Leeds
CITY COUNCIL

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Report of the Deputy Chief Executive

Report to: Executive Board

Date: 21st September 2016

Subject: Medium-term Financial Strategy 2017/18 to 2019/20

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	☐ Yes	☒ No

Summary of main issues

1. This report presents the council's 2017 – 2020 Financial Strategy for Executive Board's approval and follows on from the report considered by this Board in July. The report also seeks a decision from Executive Board regarding the government's 4-year funding offer.

2. This Financial Strategy reflects the government's planned reductions in public sector funding, as set out in the Comprehensive Spending Review, and takes account of increasing costs from rising demands for services, inflation and other cost pressures. It sets out the approaches and principles the council will follow to achieve our Best Council Plan priorities, deliver efficiencies and improve outcomes for the people of Leeds.

3. The Strategy also forms the basis of the council's Efficiency Plan for the next three financial years. The updated Financial Strategy, which incorporates the council's Efficiency Plan, is a requirement if the council is to accept the government's 4-year funding offer. Sound longer-term financial planning is also a fundamental part of a robust financial control environment.

4. The council is facing continued financial pressures through a combination of reduced funding, rising costs and growing demand. The scale of the funding gap between 2017/18 and 2019/20 is projected to be in the order of £110m, £82m of this front-loaded to 2017/18. While we have responded successfully to the challenge so far, it is becoming increasingly difficult to identify further financial savings.

5. Whilst considerable work has been undertaken already to identify how the council can make savings, at this stage it has not been possible to identify sufficient savings or income generation opportunities to entirely close the gap over the next three years. The extent of savings identified to date represents around 83% of those required. Further work is required to close this gap, and officers will continue working on proposals for members' consideration.

6. Following approval, the intention is that the Financial Strategy will be published as a stand-alone document and will be updated at least annually to reflect the annual budget setting process and any other significant changes in the underlying assumptions.

Recommendations

Executive Board is recommended to:

i) Approve the draft 2017 – 2020 Medium-Term Financial Strategy and Efficiency Plan;

ii) Note that further proposals will be brought forward to address the current shortfall;

iii) Consider whether to accept the government's 4-year funding offer on the basis that this represents a minimum level of government funding;

iv) Agree that the recommendation to approve the Medium-Term Financial Strategy and Efficiency Plan, and the consideration of whether to accept the 4-year funding offer be exempted from the call-in process, for the reasons as detailed within paragraph 4.5.2; and

v) Note that the Deputy Chief Executive will be responsible for implementing these recommendations.

1. Purpose of this report

1.1 The purpose of this report is to present the council's updated Medium-Term Financial Strategy for 2017 – 2020 for Executive Board's approval.

1.2 The report also asks members to consider whether to accept the government's 4-year funding offer.

2. Background information

2.1 The previous report, 'Compassionate City with a Strong Economy: Financial Strategy' considered by this Board in July 2016 outlined the key points from government's 2015 Spending Review and Autumn Statement. The Spending Review set out firm plans for spending on public services and capital investment by all central government departments through to 2019/20 and presented indicative funding levels for local authorities through to 2020.

2.2 The report noted that the government's indicative funding levels for 2017/18 through to 2019/20 for Leeds would see the council's Settlement Funding Assessment – the core funding received from government – reduced by a further £53m, £25m of this in 2017/18. This would follow the reduction in £214m core funding between the council's 2010/11 and 2016/17 budgets.

2.3 Taking these funding reductions into consideration with increased demand for services, the impact of business rates appeals, increasing cost pressures and other specific grant cuts, the report set out the substantial estimated funding gap for the period 2017/18 to 2019/20: £110m of which £82m is front-loaded into 2017/18. For planning purposes, this estimated budget gap is net of annual increases of 1.99% for Council Tax and 2% for the Adult Social Care precept through to 2019/20.

2.4 To help address this funding gap, July's report outlined the major changes required in terms of what the council does and how it does it, with significant implications for the services provided directly and commissioned by the local authority. As signposted in the 2016/17 Best Council Plan and 2016/17 Budget reports to Full Council in February 2016, those services that are no longer affordable and a lesser priority than others will be delivered differently or, in some cases, stopped, allowing us to better protect vital services that support vulnerable people. This will be achieved through a proactive process of policy and service reviews across the council's functions and ongoing consultation, engagement and impact assessments.

2.5 Taking these considerations into account, the July report also noted the intention to update the Medium-Term Financial Strategy and bring it to September's Executive Board meeting to inform the Board's decision on whether or not to accept the 4-year funding settlement. While this Financial Strategy provides a financial planning framework through to 2019/20, it should be stressed that under the council's constitution, decisions to set the annual budget, the council tax base and the rate of council tax can only be taken by Full Council and therefore these decisions will continue to be made as part of the council's annual budget-setting process.

3. Main Issues

3.1 Medium-Term Financial Strategy

3.1.1 Annexe 2 presents the draft Medium-Term Financial Strategy for this Board's approval. It provides contextual information at national and local levels and sets out the scale of the financial challenge and how the council plans to address the budget gap. Key points from the draft Strategy are drawn out below in terms of the estimated budget gap, the council's programme of policy and service reviews and the 4-year funding offer from government.

3.2 Estimated Budget Gap

3.2.1 As highlighted in paragraph 2.3, the council's estimated budget gap for 2017/18 to 2019/20 is £110m, of which some £82m is front-loaded into 2017/18. The table below provides a summary of the estimated funding and cost pressures over the course of the next financial years. It should be stressed that the estimated budget gap is dependent on a number of assumptions and risks and will be updated at least annually to reflect the annual budget-setting process and other significant changes.

Table 1

	Decrease/(increase)			
	2017/18 In-year	**2018/19 In-year**	**2019/20 In-year**	**Total**
	£m	**£m**	**£m**	**£m**
Settlement Funding Assessment	25.2	14.2	13.8	53.2
Estimated changes in local funding	(23.7)	(21.4)	(18.0)	(63.1)
Other Funding Changes	29.1	(2.4)	(6.4)	20.3
Decrease/(increase) in funding	**30.6**	**(9.6)**	**(10.6)**	**10.4**
Inflation	8.3	8.4	8.5	25.2
Pensions - actuarial review	1.5			1.5
Apprentice Levy	1.6	0.0	0.0	1.6
National Living Wage	4.7	4.6	4.6	13.9
Demography & demand	9.0	5.9	4.9	19.8
Debt & Minimum Revenue Provision	20.9	6.2	3.3	30.3
Other cost changes & full year effects	5.3	0.9	0.6	6.8
Estimated increase in costs	**51.3**	**26.0**	**21.9**	**99.1**
Estimated Budget Gap	**81.8**	**16.4**	**11.3**	**109.5**

3.2.2 To put this into context, the council's net revenue budget in 2016/17 is £496.4m which is funded by council tax, locally-retained business rates and the revenue support grant. The allocation by directorate is shown in Table 2 below.

Table 2

2016/17 Budget	Net £m	% of net budget
Adult Social Care	201.3	40.55
Children's Services	120.5	24.27
City Development	43.0	8.66
Environment and Housing	53.9	10.86
Strategy and Resources	35.4	7.13
Citizens and Communities	24.6	4.96
Civic Enterprise Leeds	23.4	4.71
Public Health	0.3	0.06
Strategic and Central Accounts	(2.6)	(0.5)
Contributions to (from) general reserve	(3.4)	(0.7)
Net revenue budget	**496.4**	**100.00**

3.2.3 It is worth noting that of the £496.4m net revenue budget, almost 65% is prioritised to support critical Adult Social Care and Children's Services which reflects council priorities and also feedback from the public through budget consultation and engagement.

3.3 Proposals/Approach to meet the gap

3.3.1 Since 2010, managing the large reduction in government funding and increasing cost pressures has inevitably meant the council making some difficult decisions around the level and quality of services.

3.3.2 The reports that accompanied the proposals to Executive Board and then Full Council on the 2016/17 Best Council Plan and Budget identified that the future financial climate for local government presented significant risks and challenges to the council's priorities and ambitions and that, whilst every effort would be made to protect the front-line delivery of services, changes to *what* the council does and *how* it does it would be unavoidable.

3.3.3 To help identify options for what those changes might be, from April 2016 an ongoing process of review has been underway across a range of services and policy areas with the active involvement of the Best Council Leadership Team (the c. 50 most senior managers) and service managers throughout the organisation. With the Best Council Plan focus on tackling inequalities being central to any proposals, the reviews aim to identify possible savings / income generation opportunities, decision-making routes for any changes to be implemented, initial identification of possible third sector and equality impacts and a high-level risk assessment. Of particular note are the two key cross-cutting reviews on Support Services and Locality Working / Leadership (both incorporating reviews of JNC – senior management – staff) and reviews assessing options around income and trading.

3.3.4 The service and policy reviews have been – and will continue to be – updated as part of an iterative approach to developing the council's strategic plan and aligned medium-term financial strategy and annual budgets. All services are within scope though the council remains committed to protecting front-line services as far as possible – especially those that provide support to the most vulnerable.

3.3.5 The table below presents a summary of the potential savings arising from the service and policy review savings, presented thematically:

Table 3

	In-year variation			
	2017/18	2018/19	2019/20	Movement from 16/17 baseline
	£m	£m	£m	£m
Estimated Budget Gap	81.8	16.4	11.3	109.5
Service Efficiencies & Reviews	(31.4)	(8.1)	(8.0)	(47.4)
Review of Locality Services	(2.5)	(0.5)	0.0	(3.0)
Review of Support Services	(5.6)	(2.0)	0.0	(7.6)
Sub Total Service Reviews & Efficiencies	**(39.5)**	**(10.6)**	**(8.0)**	**(58.0)**
Increase in existing fees & charges and other income	(8.2)	(0.9)	(0.4)	(9.5)
New fees and charges	(1.0)	(0.2)	(0.1)	(1.2)
Reduction in spend funded by specific grant	(4.4)	(1.3)	(1.1)	(6.7)
Accounting Measures	(3.2)	(0.6)	0.0	(3.8)
Use of One off / Reserves	(12.9)	7.2	(6.1)	(11.8)
Draft Savings Proposals	**(69.0)**	**(6.4)**	**(15.6)**	**(91.0)**
Gap	**12.8**	**10.0**	**(4.3)**	**18.5**

3.3.6 The total estimated savings from service reviews, efficiencies and additional income from fees and charges that the council is seeking to generate over the three year plan total approximately £91m. This is not sufficient to entirely deal with the forecast cost pressures and grant reductions that the council faces.

