG Allocations

Schools Block

145. The vast majority of the Schools Block DSG (£133.551m) 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 2025/26 the LA is again proposing to follow the NFF for schools.

146. The funding factors used in the 2025/26 NFF remain the same, however the factor values will increase by the following amounts:

- 0.6% to the basic entitlement, free school meals at any time in the last 6 years (FSM6), income deprivation affecting children index (IDACI), lower prior attainment (LPA), English as an additional language (EAL), sparsity and the lump sum
- 1.0% to pupils currently accessing free school meals (FSM),
- 0% on the premises factors, except for the PFI factor which has increased by RPIX

147. 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 teachers' pay additional grant (TPAG), teachers' pension employer contribution grant (TPECG) and core schools budget grant (CSBG) into the NFF, with more details set out in the paragraphs below.

148. The minimum per pupil levels in 2025/26 will be set at £4,995 per pupil for primary schools and £6,465 per pupil for secondary schools. These amounts include additional funding for the rolling in of TPAG, TPECG and CSBG plus a further 0.6% increase.
149. The 2025/26 NFF funding floor has been set at 0.0%. This means that every school will, as a minimum, have their pupil-led funding per pupil protected at their 2024/25 baseline per pupil funding level. Funding floor baselines have also been increased to take account of the rolling in of TPAG, TPECG and CSBG.
150. At a national level, school funding through the NFF is increasing by 1.6% per pupil. However, the average increase for York schools is estimated at 0.7% per pupil as a higher proportion of York schools are already receiving protection through the funding floor and the minimum per pupil amounts, which only increase by 0.0% and 0.5% respectively in 2025/26. Local authorities will continue to determine the final allocations for all local mainstream schools in 2025/26.
151. In addition the DfE have said that further funding in respect of the increase in employer National Insurance contributions will be provided by a new separate grant outside of the NFF.
152. The remaining £0.138m of the Schools Block DSG is allocated to the growth fund. The growth fund can only be used to support increases in pre-16 pupil numbers to meet basic need, additional classes needed to meet the infant class size legislation or meet the costs of pupils in new schools commissioned to meet basic need. The growth fund may not be used to support schools in financial difficulty or general growth due to popularity; which is managed through lagged funding.
153. The amount of growth funding allocated to the LA by the DfE continues to fall, down from £0.383m in 2024/25 (£0.800 in 2018/19). The level of funding required to be allocated to schools under the current local growth criteria and formulae is difficult to predict with any certainty each year. In each of the last five years the fund has been oversubscribed and this is likely to continue in 2025/26. Therefore, for all allocations made since the 2020/21 academic year onwards, the LA has implemented a cash limit on this budget. This means that if the total of all allocations to schools

in a particular year, calculated via the relevant formulae, exceeds the budget available then all allocations will be reduced pro-rata.

Early Years Block

154. Earlier last year the DfE announced a significant phased expansion of the entitlement to funded childcare which accounts for the majority of the increase. By September 2025 working parents of all 9 month to 4 year olds will be entitled to access 30 hours per week of government funded childcare. In addition, increased support for Maintained Nursery Schools (MNS) has been announced through the MNS supplementary factor.

155. The hourly rates received by York for 2024/25, plus the new 2025/26 hourly rates are set out in the table below:

	2024/25 £/hr	2025/26 £/hr	Increase £/hr	%
3 & 4 Year Olds Universal & Working Parents	5.47	5.71	0.24	4.4%
2 Year Old Disadvantaged & Working Parents	7.59	7.91	0.32	4.2%
9 Month to 2 Years Old Working Parents	10.30	10.72	0.42	4.1%
MNS Supplement	4.64	5.27	0.63	13.6%

Table 17 – Early Years National Funding Formula Rates

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

157. Following agreement with the Schools Forum it is proposed to continue the arrangements introduced in 2024/25 following detailed consultation with providers. This would mean that for 2025/26 each of the formulae (under 2s, 2 year olds and 3/4 year olds) would utilise the respective hourly rates provided by the DfE in the following way:

- 93.50% allocated to the base rate
- 1.25% allocated to the deprivation rate
- 1.25% allocated to the SEND Inclusion Fund
- 4.00% allocated to fund LA Early Years services (centrally retained fund)

158. The eligibility criteria and proportion of funding for deprivation will continue to be based on the child’s home address postcode and the Income Deprivation Affecting Children Index (IDACI). With postcodes in top 30% most deprived areas attracting deprivation funding.

