

NORTH YORKSHIRE COUNCIL

EXECUTIVE

21 January 2025

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

EXECUTIVE SUMMARY

REVENUE BUDGET FOR 2025/26 & MEDIUM TERM FINANCIAL STRATEGY 2026/27 TO 2027/28

REVENUE BUDGET

Context (Section 2)

1. This is the third Budget for North Yorkshire Council (NYC). Some of the key financial issues that are emerging include performance and capacity issues in some key frontline services; a backlog of investment needs; and an even higher level of demand for people related services. This report sets out the financial issues and risks for the Council and makes recommendations to the Council regarding the:
 - a. Revenue Budget for 2025/26; and
 - b. Medium Term Financial Strategy (MTFS) for 2026/27 to 2027/28; and
 - c. Council Tax for 2025/26.
2. This Budget is also in the context of a new national government. It is clear already that there has been a significant change in approach from central government as rural grant funding has ceased at a cost of £14.3m per annum. The future reforms to local government funding and next Spending Review also represent risks to NYC's current funding allocations.
3. This Budget / MTFS yet again provides a very significant set of new savings proposals (totalling £40.3m over the next 3 years). Despite these savings, the Budget for 2025/26 still requires a contribution from Reserves of £4.9m and this increases further to £34.4m by 2027/28. Over the period there would be a need to use £57.2m of Reserves if no new savings were brought forward.
4. The new savings proposals in this Budget are largely derived from the structural opportunities delivered by unitarization. Unitarization will again

deliver further savings opportunities through deploying a single operating model; a single customer strategy; using data and digital capability; and looking to be more efficient and best in class in all service areas. These opportunities involve greater complexity and will therefore take some time to be achieved - next year's Budget / MTFs will be more propositional about these areas of LGR-inspired Transformation. It is likely, however, that there will be a need to consider other areas too in order to address the deficit.

Medium Term Financial Strategy (Section 3)

5. Service pressures are already being felt in many demand led areas including SEND; adult social care; children's placements; and home to school transport services. In addition, inflation is still high for the Council's areas of spend and the market in adult and children's services is subject to some particularly high prices from some operators. This Budget / MTFs therefore make provision for growth in a number of these service areas.

Corporate Financial Issues (Section 4)

Provisional Local Government Finance Settlement

6. The 2025/26 Provisional Local Government Finance Settlement was very disappointing for the Council. Some of the headlines of the announcement for NYC included:
 - ability to raise basic Council Tax by up to 2.99% in 2025/26 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 3.47% (against an all England average increase of 6.0%). This is on the assumption that the Council will increase council tax up to the referendum limit (4.99%)
 - Rural Services Delivery Grant – grant ceased at a loss of £14.3m per annum
 - A new Children's Social Care Prevention Grant has been introduced for 2025/26 and the provisional allocation for North Yorkshire is £1.1m.
 - In recent years the settlement has included a Funding Guarantee Grant to ensure that no council received less than a 4% increase in their core spending power. For 2025/26 this guarantee has been reduced to 0% (i.e. cash flat) which means that, despite the significant loss of rural services delivery grant, this was more than offset in cash terms by the assumed increase in council tax so the council is not eligible for this funding
 - A grant of £15.7m is expected in 2025/26 for Extended Producer Responsibility – payments from producers of packaging and waste etc. In

future years the totals will be dependent on activity, but income will decline over time and there are expenditure requirements so a recurring benefit of £2.3m per annum is estimated by 2029/30.

Council Tax

7. The report sets out a proposed increase of 4.99% in Council Tax in 2025/26 (including the 2% ASC precept). This raises the average Band D council tax by £92.18 per annum (or £7.69 per month) and results in an overall average Band D level of £1,939.54 in 2025/26.

Fees and Charges

8. The Council's fees and charges policy has been applied assuming 3.2% inflation levels.

Reserves & Balances

9. It is proposed that the policy target for the minimum level of the General Working Balance remains at 5% of the net revenue budget (previously it was at 10%). This equates to £32m for 2025/26.
10. At 1 April 2025 the Council is forecasting to hold £180.8m in a Strategic Capacity Reserve. After providing for the predicted accumulated deficit and other commitments this reduces to £66.4m by then end of the proposed MTFS.

Savings

11. Gross savings proposals of £34.3m are proposed for 2025/26 rising to £63.2m by 2027/28, leaving a recurring budget shortfall of £34.4m. Further opportunities to deliver savings are set out in Section 4.7 noting that unitarization savings are now becoming more complex and therefore harder to realise.