3.3.7 The current gap over the three year plan is £18.5m, with £12.8m being the forecast level of the shortfall in 2017/18. Further work will be required to close this gap and officers will continue to work on proposals for members' consideration.

3.3.8 As referred to above in paragraphs 3.3.3 and 3.3.4, reviews of services and opportunities for further efficiencies have been undertaken and it is proposed that savings of £58m can be made through their successful implementation. Annexe 1 to this report provides more detail of those services that are forecast to generate significant savings above £0.5m.

3.3.9 **Support Services** - savings in excess of £7m across the council's support services functions are included within the strategy. The savings are front loaded, with £5m included in 2017/18 and a further £2m in 2018/19. The savings are anticipated to accrue from all support services areas including business administration, finance, HR, IT and programme /project management. There will also be a focus on reducing the number of senior management (JNC) posts in these functions.

3.3.10 **Localities** – Continuing the work on locality management / working the proposal is to review and reduce locality leadership and management through a greater integration of services, whilst ensuring that the council continues to support communities and families. This will generate savings of £3m by March 2019.

3.3.11 **Fees and Charges -** The financial strategy assumes that the council will be able to generate additional income through fees and charges over the period, which can at least in part reduce the forecast funding gap. There are therefore assumptions that existing fees and charges will be increased including car parking and admission charges. In addition, the council will need to consider charges for services where charges currently are not made. Many local authorities charge for a range of refuse services including the collection of bulky waste, the replacement of wheeled bins, the disposal of inert waste, and the collection of garden refuse; in addition charges are made in many areas for resident and visitor parking, and parking at visitor attractions. Whilst Leeds City Council has avoided introducing such charges to date, given the scale of financial challenge the authority is now facing, it may be necessary for these options to be considered.

3.3.12 **Public Health grant -** The financial strategy recognises estimated grant reductions of £3.5m with reductions of £1.2m in 2017/18, a further £1.2m in 2018/19 and an additional £1.1m in 2019/20, effectively meaning the council has £7.1m less to spend on public health services during the life of the strategy. This will necessitate a review of all public health activity. The contract for supporting the Family Nursing partnership is not being extended, saving £0.8m, and school nursing and health contributions will be reduced by £0.4m.

3.3.13 **Governance** - It should be stressed that the proposals arising from the service / policy reviews and charging proposals will be subject to specific decision-making processes in which the legal implications, relevant impact assessments, access to information and call-in will be considered in accordance with the council's decision-making framework. This includes compliance with the legal requirements around managing staffing reductions.

3.3.14 **Implementation** - Given the scale of the challenge in 2017/18 the council will be looking to bring forward and implement decisions in the coming months relating to those savings which can be implemented quickly following appropriate consultation and impact assessments. Some of these decisions, including increases in fees and charges and service reviews/efficiencies, may be taken in advance of the 2017/18 budget process.

3.4 4-year funding settlement

3.4.1 As part of the 2016/17 financial settlement, government offered councils a 4-year funding settlement for the period 2016/17 to 2019/20. Government describes this as part of the move to a more self-sufficient local government, suggesting that these multi-year settlements can provide the funding certainty and stability to enable more proactive planning of service delivery, support strategic collaboration with local partners and for local authorities to strengthen financial management and efficiency.

3.4.2 Government is making a commitment to provide central funding allocations for each year of the Spending Review period for those councils which accept the offer and on the proviso that those councils publish an efficiency plan. The deadline for accepting the offer and publishing a medium-term financial strategy/efficiency plan is the 14th October 2016.

3.4.3 The levels of revenue support grant and business rates baseline funding assumed in the Financial Strategy are in line with the indicative figures set out by government and outlined in the table below.

Table 4

Settlement Funding Assessment	2016/17 Final £m	2017/18 Indicative £m	2018/19 Indicative £m	2019/20 Indicative £m	2017/20 Increase / (decrease) £m
Revenue Support Grant	93.0	65.0	46.5	27.8	(65.2)
Business Rates Baseline Funding	145.0	147.8	152.2	157.1	12.1
Total	238.0	212.9	198.7	184.8	(53.1)

3.4.4 This report asks Executive Board to consider whether to accept the government's 4-year funding offer. Any acceptance would be on the basis that the offer represents a minimum level of government funding to the council and that the council would not be disadvantaged at all by accepting the offer.

3.4.5 Accepting the 4-year offer should provide a greater certainty of funding to help councils better plan for the future. There may be a risk that the final settlements for local government are higher than the offer on the table. In such a scenario it would seem unfair that the government would not make any additional funding available to councils who have accepted the 4-year offer in good faith. Consequently the acceptance of the offer should be seen as the minimum level of government funding.

3.4.6 The move to 100% business rates retention has been widely publicised, with DCLG hosting a Business Rates Retention Steering Group and a consultation process to end later this month. Given the uncertainties around this fundamental change to the whole local government finance system, the assumptions underpinning the Financial Strategy take no account of the potential national changes and are assumed to be revenue neutral to Leeds.

3.4.7 The impact of national economic performance upon the overall level of public sector finances following the result of the EU referendum has created an additional layer of risk and uncertainty.

4. Corporate Considerations

4.1 Consultation and Engagement

4.1.1 Embracing the concept of civic enterprise set out in the Leeds-led *'Commission on the Future of Local Government'*, it is clear that the council needs to work differently in the future. We must move away from a heavily paternalistic role where we largely provide services, towards a greater civic leadership role where we work with people rather than doing things to or for them unless they need this.

4.1.2 To achieve changes on the scale proposed will requires ongoing conversations about the council and its future role, beyond traditional consultation methods used for budget setting or changes to services. We will undertake significant and ongoing engagement with staff across the council, elected members, the public and partners on the future priorities, shape and funding model of the council. At the core of the engagement will be discussions that redefine the social contract – the relationship between public services and citizens where there is a balance between rights and responsibilities. These conversations will focus on the likely future extent of council services and what responsibilities partners and the public should take on to look after themselves, others and the places they live and work. If more people are able to do more themselves, the council and its partners can more effectively concentrate and prioritise services and resources to those communities and areas most in need.

4.1.3 Where there are specific and imminent changes proposed to council services, we will use normal business processes to engage users and staff to inform decision-making.

4.1.4 When considering any workforce change the trade unions should be meaningfully engaged at the earliest opportunity. The council re-issued the Section 188 notice following the Comprehensive Spending Review last year, which triggered the consultation process around the mitigation of redundancies and there have been regular meetings with trade union colleagues about how we can work together to meet our financial challenges. More focused consultation will need to take place once the proposals regarding workforce changes become clearer and more defined.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 The council continues to have a clear approach to embedding equality in all aspects of its work and recognises the lead role we have in the city to promote equality and diversity. This includes putting equality into practice, taking into account legislative requirements, the changing landscape in which we work and the current and future financial challenges that the city faces.

4.2.2 Previous Executive Board reports cover details of the extensive analysis done to understand needs and inequalities in the city to inform service and financial planning, for example the Joint Strategic Needs Analysis and the Indices of Multiple Deprivation. As a further example of the commitment to equality, scrutiny will again play a strong role in challenging and ensuring equality is considered appropriately within the decision-making processes.

4.2.3 A full strategic analysis and assessment will be undertaken on the Financial Strategy 2017/18 - 2019/20 and associated service/policy review programme.

4.2.4 Specific equality impact assessments will also be undertaken on the implementation of all budget decisions as they are considered during the decision-making processes in 2016/17. As part of this, the proposed revenue budget for 2017/18 will be subject to Equality Impact Assessments where appropriate with details included in the 2017/18 budget proposal reports to this Board and subsequently Full Council.

4.3 Council Policies and Best Council Plan

4.3.1 The Financial Strategy focuses on how the council intends to respond to the government's indicative reductions in public sector funding and increasing costs from rising demands for services, inflationary and other cost pressures. It sets out the approaches and principles the council will follow to achieve our Best Council Plan priorities, deliver efficiencies and improve outcomes for the citizens of Leeds.

4.4 Resources and Value for Money

4.4.1 All financial and workforce implications are considered in the main body of the report.

4.5 Legal Implications, Access to Information and Call In

4.5.1 There are no legal implications arising from this report. Any proposals resulting from the ongoing service / policy reviews will be subject to specific decision-making processes in which the legal implications, access to information and call-in will be considered in accordance with the council's decision-making framework. This includes compliance with the legal requirements around managing staffing reductions.

4.5.2 The report recommends that the decision to approve the financial strategy and consider whether to accept the government's 4-year funding offer is exempt from call-in. The size of the financial challenge facing the council has meant that the outcome of the work from the service and policy reviews could not be brought to Executive Board sooner and the deadline for accepting the government's 4-year funding offer is the 14th October 2016.

4.6 Risk Management

4.6.1 Making changes to council services carries a number of significant risks that will need to be carefully managed in line with the council's Risk Management Policy. However, failure to make these changes will require the council to consider even more difficult decisions that will have a far greater impact upon front-line services, including those that support the most vulnerable, and thus our Best Council Plan ambition to tackle poverty and inequalities.

4.6.2 A full risk assessment will be undertaken of the council's financial plans as part of the normal budget process and an analysis of budget risks will continue to be maintained, subject to monthly review as part of the in-year monitoring and management of the budget. Any significant and new risks/budget variations will continue to be included in the in-year financial reports brought to the Executive Board.

4.6.3 In addition, risks identified in relation to specific proposals and their management will be reported to relevant member and officers as required. The draft Medium-Term Financial Strategy at Annexe 2 includes a specific section on risk management.

5. Conclusions

5.1 The draft Medium-Term Financial Strategy appended to this report reflects the government's planned reductions in public sector funding, as set out in the Comprehensive Spending Review, and also takes account of increasing costs from rising demands for services, inflation and other cost pressures. While we have responded successfully to the challenge so far, it is becoming increasingly difficult to identify further financial savings.

5.2 In response, a planned and iterative approach is being taken to review a range of service and policy areas to identify additional potential savings and income generation opportunities. However, at this stage it has not been possible to identify sufficient savings or income generation opportunities with which to entirely close the gap in the council's finances over the next three years. The extent of savings identified to date at £91m represents around 83% of those required to meet the forecast funding gap of £110m. Further work is required to close this gap, and officers will continue working on proposals for members' consideration.

5.3 The council's reserves are relatively low and whilst they afford some flexibility between years, this opportunity has already been reflected in the proposals put forward in this report. In addition this draft Strategy is heavily reliant on the generation of capital receipts. Members should therefore note that further options are likely to be more difficult and it may not be possible to protect front line services to the extent which has been achieved to date. Additional savings may rely on further closures of council establishments and reductions in services, and a greater prioritising of resources to the most challenged areas of the city and those most at need.

