Leeds CITY COUNCIL

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Report of the Deputy Chief Executive

Report to Executive Board

Date: 15th October 2014

Subject: Medium Term Financial Strategy 2015/16 to 2016/17

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No
Is the decision eligible for Call-In?	☒ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ No

Summary of main issues

1. The purpose of this report is to update Members on the development of the Council's Medium Term Financial Strategy which is designed to deliver the Council's 'Best Council' ambition in the context of the Government's spending plans.

2. The Council to date has been successful in responding to the challenging reductions to its funding since 2010 which has been in the region of £129m over the past 4 years. The indicative settlement for 2015/16 has already been announced as part of the 2014/15 Local Government Finance Settlement and an assumption has been made for 2016/17 based on provisional national totals for Departmental Expenditure Limits. Based on this information, the Council now anticipates that there will be a further reduction in funding from Government of around £70m for core services over the two years 2015/16 and 2016/17. This reduction in funding is in addition to the need to meet the cost of inflation and continuing spending demands across a range of services.

3. The Medium Term Financial Strategy does not attempt to provide a detailed budget for the next two years but it does set out the main financial issues facing the Council and sets out a broad framework for the delivery of efficiencies and savings to bridge the identified funding gap of £72m. Initial budget proposals for 2015/16 will be brought to the December 2014 meeting of the Board.

Recommendation

4. Members are asked to approve the Medium Term Financial Strategy 2015/16 - 2016/17 and agree that the assumptions and principles outlined in this report will be used as a basis for the detailed preparation of the Initial Budget Proposals for 2015/16.

1. Purpose of report

1.1 This report sets out for the Board the principles and assumptions underlying the proposed financial strategy covering the years 2015/16 to 2016/17. This will provide the framework for the preparation of the 2015/16 initial budget proposals which will be presented to Members in December 2014.

2. Background information

2.1 The 2014/15 financial year represents the fourth and final year of the period covered by the Government's 2010 Comprehensive Spending Review. In this period the Council has faced very significant reductions in its funding from Government, whilst at the same time facing continued growth in the demand for many of its services and increases in costs.

2.2 In the light of further Government spending reductions for 2015/16, and with an expectation that there will be further reductions beyond, it is important that the Council has a robust financial strategy in place to cover the next two years.

3. Developing the Council's Financial Strategy - Looking Back 2010/11-2014/15

3.1 The Comprehensive Spending Review 2010 set out the Government's plans to eliminate the structural deficit by the end of the current parliament. This presented a significant financial challenge to the Council which was without precedent in recent times. In this period funding from Central Government has reduced by £129m, and taking further account of the increase in costs due to inflation, demand and reductions in income due to the economic climate, this has meant the Council has had to respond through the following measures:

- Staff reductions of over 2000 FTEs by the end of 2014/15, spending almost £50m less on employees
- Savings of circa £30m through better procurement and demand management
- Increased income of £21m
- Increased income from Council Tax growth of £17.8m
- Generated £6.7m growth from Business Rates
- Reduced building maintenance by £1m
- Reviewing grants to the third sector including 15% reduction in grants to major arts
- New Homes Bonus which will earn £15m in 2014/15
- Closure of 7 residential homes, 12 day centres, 14 libraries, 2 sports centres, 2 community centres, 1 one stop centre and 3 hostels
- Reduced office accommodation space by almost 250,000 square feet
- Maintaining a significant Capital programme without increasing debt costs

3.2 The Council's approach to managing funding reductions has been successful to date to the extent that challenging savings and reductions have been delivered whilst continuing to prioritise care for vulnerable adults and children. The proportion of the Council's spend on Children's Services and Adult Social Care has increased from 48.5% in 2010/11 to 57.1% in 2014/15.

3.3 In addition, despite some significant individual variations within the budget the Council has consistently achieved an underspend in each of the financial years 2010-2014. This has enabled the Council to use General Fund reserves each year in a planned way to deal with the timescales associated with change.

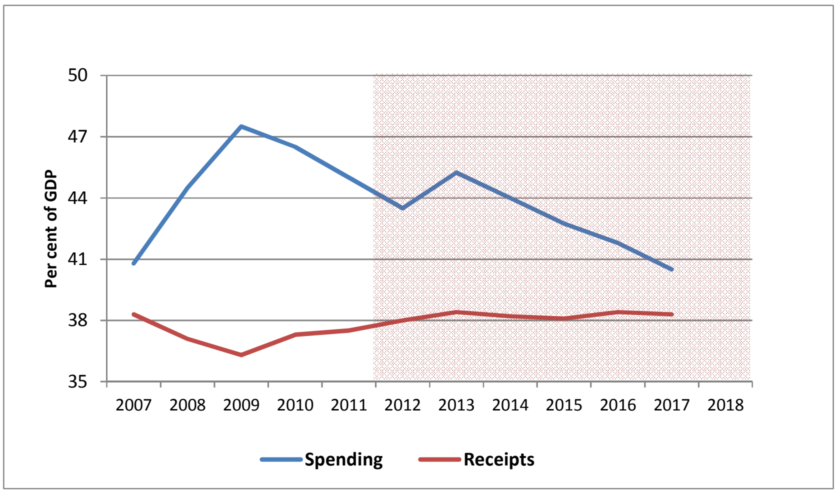
4 Local Government Funding – the National Context