Investments

12. New investments included in the proposed budget are: HAS Care and Support Hubs – development of 5 new hubs to be funded by revenue reserve and featured in the Capital Plan; and Property Maintenance – a one-off £5m to deal with some immediate maintenance backlog issues following a better understanding of the scale of the residual issues from the eight predecessor councils.

Revenue Budget Position in 2025/26 (Section 5)

13. The proposed net revenue budget for 2025/26 is £640,918k.

Consultation (Section 6)

14. 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)

15. 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)

16. The Corporate Director, Resources is obliged to offer a view of the robustness of estimates used in the Revenue Budget 2025/26 and the associated level of balances/reserves. The Corporate Director, Resources is satisfied that the report meets such a requirement.
17. 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 few years, 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 £4.9m in 2025/26 and there are sufficient levels of savings proposals to significantly reduce the current deficit budget. The significant savings proposals set out in this report, however, need to be delivered. In addition, further proposals to bridge the MTFS deficit need to be brought forward so that they can be considered in next year's Budget / MTFS. It needs to be recognised that savings become gradually harder to deliver and the local government reorganisation premium will, inevitably, yield proportionately less over the next few years so other more difficult choices may have to be considered."

Risk (Section 9)

18. An assessment of the key financial risks to the Council has been carried out noting that the current environment is highly uncertain including a Local Government Funding Review.

Environmental Implications (Section 10)

19. 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

20. The Council's Capital Plan to 2028/29 is put forward for approval (paragraph 3.3 and Appendices A-D). The Council is currently planning to invest £232.1m on capital schemes across the County in 2024/25 and £939.2m, in total, over the 5 year capital plan period from 2024/25 (**paragraph 3.3**).
21. The latest Capital Board positions are provided at Appendices A-D with detailed programme updates at **paragraphs 4.4 to 4.7**.
22. Financing of the Capital Plan is set out in **paragraph 7.1**, with the majority from grants and contributions.

TREASURY MANAGEMENT

23. The Annual Treasury Management Strategy for 2025/26 (**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 – G**) which are put forward for approval in line with Code of Practice requirements.
24. The Capital Strategy is included at **Annex 2** of the report.
25. 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 £643.7m in 2025/26;
 - (b) an operational boundary (the most likely level) for external debt of £623.7m in 2025/26.

26. 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

27. The Housing Revenue Account Budget 2025/26 and Medium-Term Financial Plan makes recommendation to the Council regarding the Housing Revenue Account (HRA) Budget, HRA Medium-term Financial plan for 2026/27 to 2027/28 and 30-year HRA Business Plan and makes recommendation to agree rent increases for 2025/26.
28. This budget proposal incorporates an updated view of the investment requirements of the HRA to ensure the Housing service has capacity to continue to work on improvement plans in response to the Council receiving a C3 judgement from the Regulator of Social Housing. The proposal also addresses improving the energy efficiency of the stock and working towards meeting a minimum standard of Energy Performance Certificate-C (EPC-C) by 2030 (**paragraphs 3.1 to 3.3**).
29. Key risks within the plan are identified in relation to inflation; regulatory improvement works; potential changes to government policy following consultations on rent setting and Right to Buy; and the impact of attracting up to £34.3m of grant funding to support energy efficiency measures (**Section 11**).
30. The Business Plan continues with the intent to invest in the growth of 500 additional properties within the first 5 years of the plan, an investment of £110m by 2028/29. The proposed funding mix is 65% borrowing and 35% Capital Receipts or Grants. Major repairs / stock improvement works have been estimated resulting in a capital contribution per year of £16.5m, along with one-off funding of £3m for civils works to estates (**paragraph 5.1.1**).
31. Current Government Policy allows rents to be increased by Consumer Price Index (CPI) + 1%, which results in an uplift of 2.7% for 2025/26. Rent policy has not yet been confirmed beyond 2025/26 and a consultation is currently underway. It is expected that there will be a 5-year policy of CPI+1%, which forms the basis of the HRA budget assumptions, however within the budget report a scenario presenting CPI only increases has been incorporated to show the impact of setting lower rent increases. Given the lack of long term certainty, and the necessity to maximise income to support investment plans, the maximum allowable rent increase of CPI+1% , 2.7% is recommended for 2025/26. The HRA stock also holds a small number of shared ownership properties, for which a 2% uplift is recommended, in line with leases for those properties (**Section 7**).
32. The proposed Budget for 2025/26 results in an in-year deficit of £3.901m, which will be met from a transfer from the HRA Working Balance. As a result

of increased investment plans to support energy efficient measure, deficits are forecast until 2030/31, when annual surpluses are forecast for the duration of the business plan (**Table 1 paragraph 6.3**). Performance measures at **Appendix A** of the report illustrate the long term sustainability of the Business Plan.

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