5.4 The draft Strategy also forms the basis of the council's Efficiency Plan for the next three financial years. The updated Financial Strategy, which incorporates the council's Efficiency Plan, is a requirement if the council is to accept the government's 4-year funding offer. Sound longer-term financial planning is also a fundamental part of a robust financial control environment.

5.5 Following approval, the intention is that the Financial Strategy will be published as a stand-alone document and will be updated at least annually to reflect the annual budget setting process and any other significant changes in the underlying assumptions.

6. Recommendations

6.1 Executive Board is recommended to:

i) Approve the draft 2017 – 2020 Medium-Term Financial Strategy and Efficiency Plan;

ii) Note that further proposals will be brought forward to address the current shortfall;

iii) Consider whether to accept the government's 4-year funding offer on the basis that this represents a minimum level of government funding;

iv) Agree that the recommendation to approve the Medium-Term Financial Strategy and Efficiency Plan, and the consideration of whether to accept the 4-year funding offer be exempted from the call-in process, for the reasons as detailed within paragraph 4.5.2; and

v) Note that the Deputy Chief Executive will be responsible for implementing these recommendations.

Background Documents[1]

7.1 There are no background documents relating to this report.

[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.

Annexe 1

Proposals for Savings from Review of Services & Efficiencies

			2017/18 £m	2018/19 £m	2019/20 £m	Movement from 16/17 Base £m
a)	**Adult Social Care**	Review the number / cost of care packages across all client groups	(4.0)	(3.0)	(1.5)	(8.5)
b)		Review of Council run services including residential homes and day care facilities	(1.9)	(0.4)	(0.4)	(2.7)
c)		Reduction in spend to limit budget increase to the 2% ASC precept & increase in Better Care Fund	(2.6)			(2.6)
d)	**Children's Services**	Review of Children's Social Work services and staffing savings	(1.6)	(0.5)	(0.5)	(2.6)
e)		Reduction in the cost of looked after children		(1.5)	(2.5)	(4.0)
f)		Review of children's centre services	(1.6)			(1.6)
g)		Review and reduce spend on commissioning and other contracts	(1.5)			(1.5)
h)		Additional income from traded activity with schools	(1.4)			(1.4)
i)	**City Development**	Sport & Active lifestyle - review of facilities to generate cost reductions and additional income from reinvestment	(0.7)	(0.4)	(0.4)	(1.5)
j)		Review of library and museum provision across the City	(0.5)	(0.1)	(0.0)	(0.7)
k)	**Environment & Housing**	Waste Management - review of the refuse collection service	(1.6)			(1.6)
l)		Parks and Countryside - Reduction in horticultural maintenance, number of grass cuts and other operational cost reductions	(0.9)		(0.1)	(1.0)
m)		Strategic Housing support - contract savings and reduction in staffing costs	(0.8)			(0.8)
n)		Leeds Building Services - service efficiencies & reduction in the use of sub contractors	(1.8)			(1.8)
o)	**Citizens and Communities**	Contact Centre review; savings from improved productivity, improved technology and reduced calls from channel shift	(0.6)	(0.3)		(0.9)
		Review Community teams and grants to the 3rd sector	(0.4)	(0.1)		(0.5)
p)	**Cross Cutting**	Reduction in cost of all support services including a focus on reducing numbers of senior management posts	(5.6)	(2.0)		(7.6)
q)		Reduce cost of locality leadership, management & working through greater integration of services	(2.5)	(0.5)		(3.0)
		Major Review Areas	**(30.0)**	**(8.8)**	**(5.4)**	**(44.2)**
		Other Service Reviews and Efficiencies	(9.5)	(1.8)	(2.5)	(13.8)
		Sub Total Service Review and Efficiencies	**(39.5)**	**(10.6)**	**(8.0)**	**(58.0)**

Annexe 2

Financial Strategy
2017/18 – 2019/20

Incorporating the Council's Efficiency Plan

September 2016

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Foreword

The council's vision as set out in our strategic plan, the 'Best Council Plan', is for Leeds to be a compassionate, caring city that helps all its residents benefit from the city's economic growth, the council supporting this by working with partners to reduce persistent inequalities and itself continuing to be an efficient and enterprising organisation. This Medium-Term Financial Strategy underpins that vision.

The Strategy focuses on how the council intends to respond to the government's indicative reductions in public sector funding alongside rising demands for services and increasing inflationary and other cost pressures. It sets out the approaches and principles the council will follow to ensure we remain financially viable, able to respond in a flexible way to the range of risks and uncertainties we face while still delivering our Best Council Plan outcomes and priorities. The Strategy also forms the basis of the council's Efficiency Plan for the next three financial years to 2020 though decisions around the annual budget, council tax base and rate of council tax remain reserved to Full Council as part of the authority's annual budget-setting process.

Between the 2010/11 and 2016/17 budgets, Leeds City Council's core funding from government has reduced by around £214m while demand-led cost pressures have grown. This means that by March 2017, the council will have had to deliver reductions in expenditure and increases in income totalling some £400m. To date, we have responded successfully to the challenge and have marginally underspent each year since 2010 through a combination of stimulating good economic growth in the city and creatively managing demand for services. This has been combined with a programme of more traditional efficiencies, bringing in alternative service delivery models and other savings, such as reviewing how we repay our capital borrowing, achieved through an organisational-wide cultural change programme. Throughout, we have listened to your views through public consultation and have continued to protect vital front-line services, specifically those that support vulnerable adults, children and young people.

This principle remains at the heart of our Best Council Plan and this supporting Medium-Term Financial Strategy: almost 65% of our net revenue budget is now prioritised to support Children's Services and Adult Social Care, resulting in some key successes, such as a safe reduction in the number of children looked after by the state and a steady decrease in the number of delayed hospital discharges for older people. However, inequalities persist across Leeds in terms of poverty and deprivation, health and educational attainment.

To ensure our continued focus on those most at need at a time of tightening resources, the council is changing what it does and how it does it. This will have significant implications for the services provided directly and commissioned by the local authority, impacting upon staff, partners and residents. Those services that are no longer affordable and a lesser priority than others will be delivered differently or, in some cases, stopped. This will be achieved through a programme of policy and service reviews across the council's functions and ongoing consultation and engagement.

Efficiency in our own operations remains important: our cultural change programme coupled with modernisation of the working environment is creating the necessary conditions for fundamental organisational change, fewer council buildings and more efficient processes and systems. We have reduced our workforce by 2,500 full-time equivalent posts (FTEs) since 2010 and anticipate further downsizing of around 1,000 to 2,000 posts by the end of March 2020. The council will seek ways of avoiding compulsory redundancies but it is unlikely this will be sufficient.

Alongside a sustained efficiency drive, we will continue to implement new and additional income generation opportunities across council services: our commercial income has increased by almost 23% since 2010 and we estimate more than £150m of such income in the 2016/17 financial year. This Financial Strategy recognises the importance of a more commercial approach and includes a range of proposals to expand the range of traded activities, securing much-needed additional income to fund essential services.

Looking to the future, we face probably the biggest change to local government finance in a generation: over the next four years, central government funding will phase out and we will become increasingly dependent on local funding, including fees and charges, council tax and business rates. Government is currently carrying out a Fair Funding Review of councils' relative needs and resources, the outcomes of which will establish the funding baselines for the introduction of councils' retention of 100% - up from the 50% presently - of the business rates generated locally. As a sector, local government welcomes this shift, but there are significant risks that need to be managed, including balancing needs and resources and funding volatility.

Going forward, it is imperative that the new system for financing local government is both workable and fair and that incentives for growth are properly balanced against the needs of our most deprived communities.

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1 About Leeds: Tackling Inequalities

1.1. About Leeds

1.1.1. Leeds is the second largest local authority in England, covering an area of 552 square kilometres. It is an area of great contrasts: it includes a densely populated, inner city area with associated challenges of poverty and deprivation, as well as a more affluent city centre, suburban and rural hinterland with villages and market towns. The most recent census (2011) indicates that Leeds has a population of 751,500[1], representing a 5% growth since the previous census in 2001.

1.1.2. The age structure for Leeds is broadly similar to that for England and Wales with the notable exception of the 20-29 age bands which in Leeds accounts for 17.5% of the population compared to13.6% in England and Wales; children (aged 0-15) account for 18.3% of the city's population, while people aged 65+ accounts for 14.6%. Leeds is an increasingly diverse city with over 140 ethnic groups including black, Asian and other minority ethnic populations representing almost 19% of the total population compared to 11% in 2001.

1.1.3. The number of Leeds residents born outside the UK has increased from 47,636 (6.7% of the population) in 2001 to 81,382 (10.8%) in 2011. Just over 20,300 people were born in the EU (12,026 born in EU accession countries) and just over 61,000 born elsewhere. Of the 81,382 people born outside the UK, more than half arrived in the last 10 years, 67% were between the ages of 16 and 44 when they arrived in the UK and 29.5% were aged 15 or younger. Data from the city's schools shows there are more children and young people of black and minority ethnic heritage, particularly Black African and White Eastern European. The number of children and young people with English as an additional language (EAL) has also increased in recent years, from 13% in 2010 to 16% in 2014. In addition to English language, there are over 170 languages spoken in Leeds schools with the main languages spoken being Urdu, Punjabi and, increasingly, Polish. There is no direct count of disability, but the census collects information in relation to 'long term health problems or disability'.

1.1.4. In Leeds, 83.4% of people say that their day to day activities are not limited by long term health problems or disability, 7.7% say they are limited a lot and 8.9% say that they are limited a little. Leeds has a relatively high level of its working age adult population in receipt of Incapacity Benefit (IB) due to mental ill health (50% of IB claimants identify a mental health problem). Employment rates for female users of mental health services in Leeds are significantly below the national average. In 2014, 3,099 adults in Leeds were identified as having a moderate or severe learning disability. Over the last four years there has been an increase in the Leeds learning disabilities population of about 5%. This growth is particularly focussed amongst younger people with the most profound needs for care.

1.1.5. The proportion of people who confirm that they are Christian is lower in Leeds (55.9%) than across the whole of England and Wales (59.3%), while the proportion of people who say they have no religion is higher (28.2% and 25.1% respectively). Compared to England and Wales, Leeds has higher than average proportions of people stating their

[1] ONS latest data estimates the population of Leeds at 761,500 (mid-year estimate of population 2013)

religion as Jewish (0.9% compared to 0.5%), as Muslim (5.4% compared to 4.8%) and as Sikh (1.2% compared to 0.8%).