4.1 The Chancellor of the Exchequer announced the 2013 Spending Review on 26th June 2013. The Spending Review set out the Government's spending plans for central government departments, the NHS and local government for 2014/15 and 2015/16.

4.2 The Spending Review outlined how the Government will continue to reduce the deficit in the public finances by taking difficult decisions to reduce public spending and prioritising investment in infrastructure to deliver a stronger economy. Chart 1 below tracks the annual deficit position with forecast receipts and spending.

Chart 1

Government Receipts and Spending



Source: Office for Budget Responsibility

4.3 The Spending Review in 2013 confirmed that the Government's initial 4 year deficit reduction plan would continue for a further 3 years to 2017/18 and that the scale of reductions in overall Government spending would be similar to those seen from 2010.

4.4 The Spending Review set out the Government's plans to reduce overall public spending by £11.5 billion in 2015/16, with the following measures specifically impacting upon Local Government:

- Funding for schools, the NHS and Overseas Development will continue to be protected;
- Funding reductions for unprotected departmental budgets averaged 5.6%;
- The reduction in the Settlement Funding Assessment for local government for 2015/16 would be 10.0% in real-terms;
- Councils that choose to freeze their council taxes will receive a grant equivalent to a 1% increase for both 2014/15 and 2015/16;

- Councils that choose to increase their council taxes will be subject to a 2.0% referendum in 2014/15. The referendum principles for 2015/16 are unlikely to be confirmed until January 2015.
- £3.8 billion to be provided in the form of the Better Care Fund to support the joint commissioning of health and social care
- Spending for major infrastructure projects is to be increased by £3 billion a year from 2015/16;
- The Government proposes to top-slice £400m of New Homes Bonus in 2015/16 which would have been given to local authorities, and instead the funding will be pooled and provided to Local Enterprise Partnerships areas (LEPs) to support strategic housing and other economic growth priorities.
- The Government stated that after taking account of these measures, including funding for Better Care spending across local government would reduce by just 2.3% on average in 2015/16;

4.5 Following the Autumn Statement in December 2013, the proposal to partly fund the Local Growth Fund through a £400m top slice of New Homes Bonus was withdrawn and the statement confirmed that the £3.8bn health funding, known as the Better Care Fund, will continue beyond 2015/16 to ensure that pooled funding is "an enduring part of the health and social care system".

4.6 The Local Government finance settlement announced on the 18th December 2013 not only provided a provisional settlement for 2014/15, but also an indicative settlement for 2015/16. For Leeds the indicative settlement for 2015/16 is a cash reduction of 14.7%, compared to the national average reduction of 13.1%. Over the summer of 2014, the government conducted a technical consultation on aspects of the 2015/16 settlement but, in contrast to the previous year's technical consultation, the 2014 exercise has not revealed any further cuts in funding, but has confirmed the 14.7% reduction for the Council.

4.7 Over the lifetime of this Parliament, local government core funding nationally will have fallen by about 43% in real terms. As yet Departmental Expenditure Limits have not been set beyond 2015/16 which makes financial planning beyond 2015/16 problematic although the direction of travel is clear. The Economic and Fiscal Outlook, published by the Office for Budget Responsibility alongside the budget in March 2014, did include tentative projections for public sector expenditure as a whole, which if applied to local government would suggest funding cuts averaging 8.8% for 2016/17 and the years beyond, and it is this percentage that has been used for initial financial planning for 2016/17 as outlined later in this report. More robust estimates are unlikely to be available until after the 2015 General Election.

5. Health Funding, Integration, the Better Care Fund and Care Act

5.1 2015/16 will see important changes to the delivery and funding of Adult Social Care and integration with health. The Better Care Fund (BCF) combines £3.8bn nationally aimed at transforming health and social care services. This funding does not provide any new money across the health and social care sector, but it combines it into a pooled fund that will operate from 1st April 2015. The planned BCF for Leeds in 2015/16 totals £55m. The Department of Health requirements for the BCF include ensuring the financial sustainability of social care services and across health partners in Leeds this is being equated to funding demography and the additional requirements of the Care Act, although a proportion of the funding is effectively ring-fenced to support the acute sector.