159. Subject to the outcome of a consultation with providers and the views of the Schools Forum on 23 January, the following early years funding rates for all York providers are proposed for 2025/26:

	Base Rate £/hour	Deprivation Rate £/hour	Nursery School Lump Sum £
3 & 4 Year Olds Universal & Working Parents	5.34	0.56	166,026
2 Year Old Disadvantaged & Working Parents	7.40	0.77	NA
9 Month to 2 Years Old Working Parents	10.02	1.05	NA

Table 18 – York’s Proposed EYSFF Funding Rates for 2025/26

High Needs Block

160. The high needs block DSG increases by £1.870m (6.6%) in 2025/26. This is a lower increase than in recent years where high needs allocations have increased between 5% and 8% per year. As has been previously reported, the high needs budget is already under significant pressure due to rising demand from increased numbers of SEND pupils. For 2024/25 net in year expenditure within the high needs block is projected to be £1.350m higher than the core DSG funding allocated by government.

161. However, as part of the safety valve agreement that the LA has made with the DfE, additional grant of £1.460m 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 £0.110m and reduces the projected high needs deficit carry forward to 2025/26 to £0.181m.
162. It should be noted that the original safety valve agreement with the DfE planned for a balanced high needs budget by the end of 2025/26. However, given the funding settlement for 2025/26, it is not now expected that a balanced position will be achieved until 2029/30.
163. The original plan included a commitment from the DfE to allocate additional funding to York of £17.1m over the period 2021/22 to 2025/26, subject to certain conditions. To date £15.6m of this funding has been received by the LA, with a further £1.5m due in 2025/26.

Central School Services Block

164. 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 £0.230m (11.3%) in 2025/26. This follows similar reductions in the previous two financial years. This net reduction is made up of a 2.7% reduction in the allocation for the on-going responsibilities that the LA continues to have for all schools, and a 20% reduction in the allocation for historic commitments.
165. For 2025/26 this means allocations of £0.994m for LA on-going responsibilities and £0.807m for historic commitments. As historic commitments currently total £1.009m in 2024/25 the LA will need to identify budget reductions totalling £0.202m for 2025/26.
166. Outturn expenditure in 2023/24 for termination of employment costs and prudential borrowing totalled £0.683m and it is expected that the DfE will continue to protect the LA's historic commitments allocation at at least this level. As the LA removed all of its other remaining historic commitment budgets in 2024/25, the 2025/26 expected required reduction (£0.202m) will need to be taken from the School Improvement Commissioning budget. That means a

reduction in the budget from £0.326m in 2024/25 to £0.124m in 2025/26.

Equalities

167. 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.

168. In addition, this Council has committed to ensure that Care Leavers are treated as if they also have a protected characteristic.

169. 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.

170. 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.

171. It is accepted that the EIA accompanying the budget report (at Annex 4) will not address the impacts of every detailed aspect of the

budget and therefore individual elements of the budget will, following Council approval, attract their own EIA to support delivery of that proposal and ensure that negative aspects of the protected characteristics are acknowledged and where possible mitigated.

172. 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.
173. 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.
174. 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

175. This report has the following implications.

Financial

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

Human Resources (HR)

177. The savings proposals contained within the overall budget may require the reduction of some posts in 2025/26.
178. 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 2025/26 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.
179. 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.
180. 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.
181. 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

182. 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.
183. 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.

184. 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.
185. 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 she considers that a decision taken by the Council would be unlawful and likely to cause a financial deficiency.
186. 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.
187. 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.

188. 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.

189. 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.

190. 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.

191. 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.

192. 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.

193. 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.
194. 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.
195. 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.
196. **Procurement**, there are no direct implications arising from the report.
197. **Health and Wellbeing**, reductions in spend in some areas could impact on the health and wellbeing of both staff and residents. The impact of any reductions in spending will continue to be carefully monitored so that any implications can be monitored and mitigated where possible.

198. **Environment and Climate action**, there are no direct implications related to the recommendations, but aspects of the budget and spending decisions will need to consider the environment and climate implications as they progress through any future decisions.
199. **Affordability**, implications are contained through the main body of the report. Where decisions impact on residents on a low income these impacts will be recorded in the individual Equalities and Human Rights analysis for individual savings proposals.
200. **Equalities and Human Rights**, implications are set out in the Equalities section earlier in the report.
201. **Data Protection and Privacy**, there are no implications related to the recommendations.
202. **Communications**, the information set out in this report necessitates both internal and external communications. This will be on an ongoing basis throughout the year.
203. **Economy**, there are no direct implications related to the recommendations.