1.1.6. The 2011 Census collected information on civil partnerships for the first time, reflecting the Civil Partnership Act 2004 which came into effect in the UK on 5 December 2005. Married people account for 41.5% of adults in Leeds; 0.2% of adults in Leeds are in a registered same-sex civil partnership, mirroring the rate for England and Wales, 40.8% of adults in Leeds are single (never married or never registered in a same-sex civil partnership),which is much higher than the England and Wales rate of 34.6%. We do not publish data relating to transgender as due to small numbers individuals would be easily identified.

1.1.7. As a growing city Leeds is seeing significant changes to the make-up of the population, in particular:

- We have an ageing population. As the baby-boomer generation grows older there will be implications not only in terms of public services (ensuring that older people get excellent care and support when they need it and are enabled to live independently), but also in terms of the labour market as we make the most of the skills and talents that everyone has to offer.

- In the last decade the BME population in the city has increased from 11% to 19%, and the number of residents born outside of the UK has almost doubled. There have been many localised impacts across the city, with complex, related issues such as 'national identity', language proficiency, transient populations and variations in birth rates that in turn influence service provision and the wider interface between communities.

- In part linked to demographic change, in part linked to wider social change, patterns of faith have also changed across the City. Different ethnic and religious groups have very different age profiles and understanding these differences are key to helping plan and deliver the appropriate services.

1.2. Equality Improvement Priorities

1.2.1. The Council's Equality Improvement Priorities are in place to provide focus to address issues of inequality. They are based on evidence of disproportionate outcomes which we are seeking to challenge and change. We are committed to equality for all our citizens and believe that improving a service for one community will have knock-on effects for all. We will continue our work across all the protected characteristics, whether or not there are specific equality improvement priorities which are explicitly focussing on them. We will consider all communities when we give due regard to equality at both strategic and operational activities.

1.2.2. The Equality Improvement Priorities 2016-2020 have been produced to ensure that the council meets its legal duties under the Equality Act 2010, taking into account the protected characteristics as required under the Act. We also recognise poverty as a barrier that limits what people can do and can be as detailed below. We have, therefore, priorities that address poverty as we recognise that a number of the protected characteristics are disproportionately represented in those living in poverty. The Equality Improvement Priorities therefore compliment the council's stated ambition, as set out in the Best Council Plan, to tackle inequalities.

1.3. Persistent Inequalities

1.3.1. A range of inequalities – health, mortality, education, skills and income levels – persist across the city, many of these compounded by welfare changes and wider austerity which have impacted disproportionately on those most disadvantaged in society.

- Life expectancy for men and women remains significantly worse in Leeds and while the gap between Leeds and England has narrowed for men, it has worsened for women.
- Cardiovascular disease mortality is significantly worse than for England, though the gap is narrowing. Cancer mortality remains significantly worse than the rest of Yorkshire & Humber and England.
- The all-ages-all-cancers trend for 1995-2013 is improving but appears to be falling more slowly than both the Yorkshire & Humber and England rates.
- Regionally, the progress and achievement of children and young people who could be classed as disadvantaged or vulnerable learners is below national, with Yorkshire and Humber being the second lowest English region for free school meal (FSM) attainment, based on the 2015 5+ GCSEs attained at grades A*-C. Against the Core City local authority areas for the same measure, Leeds is top for non-FSM pupils with children and young people across all ages achieving close to their peers nationally; however, when looking at those FSM-entitled pupils, Leeds' results were second lowest. It is important to set this against the context of a growing child population, with that growth being greatest in the poorer and more diverse parts of the city.

1.3.2. Latest data from the council's 2016 Poverty Fact Book indicate that:

- A fifth of the Leeds population – almost 155,000 people across the city - is classified as being in 'absolute poverty' in 2014/15. (This measures individuals who have household incomes 60% below the median average in 2010/11, adjusted for CPI inflation.2)
- 26,400 children (18.1% of children under the age of 16) in Leeds were in poverty (based on children living in families in receipt of out-of-work benefits) in 2015, compared to an average of 14.7% in England as a whole. 67% - almost 18,000 children - of these children are from a working family.
- Almost 79,000 households in Leeds were claiming one or more local authority welfare benefit in July 2016. Of these, just over 14,000 householders were of working age and in work, meaning 18% of Leeds households are impacted by in-work poverty.
- It is estimated that almost 9,500 Leeds workers are on zero hour contracts.
- In 2014, an estimated 61,000 Leeds residents earned less than the Living Wage (£7.85 at that time) with 29,000 Leeds residents estimated as earning less than the Minimum Wage (£6.50 in 2014).
- The new under-occupancy changes under Welfare Reform affected over 6,000 households in September 2015 with the Benefit Cap affecting almost 280 households.
- As of October 2015, around 73,000 Leeds households were in receipt of Council Tax Support. Of this figure over 25,000 (35%) of these households in Leeds now have to pay 25% - an average of £160 per year - of their council tax due to changes to Council Tax Support.

[2] The 2015 Poverty Fact Book noted that c. 175,000 people in Leeds were classified as being in 'absolute poverty' in 2010/11. Since then, Government has revised its method of estimating poverty and now uses CPI inflation instead of RPI. This means that the latest figures quoted in the 2016 Poverty Fact Book are not comparable with prior years.

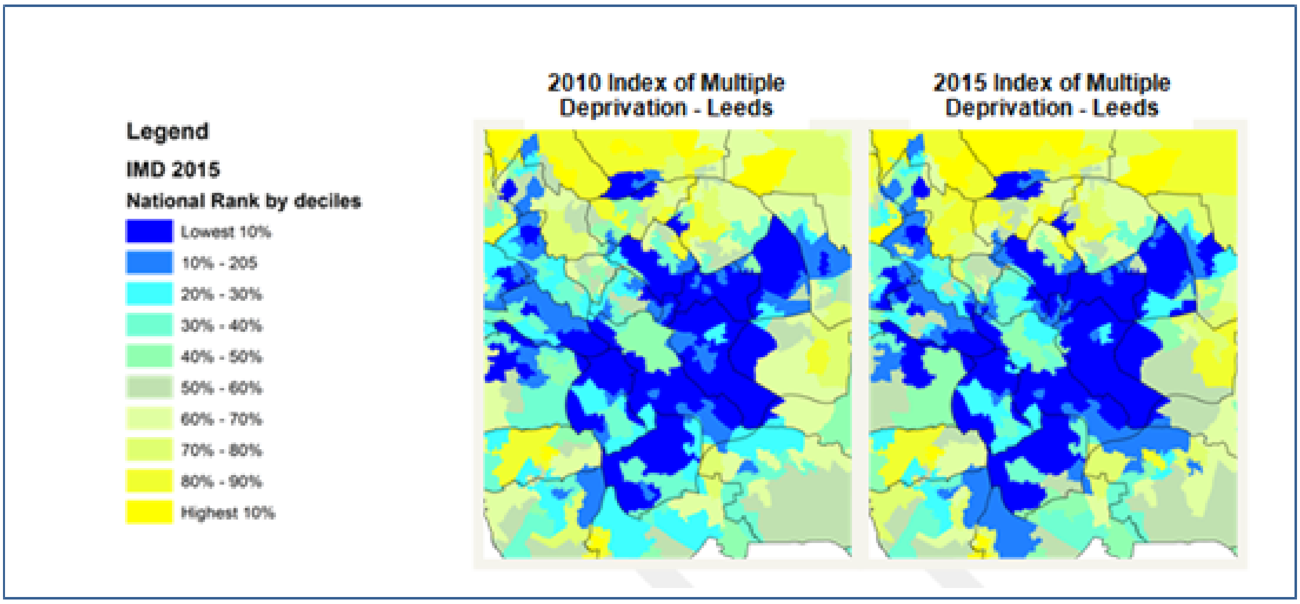
- More than 25,000 people in Leeds received food through a food bank or food parcel provider in 2015, nearly 25% more than in 2014.
- In 2015, almost 65% of StepChange clients struggling with credit card debts in 2015 had 2 or more credit cards, while almost 60% of clients with payday loan debt had taken out 2 or more payday loans. It is estimated that 121,000 payday loans were issued to Leeds residents in 2012/13.

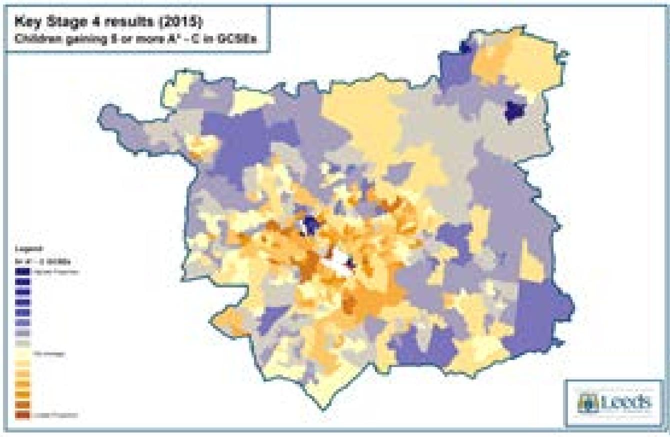
1.3.3. Based on the latest 2015 Indices of Multiple Deprivation (IMD), analysis at local ward level and examining Leeds' relative position nationally indicates that:

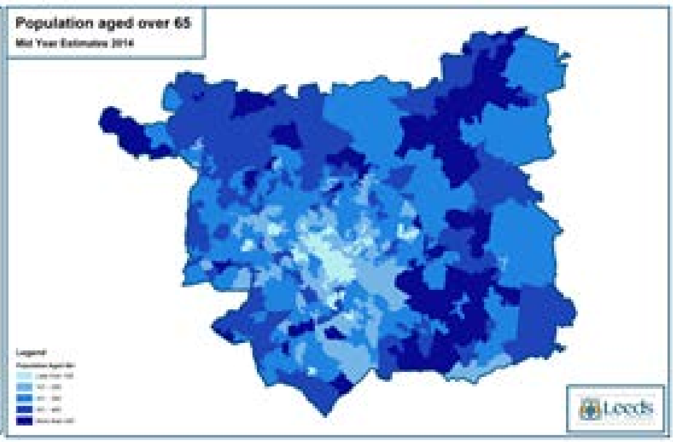
- Leeds is ranked 31 out of 326 local authorities, with 105 neighbourhoods in the most deprived 10% nationally (22% of all Leeds neighbourhoods). Leeds fares relatively well in comparison to other Core City local authority areas.
- There are 164,000 people in Leeds who live in areas that are ranked amongst the most deprived 10% nationally. The corresponding figure in the 2010 IMD was 150,000 people, but clearly not everyone living in these areas is deprived.
- The IMD shows the geographic concentration of deprivation in the communities of Inner East and Inner South, confirming the wider analysis of poverty and deprivation undertaken in the recent Joint Strategic Needs Assessment.
- Analysis of relative change in the city since the last Index suggests that there has been some intensification of the concentration of our most deprived and least deprived neighbourhoods.
- The age profile of our most deprived neighbourhoods confirms that our most deprived communities are also our youngest (and fastest growing).