5.2 The focus of Adult Social Care and partner agencies is on maximising the effectiveness of the “Leeds £”, delivering a more cost effective health and social care economy that better meets the needs of the city’s residents. This will require a flow of funding over time out of the acute hospitals and into community based services provided by the NHS and by the Council.

5.3 To facilitate an early start on the transformation of the health and social care system in Leeds, an earmarked reserve of £5m was created at the end of 2013/14. Together with provision of £2.8m within the 2014/15 Adult Social Care revenue budget, £7.8m will be available in 2014/15 to provide pump-priming investment so that savings to be delivered through the BCF can be released as early as possible.

5.4 In addition, the changes will be supported by the £25m capital fund approved at Executive Board in September 2014 to support the BCF schemes and other schemes which have the potential to generate revenue savings for the Council and its partners. Delivering the changes will be a significant challenge and although savings will be delivered in the medium term it will not necessarily be within the 2015/16 to 201/17 financial strategy period.

5.5 The Care Act received Royal Assent in May 2014 and it has wide ranging implications for adult social care services some of which take effect in April 2015 and the remainder in April 2016. There are significant financial risks associated with the delivery of the Care Act and the likely costs are currently very difficult to identify with reasonable accuracy. The Government has committed to fully funding the additional costs, but there can be no guarantees that this will be genuine new money.

6. Developing the Council’s Financial Strategy – Looking Forward 2015/16-2016/17

6.1 The strategic context for Leeds continues to be informed by the Commission for the Future of Local Government, published in 2012. In a nutshell, this reported that the municipalist model needed to be replaced by recreating the spirit of the civic entrepreneurs who started local government. Civic enterprise is where local government becomes more enterprising, businesses become more civic and citizens become more engaged.

6.2 It set out the following key roles for councils:

- Councils should stimulate good economic growth, jobs and homes, so that increased council tax and business rates could make up for the cuts in central government support and make local government more self-sufficient: smaller in size but bigger in influence.
- Councils should work to develop a new social contract between the citizen and the local state whereby public services are provided differently, and co-designed with people.
- Councils should enable the infrastructure and utilities of the smart cities and towns of the 21st Century, such as superfast broadband, low carbon and social networks.

6.3 The Commission also asked about solving the “English Question”, and made suggestions about how the unfinished business of UK devolution should be addressed by transferring powers and resources to local government via Combined Authorities. In light of the recent Scottish Referendum this is very topical and could lead to significant changes in the way council’s funding and accountability operates.

6.4 As the council becomes smaller and operates differently, it will create new partnerships, teams and different arrangements for delivering support services. The Best Council plan sets the ambition and objectives, and is available in background documents. To help achieve these ambitions, the council will focus on seven breakthrough projects, as listed below. Key features of these will be: an Outcome Based Accountability (OBA) approach, integrated teams, including partners and support, strong project management discipline, digital by default, and clear political sponsorship. The projects are:

- Hosting world class events on a global stage as a smart city
- Housing growth, and jobs for young people
- Putting children and families first: tackling domestic violence
- Making Leeds the best place to grow old
- Reshaping health and social care
- Reducing fuel bills and setting a revised 2050 carbon target
- Rethinking the city centre

6.5 The MTFS does not attempt to provide a detailed budget for the next two years, but is designed to set out the main financial issues facing the Council and to identify and target areas for the delivery of efficiencies and savings. A summary of the budget gap is shown at Appendix 1, and the key assumptions are as follows:

6.6 Funding Envelope

6.6.1 The indicative settlement for 2015/16 as announced in the 2014/15 Local Government Finance Settlement shows a funding reduction for Leeds of £46m, or 14.7% from 2014/15. Whilst the government has not announced any indicative figures for 2016/17, an assumption has been made for 2016/17 based on provisional national totals for Departmental Expenditure Limits (DEL). This indicates a reduction of 8.8% or £23.4m in core support from Government, as shown in the table below:

Table 1

	2014/15 £m	2015/16 £m	2016/17 £m
Settlement Funding Assessment	**313.421**	**267.396**	**243.996**
Reduction (£m)		-46.025	-23.400
Reduction (%)		-14.7%	-8.8%

6.6.2 The forecast grant reduction for 2016/17 needs to be treated with a fair degree of caution, as the impact of national reductions upon the City Council will not only be affected by any variations in reductions between Government departments, but also any variations between local authorities through the Settlement Funding Assessment mechanism. A variation of 1% in this assumption is equivalent to Government grant of £2.7m.

