

NORTH YORKSHIRE COUNCIL

EXECUTIVE

23 January 2024

Joint Report of the Chief Executive and the Corporate Director – Strategic Resources

EXECUTIVE SUMMARY

REVENUE BUDGET FOR 2024/25 & MEDIUM TERM FINANCIAL STRATEGY 2025/26 TO 2026/27

REVENUE BUDGET

Context (Section 2)

1. This is the second Budget for North Yorkshire Council (NYC) but the first that has been produced post-vesting day and based upon the experiences of 2023. This report sets out the financial issues and risks for the new North Yorkshire Council and makes recommendations to the Council regarding the:
 - Revenue Budget for 2024/25; and
 - Medium Term Financial Strategy (MTFS) for 2025/26 to 2026/27; and
 - Council Tax for 2024/25.
2. Nationally there are an increasing number of councils in financial distress and many have declared s114 notices (invoking emergency budget arrangements). NYC is facing the same spending and funding pressures as most other councils but it is not in financial distress so long as it delivers the savings opportunities arising from unitarization.
3. Despite a sizeable set of new savings proposals totalling £41.9m across the MTFS, the Budget for 2024/25 still requires a contribution from Reserves of £6.5m. Looking ahead the projected recurring shortfall builds to £47.7m by 2026/27. The Council therefore needs to use the time over the next twelve months to identify further transformational savings that arise from unitarization to bridge much of this deficit.
4. The majority (estimated at 78%) of the new savings proposals arise from the benefits of the structural reforms following unitarization.

Medium Term Financial Strategy (Section 3)

5. There are a significant number of pressures on service budgets as a result of a combination of factors including rising number and costs of SEND; extreme volatility and distress in the adult social care market; children's placement costs; home to school transport services; high levels of inflation and supply chain expectations (despite inflation levels falling nationally); and workforce retention and recruitment challenges.

Corporate Financial Issues (Section 4)

Provisional Local Government Finance Settlement

6. The 2024/25 Provisional Local Government Finance Settlement was largely in line with planning assumptions with the exception of a reduction of c£2.4m on Services Grant reduction. Some of the headlines of the announcement for NYC included:
 - ability to raise basic Council Tax by up to 2.99% in 2024/25 before triggering a referendum.
 - ability to levy an adult social care (ASC) precept equivalent to a 2% increase on the whole council tax base.
 - government projected that the overall core spending power for North Yorkshire Council will increase by 6.2% (against an all England average increase of 6.5%). This is on the assumption that the Council will increase council tax up to the referendum limit (4.99%)
 - Rural Services Delivery Grant – North Yorkshire's allocation remains unchanged at £12.3m (i.e. cash limited so a real-terms reduction)

Council Tax

7. The report sets out a proposed increase of 4.99% in Council Tax in 2024/25 (including the 2% ASC precept). This raises the average Band D council tax by £87.80 per annum (or £7.32 per month) and results in an overall average Band D level of £1,847.62 in 2024/25.
8. 2024/25 sees the second and final year of council tax harmonisation such that all NYC council tax levels are the same across the county as from 1 April 2024.

Fees and Charges

9. The Council's fees and charges policy has been applied assuming 6% inflation levels. A number of exceptions have been identified for operational reasons and details are set out at **paragraph 4.4.5**.

Reserves & Balances

10. Given the level of risks facing the new unitary Council, it is proposed that the policy target for the minimum level of the General Working Balance is set at 5% of the net revenue budget (previously it was at 10%). This equates to £33m and releases £23m for Strategic Capacity in 24/25.
11. At 1 April 2024 the Council is forecasting to hold £146.1m in a Strategic Capacity Reserve – these funds are available to support the revenue budget including the accumulated deficit of £82m.

Savings

12. Gross savings proposals of £23.7m are proposed for 2024/25 rising to £46.2m by 2026/27, leaving a recurring budget shortfall of £47.7m. Further savings opportunities are set out as “stretch savings” opportunities but there is insufficient detail and confidence about their delivery at this stage. The next twelve months therefore need to be used to develop these savings opportunities into more detail as the Council explores the deeper opportunities of unitarization as part of its Transformation Programme.

Investments

13. New investments included in the proposed budget are: **Local Plan** – one-off provision of £5m to aid delivery of the new Local Plan; and **Local Assistance Fund** - an additional recurring sum of £1m per annum to support the most vulnerable in cost of living challenges.

Revenue Budget Position in 2024/25 (Section 5)

14. The proposed net revenue budget for 2024/25 is £661,874k.

Consultation (Section 6)

15. A range of initiatives have taken place to engage with stakeholders to consult on views on priorities and the Budget including the ‘Let’s Talk Money’ public consultation campaign.

Equality Implications (Section 7)

16. An overview of equality issues associated with the Council's budget proposals has been carried out and summarises the potential equality impacts in line with the Public Sector Equality Duty.