1.3.4. These findings, combined with the 2015 Joint Strategic Needs Assessment (JSNA) analysis, evidence that economic and social deprivation remain concentrated in specific localities in the city, with long-term challenges around language and literacy, skills, health and care responsibilities, access to employment and poor housing.

1.3.5. The following maps help to show this, with a comparison of the government's Indices of Multiple Deprivation highlighting that the relative gap between the most and least deprived areas of Leeds has not lessened in the last five years.







1.4. Best Council Plan Achievements

1.4.1. In recent years, there have been some real achievements around the Best Council Plan ambitions for Leeds to have a strong economy while being a compassionate city, thereby tackling inequalities. Just a few of these include:

- Increased employment rate in Leeds: in the year to December 2015 employment was estimated at 378,000, a rate of 75% and up from 68.9% on the previous year. This is higher than the national rate of 73.5% and higher than pre-recession figures.
- Providing support for residents claiming Council Tax support to become work ready and find employment and helping people search and apply for jobs and training through Community Hub Jobshops
- Committing with partners to supporting Leeds residents access and compete for new jobs through the Victoria Gate development
- The response to the Boxing Day floods in Leeds in 2015 to support the more than 2,000 residential properties and businesses affected
- Improving terms and conditions for home care staff, including those commissioned by external providers
- The council's move towards becoming a Real Living Wage employer during 2016/17
- An inclusive city - taking in Syrian refugees and co-ordinating city-wide donations
- Keeping vulnerable people warm during the winter months
- Reducing premature mortality from cardiovascular disease in our deprived communities
- Increasing the number of children and young people adopted into safe, stable and positive family environments
- Improving schools and GCSE attainment
- Working with government on HS2 to transform Leeds station and create a transport hub for the city and region
- Significant progress in regenerating Little London, Beeston Hill and Holbeck with the 100th council home completed
- Leeds cited as one of the UK's most attractive cities for inward investment, the highest rated in the north
- Leeds named best biggest city in England for standard of life

1.4.2. Mindful of the inequality challenges detailed above, our Best Council Plan was updated for 2016/17. The Plan states our continued Best City/Best Council ambitions, focused on tackling poverty and inequalities with the council supporting this by being an efficient and enterprising organisation. This Medium-Term Financial Strategy underpins that vision.

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2 Financial Context & National Issues

2.1 2015 Spending Review and Autumn Statement 2015

2.1.1 On the 25th November 2015, the Chancellor announced the first combined Spending Review and Autumn Statement since 2007. Compared to the Summer Budget 2015, the Office for Budget Responsibility forecast higher tax receipts and lower debt interest, with a £27 billion improvement in the public finances over the Spending Review period. The Spending Review set out firm plans for spending on public services and capital investment by all central government departments through to 2019/20.

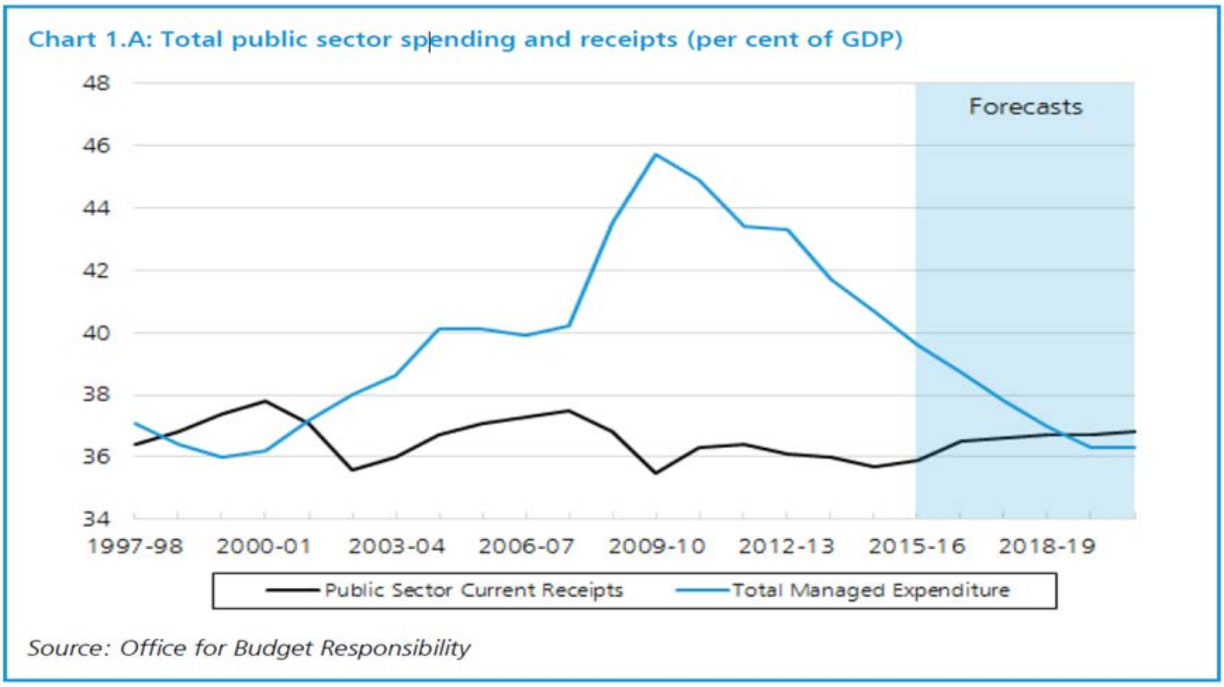
2.1.2 Details of the 2015 Spending Review and Autumn Statement were included in the Initial Budget Report to Executive Board in December 2015. The main points specific for local government from the Spending Review and Autumn Statement were:

- Significant reductions to the central government grant to local authorities.
- An expected average annual real-terms reduction in the public health grant to local authorities of 3.9% over the next 5 years.
- Introduction of a new power for local authorities with social care responsibilities to increase council tax by up to and including 2% per year. The money raised will have to be spent exclusively on adult social care. Nationally, if all local authorities use this to its maximum effect, it could raise nearly £2 billion a year by 2019/20 which would be equivalent to over £20m per year for Leeds. Effectively, the introduction of this new precept represents a shift in the burden for funding the increasing costs of Adult Social Care from national to local taxpayers. The redistribution effect should also be noted in that the precept will be most beneficial to the more affluent local authorities with the largest council tax bases.
- The Spending Review continues Government's commitment to join up health and social care. Government will continue the Better Care Fund, maintaining the NHS's mandated contribution in real terms over the Parliament. From 2017, the Government will make funding available to local government, worth £1.5 billion by 2019/20, to be included in the Better Care Fund.
- The Spending Review 2015 indicated that Government will consult on reforms to the New Homes Bonus, including a means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from 6 years to 4 years. This will include a preferred option for savings of at least £800 million. The potential impact for Leeds could be in the region of £6m and it is anticipated that further detail will be set out as part of the local government finance settlement consultation, which will include consideration of proposals to introduce a floor so that no authority loses out disproportionately.
- Confirmation of the previous announcement of the proposal to end national uniform business rates with the introduction of 100% retention of business rates for local government and the phasing out of the Revenue Support Grant as well as introduction of new responsibilities giving councils the power to cut business rates to boost growth, and empowering elected city-wide mayors.

- Allowing local authorities to be able to use 100% of receipts from asset sales to fund the revenue costs of reform projects.
- Capping the amount of rent that Housing Benefit will cover in the social sector to the relevant Local Housing Allowance.
- Reducing the Education Services Grant by £600m, or 73% signalling that 'Local authorities running education to become a thing of the past'. The remaining grant funding is expected to be used to cover local authority statutory duties which the Department for Education will also look to reduce. The 2015/16 allocation for Leeds is £9.2m and based on the national totals a proportionate grant cut would be in the region of £6.7m per year. More information is needed around the impact and timing of this significant reduction with consultation is expected in 2016 with the potential changes effective from 2017/18.
- Introduce a new national funding formula for schools from April 2017.
- Redistribution - Government will also shortly consult on changes to the local government finance system to rebalance support including to those authorities with social care responsibilities by reassessing needs and taking into account resources available to councils, including council tax and business rates.

2.1.3 In the 2015 Comprehensive Spending Review, set pre the European Union referendum result, the Government identified that by 2020 funding for local government services would marginally increase in cash-terms, mainly as a result of assumed council tax growth, the Adult Social Care precept, and the retention of local business rate income by local authorities. However, this assumed rise in locally-generated income across the sector has seen the Government reduce the core Revenue Support Grant to local authorities by £7.8bn, or 78% between 2016/17 and 2019/20. This is of course, in addition to the reductions over the last five years.

Chart 1 – Total public sector spending and receipts (per cent of GDP)



2.2 The UK National Economic Context

2.2.1 The Council and City's economic and fiscal position is clearly impacted by the wider national economic context. The UK's decision to exit the EU has undoubtedly fuelled economic and political uncertainty even though the full impact of the exit will take years to realise/quantify. Economic forecasters predict that Gross Domestic Product growth will slow in 2016 amid low business confidence, a significantly weaker currency and a gloomier outlook for the labour market.

2.2.2 It is recognised that there will be a short-term economic cost to Brexit because exiting the EU could potentially weaken the pound, reduce domestic and foreign direct investment, and impact on borrowing costs.

2.2.3 However, it is also recognised that in the longer-term, the economic consequence of a Brexit is more uncertain. Commentators note that trade is 'likely to fall', an occurrence that would carry an economic cost, but they also point out that a British exit could 'create potentially beneficial opportunities: to improve the regulatory framework, and to strike new trade and better trade deals with countries outside the EU. Whilst the impact is by no means clear, the prevailing uncertainty does create risk.

2.2.4 The two charts below present the movement in the FTSE index and also the value of the British Pound against the US Dollar.

Chart 2 – FTSE Index 2011-2016

Chart 3 – £ against the $, 365 day history

2.3 Self-Sufficient Local Government: Business Rates Retention

2.3.1 The Chancellor announced the move to 100% business rates retention in his “Devolution Revolution” speech at the Conservative Party conference in October 2015. The move was confirmed in the March 2016 Budget and the Queen’s Speech announced that the relevant legislative changes would be included in the Local Growth and Jobs Bill.