6.6.3 In addition to the Better Care Funding, the 2014 Finance settlement provided New Burdens funding, nationally of £285m to be made available to Councils from 2015/16 for the implementation of the Care Act from April 2015. In the indicative settlement for 2015/16 this funding is shown for Leeds as £3.931m. However, a recent government consultation on the allocation of this new funding suggests a lower figure for Leeds of around £3.2m, although this is still to be confirmed. In addition, it is assumed that an additional £2.0m will be transferred from the CCGs to the Better Care Fund (part of the £55m Better Care Fund) which will be available to meet these new burdens. Other than the £5.2m rolling forward, no costs or funding are currently assumed for the Care Act for 2016/17 as no funding figures have been announced nationally and much more work is needed on spending projections, although clearly this represents an area of some risk.

6.6.4 The core allocation for Leeds in respect of the 2015/16 Public Health grant remains unchanged from the 2014/15 allocation at £40.54m. However, from 1st October 2015, the Government intends that local authorities take over responsibility from NHS England for commissioning public health services for children aged 0-5. The transfer of funding will be handled separately to the core allocations. From 2016/17 onwards, the 0-5 baseline will be added to existing local government public health grant allocations to form an overall public health grant allocation.

6.6.5 In general, the strategy assumes that all variations in specific grants will be matched by reductions in related spending, although this will be subject to review as announcements are made and implications fully understood.

6.6.6 The MTFS requires that the Council delivers its Core Housing Strategy and assumes an additional 3,600 properties per annum, either being new or brought back into use. The effect of these additional properties is to increase the Council tax base resulting in forecast additional Council Tax raised of £4.1m in 2015/16 and £4.2m in 2016/17. In addition to increasing the Council Tax base, the Council receives additional funding provided by the Government in the form of New Homes Bonus which is paid for 6 years. The plan assumes additional new homes bonus of £5.0m in 2015/16 and £2.7m in 2016/17 which for 2016/17 takes account of the fallout of new Homes Bonus from 2010/11. The target of delivering an additional 3,600 homes per annum is ambitious and challenging. In order to drive forward the delivery of this priority, the Council, with a team Leeds approach has pulled together a dedicated multi-disciplinary team, and whilst most of the cost of the team has been met from the realignment of existing resources and from a contribution from the HRA, additional costs of £144k are netted off the income targets for 2015/16 and 2016/17.

6.6.7 Unlike the previous regime, the Council under the Business Rates Retention scheme shares in any growth in business rates over and above the government's set baseline. Although the business rates baseline will increase year on year, it is forecast that there will be a 2% real terms growth in business rates which will generate an additional £3.0m in 2015/16 and £3.2m in 2016/17 net of the levy which will support the city region.

6.6.8 The 2014/15 budget was supported by a 1.99% increase in the level of Council Tax and remains the 2nd lowest of the Core Cities and mid point of the West Yorkshire districts.

Core Cities	Band D £
Nottingham	1,675.83
Bristol	1,628.53
Liverpool	1,584.22
Newcastle	1,514.19
Sheffield	1,493.12
Manchester	1,382.21
Leeds	**1,341.49**
Birmingham	1,294.16

WY Districts	Band D £
Calderdale	1,447.03
Kirklees	1,438.51
Leeds	**1,341.49**
Wakefield	1,334.37
Bradford	1,329.57

6.6.9 The Government has provided funding for the on-going effect of previous Council Tax freezes up to 2015/16. The Council accepted the Council Tax freeze grant for the years 2011/12 to 2013/14, and government funding of £9.428m is built into the Council's 2014/15 and 2015/16 settlements (the grant for freezing Council Tax in 2012/13 was for one year only). It is assumed that this funding will continue into 2016/17, but there is no certainty as to this.

6.6.10 At this stage the plan makes no assumption as to any increase in the level of Council Tax for either 2015/16 or 2016/17. A 1% increase would generate additional income of £2.4m in 2015/16 and £2.5m in 2016/17. Any increase will be subject to the Government's referendum limit, which for 2014/15 was set at 2%. The Government has not announced a referendum limit for either 2015/16 or 2016/17, but it is expected to be broadly in line with inflation.

The Government has announced that funding will be provided for those authorities who choose to freeze their Council Taxes for 2015/16, equivalent to an annual increase of 1%, or £2.9m (which is higher than the £2.4m referred to above due to the way the government calculates the grant).

6.7 Changes in Costs

6.7.1 The financial strategy needs to recognise that the Council will face unavoidable cost increases. Although not intended to be exhaustive, some of the main pressures are reviewed below:

- Limited provision for inflation totalling £8.2m in 2015/16 and an additional £9.5m in 2016/17 has been made, most significantly for a 1% pay award in each year. A 1% variation on the pay award is equivalent to £4m. Apart from contractual increases it has been assumed that most other budget headings will be cash limited.