Statutory Advice from the s151 Officer

Introduction

204. 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

205. 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.

206. 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.

207. 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 2024/25 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

208. 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.

209. 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.

Risks

210. The report outlines the key risks to the 2025/26 budget, and these are considered further in the following paragraphs.

211. Continued increasing costs across all areas of spend remains an area of concern. Whilst inflation levels have started to settle, 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 and there are already some emerging issues and concerns over the rising costs of some major schemes
212. Therefore, the number of complex capital schemes currently being undertaken remains a key risk for the Council. Where there is a gap between the initial proposal and the start of works, there is an even greater risk that costs will increase from those originally estimated. 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.
213. 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.
214. 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.

215. The savings proposed rely on generating additional income, especially from car parking charges. The figures proposed are achievable and an allowance has been made for reduced activity. However, there is a risk that activity drops off more than assumed which would result in the savings not being achieved. In addition, any future proposals to reduce the provision of Council car parks would have a higher financial impact in light of the increased charges.
216. 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.
217. The Council is also about to embark on a significant programme of transformation which will require all parts of the Council to contribute towards working differently. Any change can be unsettling, and the process of change itself can bring financial risks. It will be vital to have a sound governance structure so that the investment being made in transformation delivers lasting change and ongoing budget savings.
218. 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 2024. It is a one year settlement pending the 2025 Spending Review.
219. Changes in funding as a result of the Spending Review funding could be significant and make forecasting beyond 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

220. 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.

221. 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.
222. 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.
223. The proposed 2025/26 budget does not use the general reserve to balance and therefore reserves remain sufficient to deal with any further risks.

Summary

224. 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.
225. Additional funding allocated in the provisional settlement is welcome but is insufficient to deal with the increased complexity and demand being seen within all council services, especially social care.
226. Identifying and subsequently delivering recurring budget savings remains the key to balancing the financial strategy. The medium term outlook demonstrates the need to future savings to be

delivered and members are reminded that the settlement for 2025/26 is again a one year settlement pending the Spending Review. No formal confirmation or other guarantees have been received on funding allocations beyond 2025/26.

227. 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.
228. Considering all the factors and risks outlined in this report, I continue to advise against the use of one off reserves, or any other one off funding, to delay the need to identify and deliver recurring savings without a clear strategy for how we will tackle the known financial challenges. Whilst Council is only required, statutorily, to balance the budget for the year ahead, not acting now could result in unmanageable savings requirements in future years and I would caution Council against this.
229. 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.
230. I am aware that as with all budgets there is the potential for amendments to be proposed/agreed which could change the overall package of proposals. In that respect, I would highlight that I would amend/add to my statement if a decision was proposed that lead to the council's reserves falling below the minimum level (assuming the current budget comes in line with budget). In addition, any other amendments I would consider against the scale of the overall budget and depending upon the extent of the amendment I may revise my statement.

Risk Management

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

232. As the Council's Section 151 Officer, the Director of Finance 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

233. All

Contact details

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Background Papers:

Consultation information on open data platform

<https://data.yorkopendata.org/dataset/budget-consultation>

Annexes:

- 1 – 2025/26 Budget Summary
- 2 – 2025/26 Savings Proposals
- 3 – 2025/26 Fees & Charges
- 4 – Impact Assessment
- 5 – HRA 2025/26 Budget
- 6 – Risk Analysis
- 7 – Flexible Use of Capital Receipts Policy
- 8 – Consultation report
- 9 – Discretionary Rate Relief Policy
- 10 – Hardship Policy

Abbreviations used in this report:

- ASC – Adult Social Care
- CIPFA – Chartered Institute of Public Finance & Accountancy
- CPI – Consumer Price Index
- CSBG – Core Schools Budget Grant
- CYC – City of York Council

DSG – Dedicated Schools Grant

DSED -

EAL – English as an Additional Language

EIA – Equalities Impact Assessment

ESG – Education Services Grant

EYSFF – Early Years Single Funding Formula

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

PSED – Public Sector Equality Duty

PVI - Private, Voluntary and Independent

RSG – Revenue Support Grant

RPI – Retail Price Index

SEND – Special Educational Needs & Disabilities

SFA – Settlement Funding Assessment

TPECG – Teachers Pension Employer Contribution Grant

TPAG - Teachers' Pay Additional Grant

TUPE – Transfer of Undertakings (Protection of Employment)

YFAS – York Financial Assistance Scheme