2.3.2 This amounts to a fundamental reform to the financing of local government. This move towards self-sufficiency and away from dependence on central government is something that councils have called for over a number of decades. Implementing this vitally important change will mean that 100% of all taxes raised locally are retained locally. The move to 100% business rates retention builds on the current system, in which local government as a whole retains 49% of locally collected business rates. That system was introduced in April 2013.

2.3.3 In February 2016, the Secretary of State for Communities and Local Government announced a review of what the needs assessment formula should be in a local government finance framework in which all local government spending is funded by local resources. This includes how the reformed system recognises the diversity local areas and the changing pattern of local governance arrangements. The Government have recognised that the system may not have to work in the same way across the country.

2.3.4 In July 2016, the Government launched a consultation, ‘Self-sufficient local government: 100% Business Rates Retention’. In advance of this consultation, the Government has been working closely with the Local Government Association (LGA) and other representatives of local government to develop the principles that the reform package will be based upon. This has included a joint LGA-Department for Communities & Local Government (DCLG) chaired Steering Group and set of Technical Working Groups to look at every aspect of how the new system should work, alongside which responsibilities should be devolved. This work has considered the following themes:

- The devolution of responsibilities;
- The operation of the system, including how growth is rewarded and risk is shared;
- Local tax flexibilities;
- Assessment of councils’ needs and redistribution of resources; and
- Accountability and accounting in a reformed system.

2.3.5 It is also important to consider how the design of the new funding system can provide the right level of incentive and reward to those councils – particularly those such as Leeds who are working closely with local businesses and together as Combined Authorities – that pursue policies that drive additional growth in their areas.

2.3.6 There is clearly a balance to be struck between providing a strong incentive for growth in local areas and considering the distribution of funding between local authorities. For example, any new funding system will need to be capable of redistribution between councils so that areas do not lose out just because they currently collect less in local business rates.

2.3.7 In terms of risk and income volatility, the Government has recognised that any reformed system should ensure that local authorities are able to manage and share risk to an acceptable level, and that they are insulated from undue shocks or significant reductions in their income.

2.3.8 The Government has already announced that the levy on growth will be scrapped under 100% business rates retention, which will impact on the Leeds City Business Rates Pool of which the Council is a member alongside the other four West Yorkshire (Bradford, Calderdale, Kirklees and Wakefield), York and Harrogate local authorities

2.4 Fair Funding Review

2.4.1 As part of the 2016/17 Local Government Finance Settlement, the Government announced a Fair Funding Review of councils' relative needs and resources.

2.4.2 A needs assessment was last carried out in 2013/14. However, this was largely focussed on updating the data used in the assessment. The needs formulae have not been thoroughly reviewed for over a decade, which many councils feel is far too long. There is good reason to believe that the demographic pressures affecting particular areas, such as the aging population, have affected different areas in different ways, as has the cost of providing services. It is therefore only right that the way we assess relative need is reviewed. The Fair Funding Review will also establish what the needs assessment formula should be in a funding framework which will see all local government spending is financed from locally raised resources.

2.4.3 The Fair Funding Review will look to address the following issues:

- What is meant by relative 'need' and how should we measure it?
- What are the key factors that drive relative need?
- What should the approach be for doing needs assessments for different services?
- At what geographical level should we do a needs assessment?
- How should 'resets' of the needs assessment be done?
- How, and what, local government behaviours should be incentivised through the assessment of councils' relative needs?

2.4.4 For the services currently supported by the local government finance system, the outcomes of the Fair Funding Review will establish the funding baselines for the introduction of 100% business rates retention. The Fair Funding Review will consider the distribution of funding for new responsibilities on a case by case basis once these responsibilities are confirmed; they are likely to have bespoke distributions rather than a national 'one size fits all'.

2.4.5 It is clear therefore that any new local government finance system should strike the right balance between providing a strong incentive for growth in local areas, and consideration of how funding should be distributed between local authorities.

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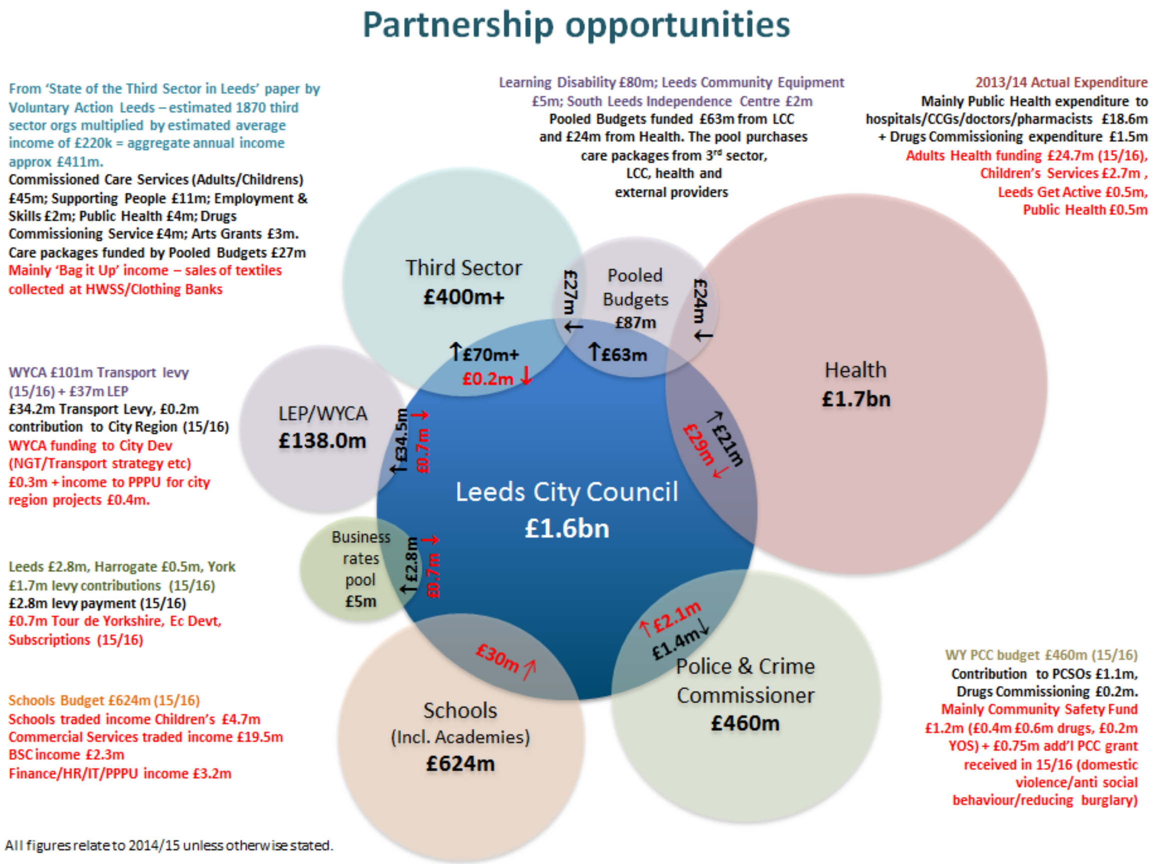
3 Working in Partnership

3.1 To deliver our Best Council Plan priorities, we need an enormous amount of help from our partners across all sectors. The chart below presents the funding flows between the council and its key strategic partners.

Chart 4 – Flow of funding between LCC and Partners



3.2 Health

3.2.1 A key part of our ambition to be the Best City in the UK by 2030 is being the Best City for Health and Wellbeing. Leeds has the people, partnerships and place-based values to succeed. The vision of the Leeds Health and Wellbeing Strategy is: "Leeds will be a healthy and caring city for all ages, where people who are the poorest will improve their health the fastest".

3.2.2 Since the first Leeds Health & Wellbeing Strategy in 2013 (it was updated in 2016), the city has seen many positive changes, and the health and wellbeing of local people continues to improve. The health and care community in Leeds work collectively towards creating an integrated system of care that seeks to wrap care and support around the needs of the individual, their family and carers, helping to deliver our wider Best City vision.

3.2.3 However, the health and care system in Leeds continues to face significant challenges from the ongoing impact of the global recession and national austerity measures, together with significant increases in demand for services, brought about by both an ageing population and the increased longevity of people living with one or more long-term conditions. We recognise that we will have to continue to change the way we work, becoming more enterprising, bringing new service delivery models and working closely with partners, the public and collective workforce in Leeds and across the region to deliver shared priorities. However, this won't be enough to address the sustainability challenge and so future years will see us reducing or no longer directly providing and supporting those services that are unaffordable and offer less value to the Leeds £.

3.2.4 In October 2014, the NHS published its Five Year Forward View: a wide-ranging strategy providing direction to health and partner care services to improve outcomes and become financially sustainable. On December 22nd, NHS England (NHSE) published 'Delivering the Forward View: NHS planning guidance 2016/17 – 2020/21' which described the requirement for identified planning 'footprints' to produce a Sustainability and Transformation Plan (STP) as well as linking into appropriate regional footprint STPs (at a West Yorkshire level). STPs are place-based, multi-year plans built around the needs of local populations and should set out a genuine and sustainable transformation in patient experience and health outcomes over the longer-term. The planning guidance asked every health and care system to come together to create their own ambitious local blueprint for accelerating implementation of the NHS Five Year Forward View. We are currently working with our city and regional partners to develop STPs for Leeds and West Yorkshire.

3.2.5 The projected collective financial gap facing the Leeds health and care system collectively under our 'do nothing' scenario is £723 million. It reflects the forecast level of pressures facing the four statutory delivery organisations in the city (Leeds City Council, Leeds Teaching Hospitals NHS Trust, Leeds and York Partnership NHS Foundation Trust and Leeds Community Healthcare NHS Trust) and assumes that our three Clinical Commissioning Groups (CCGs) continue to support financial pressures in other parts of their portfolio whilst meeting NHS business rules. This is driven by inflation, volume demand, lost funding and other local cost pressures.

3.2.6 The following opportunities are some of the potential areas where action to address the gap may be identified:

- Citywide savings will need to be delivered through more effective collaboration on infrastructure and support services.
- To explore opportunities to turn the 'demand curve' on clinical and care pathways through:
    - Investment in prevention activities;
    - Focusing on the activities that provide the biggest return and in the parts of the city that will have the greatest impact;
    - Maximising the use of community assets; removing duplication and waste in cross-organisation pathways;
    - ensuring that the skill-mix of staff appropriately and efficiently matches need across the whole health and care workforce – for example, nursing across secondary care and social care as well as primary care; and

    - By identifying services which provide fewer outcomes for local people and offer less value to the 'Leeds £'.