- An increase in debt costs of £2m in 2015/16 and £4.9m in 2016/17 is provided reflecting on-going capital programme commitments and anticipated changes in interest rates. The following table shows the current costs of funding the Councils borrowing requirement as a result of its current capital programme. The gross total capital programme is over £1bn and seeks to deliver investment in line with the Council's plans and objectives. The level of the capital programme will continue to be reviewed to ensure that it is deliverable and that it continues to be relevant. The forecast debt costs reflect the costs of financing both present and future borrowing in line with assumed borrowing costs. These assumed borrowing costs will be kept under review and adjusted for the latest market estimates.

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
External Interest Payable	31.900	32.725	35.356	39.937
Debt Repayment	42.479	43.874	46.058	48.094
Interest Earned	(0.157)	(0.141)	(0.120)	(0.120)
Other Income	(0.742)	(0.976)	(0.961)	(0.961)
Total Debt Budget	**73.480**	**75.481**	**80.333**	**86.949**
Annual Increase		2.002	4.852	6.616

Borrowing Requirement (£m)	115.3	98.4	96.9	101.7
Interest Rate Assumptions (%)	0.5%	1.00%	2.00%	3.00%

The Council's approved treasury strategy is to meet its funding requirements from the strength of its balance sheet and short term borrowing. The risk of defraying long-term borrowing introduces interest rate risk which is considered manageable given that the Councils debt portfolio has an average maturity of over 36 years (or 20 years if all options on debt are exercised at the next date). The interest rate risk will be kept under review and will determine the point at which longer term funding is acquired.

- Full year effects of previous decisions amount to a saving of £2.4m in 2015/16 and £0.2m in 2016/17. Of this, £3m relates to savings through changes in employee terms and conditions in respect of pay protection and travel arrangements; £0.2m from the closure of Middleton Park and Gotts Park Golf courses; and £0.3m (and a further £0.2m in 2016/17) from the next phase of the transactional web services project delivering key customer services improvements across the Council. These savings are partly offset by costs in respect of car park closures; Children's transport and lower than anticipated customer numbers following the introduction of charges for equipment services in Adults.

- £1m has been provided for the first year repayment of the £4m school balances borrowed in 2013/14.

- The strategy provides for an increase in the contribution to the West Yorkshire Transport Fund from £5.4m in 14/15 to £11.4m over 10 years, an increase of £600k p.a. The Leeds share based on population figures is around £200k p.a.

- The Local Welfare Support funding ('Social Fund') is ceasing in 2015/16. Although it is likely that the Council will continue to provide for a smaller scheme, it is unlikely that this will be sufficient to fund emergency payments in Children's Services of £0.5m currently funded through the scheme.

- The strategy assumes that Better Care Funding is available to at least fund additional demand and demographic pressures and the fall out of health funding, in total £10.6m in 2015/16 and a further £5m in 2016/17.

- Children's Services Grants including Education Support: There will be a continued fall in the Education Support Grant due in the main to a £200m national reduction in the grant which will have an estimated impact of around £2.3m for Leeds. In addition there are likely to be further reductions in specific grant funding, e.g. Adoption Reform Grant and the Special Educational Needs and Disabilities implementation grant. The strategy assumes that the relevant services deal with these reductions through either reducing in size or increasing the value of traded services.

- Employer's National Insurance increase: Employer's NI is due to increase in 2016/17 as announced in the Chancellor's Autumn Statement in 2013. The cost of this in 2016/17 would amount to £7.5m. The Chancellor has previously indicated that public sector funding would be compensated for this increase and this strategy assumes that to be the case with no provision made, although at this stage there is no clarity as to how this will be done.

6.7.2 The 2014/15 budget is supported by £3.5m of general fund reserves. This strategy assumes this increases to £5.5m for 2015/16, which as detailed below in table 2 would leave the Council with reserves of just £16.4m going into 2016/17. Whilst the reserves position will be subject to review as part of the annual budget process and any update to this plan, for planning purposes reducing reserves further in 2016/17 is not recommended.

Table 2

General Fund Reserves	2014/15 £m	2015/16 £m
Opening Balance 1st April	26.0	21.9
Budgeted usage	-3.5	-5.5
Superannuation saving	1.4	
Transfer to ELI reserve	-2.0	
Closing Balance 31st March	**21.9**	**16.4**

6.7.3 Taking account of the above, it is forecast that the Council will need to generate savings of £44.1m by 2015/16 and a further £27.9m in 2016/17 as summarised in Appendix 1.