Section 25 Statement (Section 8)

17. The Corporate Director, Resources is obliged to offer a view of the robustness of estimates used in the Revenue Budget 2024/25 and the associated level of balances/reserves. The Corporate Director, Resources is satisfied that the report meets such a requirement.
18. Members attention is particularly drawn to the following reference from the s151 officer – “While many more councils have issued section 114 notices in the last year, the finances of the Council are sufficiently robust that this is not currently the case in North Yorkshire. That is because the Council has sufficient Reserves and Balances to bridge the deficit of £6.5m in 2024/25 and there are sufficient levels of savings proposals to significantly reduce the current in-year deficit budget. The significant savings proposals set out in this report, however, need to be delivered fully. In addition, the additional time “bought” by the use of Reserves and Balances in 2024/25 needs to be seen as a further valuable investment that assists in the formulation of a detailed Transformation savings programme that seeks to eliminate any in-year deficit by the end of the MTFS. The Council, its Members and officers therefore should again carefully consider this Section 25 opinion and guard against complacency and the risk of a section 114 notice in the foreseeable future.”

Risk (Section 9)

19. An assessment of the key financial risks to the County Council has been carried out noting that the current environment is highly uncertain including an impending general election.

Environmental Implications (Section 10)

20. Section 10 sets out the various initiatives and key budgets which impact upon the environment including the Council's ambition to be carbon neutral in its operational activities by 2030.

CAPITAL PLAN

21. The Council's Capital Plan to 2026/27 is put forward for approval (paragraph 3.3 and Appendices A-D). The Council is currently planning to invest

£274.8m on capital schemes across the County in 2024/25 and £528.2m, in total, over the 4 year capital plan period from 2024/25 (**paragraph 3.3**).

22. The latest Capital Board positions are provided at Appendices A-D with detailed programme updates at **paragraphs 4.4 to 4.7**.
23. Financing of the Capital Plan is set out in **paragraph 7.1**, with the majority from grants and contributions.

TREASURY MANAGEMENT

24. The Annual Treasury Management Strategy for 2024/25 (**Annex 1 Section 1**) sets out the requirements for the overall Treasury, Borrowing, Investment and Capital Policies. It includes: the Capital Prudential Indicators (**Annex 1 Section 2**); Borrowing Strategy (**Annex 1 Section 3**); Annual Investment Strategy (**Annex 1 Section 4**) and associated the Treasury Management Strategy Appendices (**A – F**) which are put forward for approval in line with Code of Practice requirements.
25. The Capital Strategy is included at **Annex 2** of the report.
26. The key elements of the Treasury Management Strategy include the key limits relating to borrowing:
 - (a) an authorised limit (maximum amount that can be borrowed) for external debt of £660.9m in 2024/25;
 - (b) an operational boundary (the most likely level) for external debt of £633.3m in 2024/25.
27. The Prudential Indicators have been revised and updated in line with the latest CIPFA Code of Practice. The Minimum Revenue Provision (MRP) Policy Statement is also included.

HOUSING REVENUE ACCOUNT BUDGET

28. The Housing Revenue Account Budget 2024/25 and Medium-Term Financial Plan makes recommendation to the Council regarding the Housing Revenue Account Budget (HRA), HRA Medium-term Financial plan for 2025/26 to 2026/27 and 30-year HRA Business Plan, and makes recommendation to agree rent increases for 2024/25
29. This budget proposal incorporates a refreshed view of the investment requirements of the HRA to ensure the Housing service has capacity to meet up and coming regulatory challenges, properties are well maintained, and resources can be earmarked for financially sustainable investment in new

stock. This is supported by an independent financial review from Savills Affordable Housing Consultancy and the addition of financial performance metrics.

30. Key risks within the plan are identified in relation to inflationary budget pressures, in addition to issues more specific to the HRA around ensuring the service is ready for upcoming regulatory standards, but also ensuring we have 100% stock condition survey coverage to make sure our homes are meeting decent standards. As such £2m revenue budget capacity has been added into the plan from 2024/25. This is reduced by £0.5m in 2026/27 as efficiencies are expected to be realised through service transformation and proactive stock management reducing demand for responsive repairs.
31. In addition to revenue investment in service delivery, the business plan incorporates plans to invest in growth, 500 additional properties within the first 5 years of the plan, an investment of £110m. This is in addition to replacing properties sold through Right-to-buy on a 1-1 basis estimated at 24 per year. For modelling and budget estimates, the proposed funding mix will be 65% borrowing and 35% Capital Receipts or Grants. Major repairs / stock improvement works have been estimated using benchmark figures, resulting in a capital contribution per year of £14.5m, which is increased each year in line with inflation. A detailed capital programme will be developed and reported through Capital board.
32. Current Government Policy allows rents to be increased by Consumer Price Index (CPI) + 1%, which for 2024/25 results in an uplift of 7.7%, however beyond 2024/25 rent policy has not yet been announced, which could and historically has been set below CPI. It is therefore recommended to uplift HRA rents by 7.7%, except for a small number of shared ownership properties which are capped at 2% within their lease terms.
33. The proposed budget for 2024/25 results in an in-year surplus of £1.307m, which will transfer to HRA Working Balance. Estimated surpluses grow over the life of the 30-year business plan and consequently so does the Working Balance. Alongside this, as investment in stock grows through right to buy replacement and 500 new homes, HRA debt also grows. Performance measures at Appendix C of the report illustrate that the business plan is financially sustainable.

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