- Capitalising on the regional role of our hospitals using capacity released by delivering solutions to support the sustainability of services of other hospitals in West Yorkshire and building on being the centre for specialist care for the region.

3.3 Children and Young People

3.3.1 The Children and Young People's Plan (CYPP) sets out the ambition and the shared framework for the council and its partners to help make Leeds a child-friendly city through sustainable improvements in outcomes for children, young people, families and their communities. There are an estimated 75,000 people in Leeds whose daily work touches the lives of children, young people and their families. They work in a vast array of services, agencies and settings and come together in a diverse range of formal and informal partnerships.

3.3.2 The Children and Families Trust Board (CFTB) is the formal partnership between all those agencies who play a part in improving outcomes for children and young people and who have a shared commitment to our CYPP. The Board brings together NHS Leeds, Leeds Youth Offending Service, West Yorkshire Police, West Yorkshire Probation, Job Centre Plus, local schools, colleges and children's centres, the voluntary sector, and Leeds City Council services such as children and young people's social care, housing, early years, public health and education and learning. It is currently chaired by Councillor Lisa Mulherin, the council's Executive member for Children and Families.

3.3.3 The Young Lives Leeds Forum (YLL) is the strategy and development partnership for third sector organisations with over 250 member organisations, representing these on the Children's Trust Board. It is hosted by Voluntary Action Leeds (VAL), the Council for Voluntary Service in Leeds. VAL provides support services and specialist advice to third sector organisations, helping them to carry out their work and ensuring they are represented in partnership work.

3.3.4 We engage many of our 183,000 children and young people in services, giving them voice and influence in decisions that affect them. Children and young people are encouraged to get involved through the Youth Council, the Student Leeds Safeguarding Children's Board and the Children's Mayor. Over 13,000 votes were cast by children and young people in the 2015 children's mayoral election and over 19,000 – a record turnout! - completed the Make Your Mark survey about issues important to them.

3.3.5 Our 25 'clusters' are local partnerships that include the children's social work service, schools, governors, police, Leeds City Council youth service, the Youth Offending Service, children's centres, housing services, third sector, health and local elected members. Their roles include:

- Enabling local settings and services to work together effectively to improve outcomes for children, young people and their families;
- Building capacity to improve the delivery of preventative and targeted services to meet local needs, and provide early help and additional support; and
- Promoting the CYPP and the ambition of a child-friendly city across the locality.

3.4 Safer Leeds

3.4.1 Safer Leeds is the city's Community Safety Partnership, responsible for tackling crime and disorder, aiming for people in Leeds to be safe and feel safe in their homes, streets and the places they go. A range of 'Responsible Authorities' and 'Co-operating Bodies' are committed to working collectively through Safer Leeds. Responsible Authorities consist of Leeds City Council, West Yorkshire Police, Leeds Clinical Commissioning Groups, West Yorkshire Community Rehabilitation Company, West Yorkshire Fire & Rescue Service and the National Probation Trust. Co-operating Bodies are the Leeds Children's Trust Board, Leeds Safeguarding Children Board, Leeds Safeguarding Adults Board, Leeds Health and Wellbeing Board, HM Prison Service, Third Sector Partnerships and the Office of the Police & Crime Commissioner.

3.4.2 The focus of the partnership is around three themes of promoting community tolerance and respect, keeping people safe from harm and protecting homes and businesses. We firmly believe that one victim is one too many and everyone has a right to live in a safe and tolerant society and that everyone has a responsibility to behave in a way that respects this right. The partnership aims to serve all members of its communities, giving due regard to implications for different groups to ensure people are not excluded or disadvantaged because of Age, Disability, Gender, Race, Religion and Belief, or Sexual Orientation.

3.4.3 We are proud of our strong record of partnership working and what we have achieved to date, and we strongly believe that we are better when we work together. Safer Leeds will continue to strengthen existing partnerships and forge new ones to find solutions to local concerns, improve public confidence and build stronger communities. The Safer Leeds Plan explains the partnership's statutory requirements and sets out its shared priorities for the year. Its current priorities are anti-social behaviour, domestic violence and abuse, hate crime / community tensions, offending behaviours, serious acquisitive crime and vulnerable victims, with a focus on the cross-cutting issues of alcohol, drugs and mental health.

3.5 Third sector

3.5.1 The third sector in Leeds is powered by thousands of volunteers, employing substantial numbers of paid workers and contributing significantly to the economy. It is diverse in its activities and reaches across the city into most neighbourhoods and communities. Leeds City Council has a long history of working in partnership with the city's third sector organisations. The council is a key signatory to the Leeds Compact Charter, an agreement to strengthen relationships between public and third sectors to deliver the best possible outcomes for the people of Leeds. The council, local NHS organisations and Third Sector Leeds (TSL) are also signatories to the Leeds Social Value Charter, a shared commitment to promote social responsibility and social value and to make the maximum impact in Leeds with the 'Leeds pound'.

3.5.2 The importance of this relationship is reflected in the Third Sector Partnership (TSP) being a part of Best City partnership and leadership arrangements. The TSP is chaired by an Elected Member, designated as Third Sector Member Champion, currently Councillor Debra Coupar, and the council's Assistant Chief Executive Citizens and Communities is designated as the Third Sector Lead Officer. The TSP is attended by senior officers from each council directorate.

3.5.3 Partnership working takes place at many levels, with the TSL Goes Local initiative bringing colleagues together in localities, complimenting the council's Community Committees. Partnership working also occurs around specific areas of service delivery, for example adult social care's relationship with third sector care providers and neighbourhood networks, and in practical ways, such as financial support for Voluntary Action Leeds (VAL) through the Infrastructure Support Fund and other grants and funding programmes. VAL provides executive support to TSL, the strategic alliance of third sector organisations in the city.

3.6 West Yorkshire Combined Authority

3.6.1 The West Yorkshire Combined Authority (WYCA) brings together Bradford, Calderdale, Kirklees, Leeds, Wakefield and York councils and the Leeds City Region Enterprise Partnership (LEP) as a united force for economic growth. WYCA works with private and public sector partners to raise the quality of life in our region through businesses growth, job creation, a trained and skilled workforce and the building of new and affordable homes, underpinned by a modern, integrated transport network.

3.6.2 The West Yorkshire Combined Authority is responsible for the £1 billion West Yorkshire Plus Transport Fund, working closely with business in the region through the Leeds City Region Enterprise Partnership to ensure that business and the regional economy is at the heart of the decisions taken.

3.6.3 Looking ahead, our first-stage devolution deal with government gives us greater local influence over investment decisions on skills, transport, housing and support for small businesses. However we need to work with the government on taking this process further to achieve the comprehensive devolution that would provide us with the powers and resources to achieve our ambitions.

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4 Current Cost & Budget Structure

4.1. To put the size of the challenge facing the Council into context this section provides an understanding of the current cost, resource base and the financial savings that the Council has delivered since 2010.

4.2 In total, the Council is budgeting to spend around £2bn on day-to-day activities in 2016/17. This includes schools and the ring-fenced Housing Revenue Account. Excluding schools, the Council has direct control of some £1.5bn of expenditure.

Table 1 – Budgeted gross spend – 2016/17

	General Fund excluding Schools	Schools	Housing Revenue Account	Total Budget	% of total
	£000	£000	£000	£000	
Expenditure					
Employees	471,041	325,480	30,115	826,636	41
Premises	50,206	35,050	51,266	136,522	7
Supplies and services	30,815	74,630	108,109	213,554	11
Transport	42,824	1,757	497	45,078	2
Capital costs	23,345	26,545	59,505	109,395	5
Transfer payments	305,584	0	0	305,584	15
Payments to external service providers	363,449	0	176	363,625	18
	1,287,264	463,463	249,668	2,000,395	100

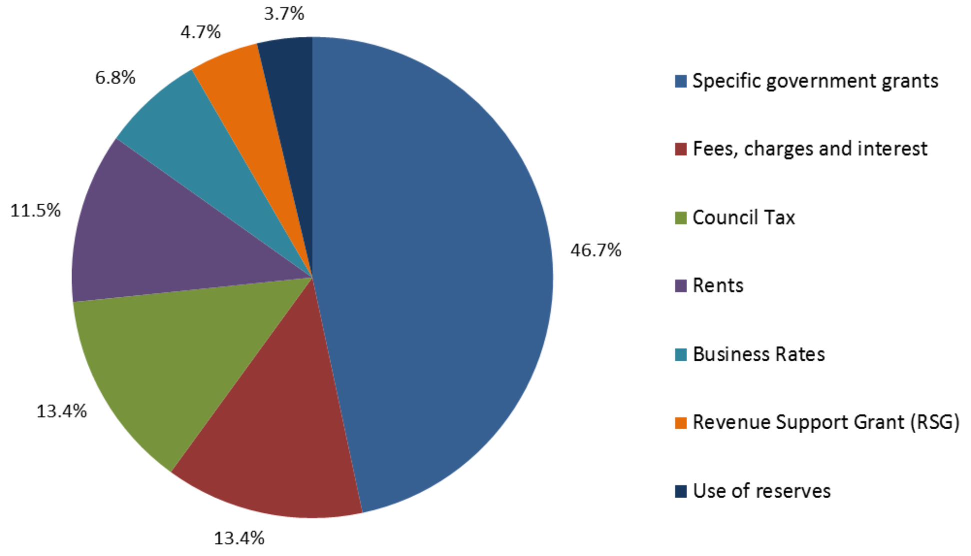
4.3 If we exclude the £287m which is spent on housing benefit payments, the £99m needed to meet the cost of long-term PFI contracts, the £34m levy that is paid to the West Yorkshire Combined Authority, the £46m that must be spent on Public Health activity and the £23m debt budget from the gross expenditure budget, this leaves a much smaller gross general fund cost base of £832m from which the Council can deliver further cost savings.

4.4 The table below sets out how the £2bn revenue spend is funded. The largest single funding source are specific government grants, which include the ring-fenced dedicated schools grant and housing benefit subsidy grant, which make up almost 47% of the total funding. Locally derived funding, in terms of Council Tax, retained Business Rates, Fees & Charges and Rents now makes up 45% of total funding whereas the central government core Revenue Support Grant is now less than 5% of total council funding. As explained later at section 6.3, there is currently work being undertaken nationally around the development of the business rates reforms linked to the intention for the local government sector to retain 100% of business rate income. These reforms are expected to be implemented by April 2020. Given the significance of these reforms, and their fundamental impact on how local authorities will be funded in the future, the funding analysis has been projected on the basis of the current system continuing until this date.