7.0 Bridging the Gap

7.1 Members will recall that the 2014/15 Budget was developed in the context of the Best Council objectives which would deliver the Best Council ambition as well as significant savings over the medium term. It is anticipated that further savings will be achieved through the continued delivery of these objectives over the medium term. These are:-

- **Best Council Objective: dealing effectively with the city's waste.** At March 2014, the alternate week collection of residual and recyclable waste (AWC) had been rolled out to approx. 50% of households in the City. By the end of March 2015 when the rollout of AWC is expected to be completed, an estimated 80% of households in the City will be in receipt of the new recycling service. This service is helping to boost the City's recycling performance and last year 2013/14 the recycling rate of 43.7% was the City's best ever performance. The recycling target for 2014/15 is 46% with a long term aspiration to recycle in excess of 60% of its household waste.

Work continues on the construction of the Recycling and Energy Recovery facility (RERF) in Cross Green. During 2015/16 the facility will start to receive City Council waste for commissioning, with full service commencement currently scheduled for July 2016. At this time it is expected the cost of sending kerbside residual waste to this facility will be over £6m p.a. cheaper than the anticipated cost of landfilling the same waste.

- **Best Council Objective: building a child friendly city.** Leeds aspires to be the Best City for children & young people, a Child-friendly city that safeguards and promotes the well-being of children and young people from across the city. The Council is committed to taking a long term strategic approach to managing increasing demand for services caused by a range of socio-economic factors and demographic changes. By maintaining investment in preventative services and working with families restoratively (under a new "social contract"), the aim is to help more families help themselves and reduce the need for statutory intervention.

  Performance in relation to Children Looked After continues to improve significantly and at the end of August 2014 the number of Leeds Children looked after (CLA) now stands at 1,275, down by 5% from the position at the start of the financial year (1,340). The Council is therefore still on track to deliver its overall Best Council Objective for CLA of 1,220 by the 31st March 2015 and also remains on course to deliver its medium term objective of circa 1,000 CLA by March 2017.

  The Family Group Conferencing (FGC) Service remains a key part of the preventative strategy within Children's Services, reaching over 100 families (circa 200 vulnerable children) in the first quarter of the financial year. Early indications are that the service has helped around two thirds (130) of these children to remain within their family network. The impact of the service is borne out in the number of new entries to care for the first quarter (57) which is down 48 (46%) from the same period last year (105).

  The overall mix of care settings that children are placed in is one of the main factors in determining cost and externally commissioned placements (independent fostering and external residential placements) are generally more expensive. At the end of the August 2014, 295 children are placed in external placements. This is 46 more than assumed within the 14/15 Budget.

  The Directorate recognises the importance of delivering its Best Council Objective assumptions and therefore continues to focus on delivering move-on plans for children and young people in external placements, promoting Special Guardianships for children placed in long term foster care and implementing services to support those vulnerable families who are at risk of statutory intervention.

- **Delivery of the Better Lives programme**. The Better Lives service transformation programme aims to enhance the range, amount and quality of adult social care services available through delivering efficiencies within existing services. These efficiencies have included a reduction in the level of directly provided services where independent sector provision is more cost effective.

  Staffing reductions from directly provided services have been achieved through a combination of early leavers and flexible deployment of staff. Work continues to be progressed in increasing the productivity within the Reablement Service and the Physical Impairment service has reconfigured service delivery to achieve budgeted savings.

  There was a positive outcome to the formal staff consultation to develop a Social Enterprise to deliver the Learning Disability Community Support Service and therefore further work is being undertaken to establish the Social Enterprise.

  In addition, a dedicated team is currently working on transport policies, reviewing cases and determining options for alternative provision.

  Going forward, the newly developed Assisted Living Leeds will facilitate earlier intervention and deployment of equipment, which will reduce the level and timing of home care requirement. Further savings area also expected from the Physical Impairment review.

- **Best Council Objective: promote sustainable and inclusive economic growth.** As detailed in paragraph 6.6.6, through stimulating sustainable economic growth (including housing growth and regeneration) significant additional income can be generated through the new homes bonus, council tax, business rates and the community infrastructure levy.

  Since the start of the New Homes Bonus Scheme in 2010/11 to the end of 2013/14 the Council has earned £10.8m by building new homes or bringing homes back into use. This equates to over 7,000 Band D equivalent properties. The Strategy assumes a further 3,600 per annum.

- **Becoming an efficient and enterprising council** through a number of cross cutting reviews:

  § **Business improvement and organisational design**

  Support Services - from 2010/11 to 2012/13 savings of £8.6m were realised from support service budgets. The second phase of savings, commencing 2013/14 has targeted a 30% reduction equating to reducing budgets by a further £9m p.a. by 2016/17. In 2013/14 savings of £2m were achieved and the same level is built into 2014/15 budgets, which the Council is on target to realise. Services have undergone re-design and are now in the process of implementing new and revised ways of working in order to generate further savings of £2.5m in 2015/16 and another £2m in 2015/16.

Better Business Management - the 2014/15 budget includes assumed savings of £3.2m in respect of ‘Better Business Management’. The target was allocated across services based on the number of fte’s deployed within the 4 areas under review:

- Business administration
- Mail and print
- Intelligence
- Programme and project management

Each of these projects is now in progress although there is a risk that the full budgeted savings will not be realised in 2014/15. Further savings of £2.5m are to be delivered in 2015/16 and £2m in 2016/17 reflecting the phased outcomes of these reviews.

§ **Asset Base –** a programme of asset review and rationalisation is underway which will deliver significant running cost savings across the Council’s asset portfolio. Phase 1 of this work has already seen city centre office accommodation reduced from 17 to 8 buildings, with this figure due to fall further following the refurbishment and reoccupation of Merrion House in 2017. Phase 2 work on the review of locality office accommodation and operation property has been completed and identified a potential savings to achieve the Budget Strategy target of £4.5m over the next 2 years. The review has been carried out in partnership with Members, Directorates and localities, with the aim of making more effective and efficient use of the Council’s asset portfolio taking account of factors such as:

  - Premises running costs;
  - Local need and use;
  - Backlog maintenance;
  - Energy efficiency; and
  - Income, or income potential.

  In addition, the One Public Estate programme, of which Leeds is part, is driving the co-location and service integration agenda across the public sector, as well as a joined up, strategic approach to the use of public land to support regeneration, economic and housing growth. In Leeds the current main focus of this work is with health (primarily through the Integrated Health & Social Care Programme), the Police (through the delivery of Community Hubs) and West Yorkshire Fire Service (through proposals to develop a tri-service operational base).

§ **Additional income -** through a combination of increases in fees and charges and the council becoming more entrepreneurial by developing services in new markets, in 2014/15 additional income of £6.6m was generated. An income growth target of £3.5m has been set for the next two years and a review of fees and charges with other like authorities is currently being undertaken to identify areas where the Council either does not charge or where fee levels are low in comparison.

7.2 The delivery of the Best Council Plan savings is essential to meeting the financial challenge going forward. Each of the objectives can only be delivered by adopting a Team Leeds approach across all services and by the integral involvement of partners. They are undoubtedly challenging and in many instances will carry risks, and will require significant work and prioritisation of resources in order for them to be delivered.

7.3 Assuming full delivery of the savings through the delivery of the Best Council objectives, it is anticipated that there will be a significant funding gap remaining in 2015/16 and 2016/17. A comprehensive review of the way services could be delivered across the council is currently being undertaken based on a thematic programme to achieve a balanced position. These options for change have been categorised under the following headings:-

- Efficiencies
- Service reductions
- Integration
- Income generation
- Invest to save
- External delivery
- Demand management
- Commissioning

7.4 Clearly the delivery of these options will present a significant challenge to the Council and its partners, and implementation within the timescales of this strategy will not be without risk and will require some difficult decisions to be made, and will inevitably impact on front line services.

7.5 It is essential that the Council continues to work closely with its partners to ensure the best use of resources available in the city, including:

- Working with health partners to maximise the city's share of the £3.8bn pooled budget for health and social care services, announced in the June Spending Review.
- Securing a share of all available funding streams
- Working with the Local Enterprise Partnership to deliver the economic regeneration agenda.

7.6 Senior officers had already commenced a comprehensive review of Council spend; the intention being to bring forward proposals for a more fundamental review and re-shaping of existing Council spend, to achieve the following:

- the Council will use available resources to best effect/support the Council priorities, and;
- the Council will live within its means for the foreseeable future

8.0 Housing Revenue Account

8.1 The Council House investment strategy focuses upon not only ensuring the long term sustainability of the current housing stock but also to deliver investment in other areas in order to support other city priorities such as older people's housing. In addition resources will focus upon improving the environment of council estates to ensure that they are safe and clean places to live.

8.2 Underpinning the Housing Revenue Account and therefore the delivery of strategic housing priorities is the achievement of the rental income streams which are influenced by the Government's rent setting formula which is fixed for 10 years at Consumer Price Index (CPI) +1% per year from April 2015.

8.3 In addition savings that have been realised from the transfer the housing management function from the ALMOs back to the Council from the 1st October 2013 have been re-invested to resource the delivery of the Council's housing priorities.

8.4 The increase in discount available to tenants to buy their own homes through the Government's Right to Buy legislation has resulted in a substantial increase in the number of sales. Partially offsetting this reduction in the housing stock is the planned £72.8m investment in new homes and the buying up of empty properties. All new build properties will comply with the Leeds standard which will contribute towards tackling fuel poverty and increasing the energy efficiency of properties.

8.5 The introduction of Universal Credit, as a part of the Government's welfare change agenda is yet to be fully implemented but when it is introduced, and based on the experience of authorities that are piloting it, it could have implications for the level of rent receivable.

8.6 A detailed Housing Revenue Account Business Plan is timetabled to be received at Executive Board in March 2015 and this will provide more detail in respect of how the Council will deliver and resource its strategic housing priorities.

9.0 Next Steps

9.1 The Council has been successful in responding to the challenging reductions to its funding since 2010. The Council has identified significant savings over the period through smarter procurement, generating additional income, staffing savings and improvements in efficiency. However, the Council faces significant further reductions in funding over the medium term which will continue to present a major challenge as to how services are to be delivered in the future.

9.2 The proposed Medium Term Financial Strategy can only be seen as an interim solution in that it provides a high level framework to help the Council in responding to this challenge and it will underpin the detailed budget setting process for 2015/16. Further work is needed to develop the Council's strategy for 2015/16 and indeed beyond, and a further update for 2016/17 will be provided as part of the 2015/16 budget.

9.3 The Initial Budget Proposals for 2015/16 will be presented to Executive Board in December 2014, which will be subject to further public consultation.

10.0 Corporate Considerations

10.1 Consultation and Engagement

10.1.1The Medium Term Financial Strategy has been influenced by the Council's priorities which have been shaped through past consultations on previous years' budgets and a variety of other issues. It is proposed that public perception evidence that services and localities already hold about people's priorities is brought together and a summary of the findings produced to support the Initial Budget Proposals (IBP) for 2015/16.

10.1.2This strategy will provide the framework for the Initial Budget Proposals for 2015/16 and a consultation exercise will be undertaken on these budget proposals following Executive Board in December 2014. People will have the opportunity to comment on the IBP in a variety of ways e.g. hard copy feedback forms in public spaces, Talking Point online forms and through city-wide network.

10.2 Equality and Diversity / Cohesion and Integration

10.2.1 This report does not have any specific implications for equality and diversity nor for cohesion and integration, but is should be noted that the Council's budget process is subject to equality impact assessments as appropriate.

10.3 Council Policies and City Priorities

10.3.1 This report does not in itself have direct implications for Council policies and City Priorities, but it is recognised that the MTFS has been developed within the context of ensuring that resources are aligned to the Council's Best Council ambitions.

10.4 Resources and Value for Money

10.4.1This is a revenue financial report and as such all financial implications are detailed in the main body of the report.

10.5 Legal Implications, Access to Information and Call In

10.5.1 There are no legal implications arising from this report.

10.6 Risk Management

10.6.1 The Council's current and future financial position is subject to a number of risk management processes. Failure to address medium-term financial pressures in a sustainable way is identified as one of the Council's corporate risks, as is the Council's financial position going into significant deficit in the current year resulting in reserves (actual or projected) being less than the minimum specified by the Council's risk-based reserves policy. Both these risks are subject to regular review. In addition a financial risk register is maintained that details the risk and consequences, existing controls to mitigate against the risk, the value in monetary terms of the risk, review dates and progress towards managing the risk within existing resources. The register is prepared before the start of each financial year and is monitored and reviewed on a regular basis.

10.6.2 It is recognised that the proposed strategy carries a number of significant risks. Delivery of the savings and efficiencies proposed will be difficult, but failure to do so will inevitably require the Council to start to consider even more difficult decisions which will have far greater impact upon the provision of front line services to the people of Leeds.

11. Recommendation

11.1 Members are asked to approve the Medium Term Financial Strategy 2015/16 - 2016/17 and agree that the assumptions and principles outlined in this report will be used as a basis for the detailed preparation of the Initial Budget Proposals for 2015/16.

12. Background documents[1]

None

[1] The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Appendix 1

Medium Term Financial Strategy 2015/16 – 2016/17

	2015/16 £	**2016/17** £
Funding Envelope		
SFA Reduction	**46.0**	**23.4**
New Properties (3600)		
C Tax Growth	-4.1	-4.2
NHB	-5.2	-2.5
	-9.3	**-6.7**
Assume 2% Business Rate growth	**-3.0**	**-3.2**
Use of general fund reserves	**-2.0**	
Collection Fund	**2.9**	
Reduction in funding	**34.6**	**13.5**
Cost Changes		
Inflation	8.2	9.5
Debt	2.0	4.9
	10.2	**14.4**
Full year Effects of previous decisions	**-2.4**	**-0.2**
Repayment of Schools Balances	1.0	
WY Transport Fund Levy	0.2	0.2
Impact of Fallout of Social Fund	0.5	
	1.7	**0.2**
Gross Change in Spending	**44.1**	**27.9**