Table 2 – Leeds City Council Sources of Funding

Revenue - General Fund	**£000s**	**%**
Council Tax	267,126	13.4
Business Rates	136,204	6.8
Revenue Support Grant (RSG)	93,048	4.7
	496,378	
Specific funding		
Specific government grants	933,300	46.7
Fees, charges and interest	267,230	13.4
Rents	229,275	11.5
Use of reserves	74,212	3.7
	1,504,017	
Total funding	**2,000,395**	**100.0**

Chart 5 – Total Leeds City Council Revenue funding



4.5 The Council's General Fund Net Revenue Budget in 2016/17 is £496.4m which is funded by council tax, locally-retained business rates and the revenue support grant. The allocation by directorate is shown in table 3 below:

Table 3 – The council's general fund net revenue budget shown by directorate

2016/17 Budget	**Gross £m**	**Net £m**	**% of net budget**
Adult Social Care		201.3	40.55
Children's Services		120.5	24.27
City Development		43.0	8.66
Environment and Housing		53.9	10.86
Strategy and Resources		35.4	7.13
Citizens and Communities		24.6	4.96
Civic Enterprise Leeds		23.4	4.71
Public Health		0.3	0.06
Strategic and Central Accounts		(2.6)	(0.5)
Contributions to (from) general reserve		(3.4)	(0.7)
Net revenue budget		**496.4**	100.00

4.6 Of the £496.4m net revenue budget, almost 65% is prioritised to support critical Adult Social Care and Children's Services which reflects council priorities and also feedback through the budget consultation and engagement.

4.7 A different way of presenting the Council's budget is by Best Council Plan Outcome. This analysis at Table 4 shows that over 50% of the budget supports the outcomes of 'Enjoy happy, healthy, active lives' and 'Live with dignity and stay independent for as long as possible' with over 18% of the budget supporting services that help people to 'Be safe and feel safe'. Appendix 1 presents this graphically.

Table 4

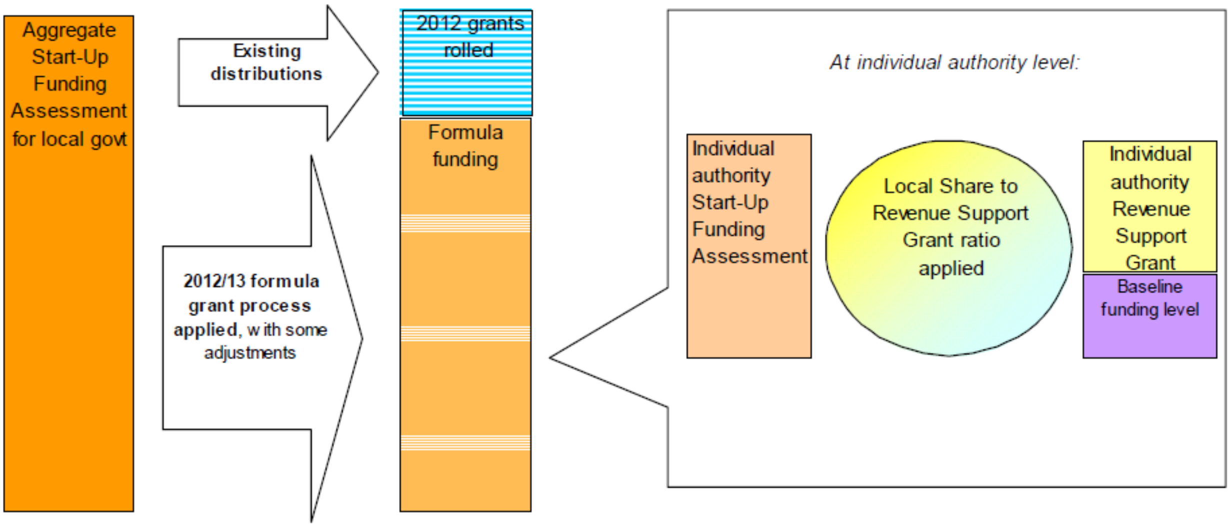
General Fund - Net Revenue Budget by Best Council Outcome

	£m	%
Be safe and feel safe	91.4	18.4
Enjoy happy, healthy, active lives	126.6	25.5
Live with dignity and stay independent for as long as possible	123.8	24.9
Do well at all levels of learning and have the skills they need for life	31.6	6.4
Earn enough to support themselves and their families	14.4	2.9
Live in decent, affordable homes within clean and well cared for places	57.7	11.6
Move around a well-planned city easily	23.0	4.6
Enjoy greater access to green spaces, leisure and the arts	27.9	5.6
	496.4	100.0

4.8 The Settlement Funding Assessment (SFA) forms an element of the funding of the Council's Net Revenue Budget. The SFA consists of the local share of business rates, and Revenue Support Grant.

4.9 The first Settlement Funding Assessment in 2013/14, which formed the starting point for setting Revenue Support Grant until 2020, was called the Start-Up Funding Assessment. As per the chart below, the starting point for the calculation of the Start-Up Funding Assessment in 2013/14 was formula funding, which was largely based on the 2012/13 formula grant methodology. Formula funding allocates funding in relation to estimates of local resources such as council tax and of the demand for each local service, through formulae based on population and other local data.

Chart 6 – Start-up Funding Assessment Calculation



4.10 As the local share of business rates has been fixed until 2020 to provide a strong incentive for local authorities to promote growth, any changes to the Settlement Funding Assessment can only be applied to the element of funding that is provided through Revenue Support Grant. From 2014/15 the allocation of Revenue Support Grant to local authorities was calculated by increasing, decreasing, or maintaining ("scaling") the 2013/14 allocations in line with the level of that year's Revenue Support Grant. Revenue Support Grant will be equal to the local government spending control total less the holdback and the uprated baseline funding level in 2013/14. Therefore, the levels of

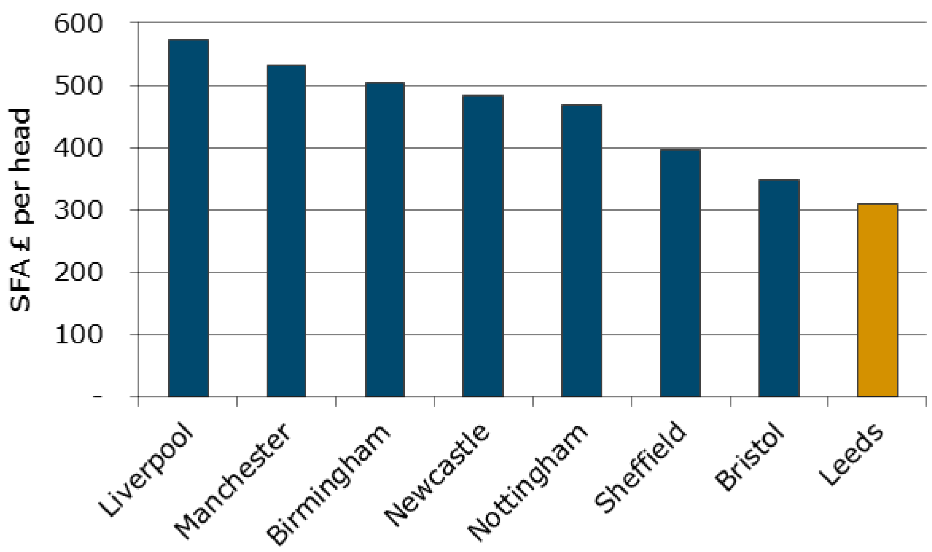
Settlement Funding Assessment funding for local authorities in 2016/17 are rooted in formula funding calculations which go back to at least 2012/13.

4.11 The table and chart below presents the settlement funding assessment per head for 2016/17 for each of the Core City local authorities in England. From the table, we can clearly see that Leeds ranks 8th out of the 8 council with an SFA of £311 per head which is some £262 less than the equivalent for Liverpool.

Table 5 – Core Cities, Settlement Funding Assessment per head 2016/17

	Liverpool	Manchester	Birmingham	Newcastle	Nottingham	Sheffield	Bristol	Leeds
	£	£	£	£	£	£	£	£
Core Funding	482	448	413	387	392	319	259	251
Council tax freeze grant 2011/12	9	7	7	9	8	9	10	9
Council tax freeze grant 2013/14	-	3	3	7	-	7	-	4
Early intervention grant	33	33	32	28	31	24	25	23
Learning disability and health reform grant	34	30	36	42	23	26	42	14
Local welfare provision	7	5	5	4	5	3	3	3
Care Act funding	7	5	6	6	6	6	6	5
Other funding	1	3	1	2	2	1	3	1
Total settlement funding assessment per head	**573**	**533**	**503**	**485**	**467**	**396**	**347**	**311**

Chart 7 – Core Cities, Settlement Funding Assessment per head 2016/17



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5 Estimated Budget Gap

5.1 The table below sets out the council's estimated budget gap over the next 3 years. It shows that the council's estimated headline funding gap for the period 2017/18 to 2019/20 is substantial: around £110m of which £82m is front-loaded into 2017/18.

Table 6: Forecast Cost and Funding Pressures 2017-2020

Estimated Changes in Funding	2017/18 In-year £m	2018/19 In-year £m	2019/20 In-year £m	2017-20 Total £m
Changes in national funding SFA				
Revenue Support Grant	28.0	18.5	18.7	65.2
Business rates - Baseline Funding	(2.9)	(4.3)	(4.9)	(12.1)
Sub total	25.2	14.2	13.8	53.2
Changes in local funding				
Increase in the Council tax base	(3.3)	(3.6)	(3.6)	(10.5)
Increase in Council Tax - Standard	(5.4)	(5.6)	(5.7)	(16.7)
Increase in Council Tax - Adult Social Care precept	(5.4)	(5.6)	(5.7)	(16.7)
Council Tax - reduction in collection fund surplus	0.3	1.5	0.0	1.8
Business Rates Retention - estimated growth	(0.0)	(3.0)	(3.0)	(6.0)
Business Rates - Collection Fund deficit(surplus)	(9.9)	(5.1)	0.0	(15.0)
Sub total	(23.7)	(21.4)	(18.0)	(63.1)
Sub total - Reduction/(increase) in Net Revenue Charge	**1.5**	**(7.2)**	**(4.2)**	**(9.9)**
Other Funding Changes				
New Homes Bonus	6.6	0.4	0.0	7.0
Public Health	1.2	1.2	1.1	3.5
Education Services Grant	4.3	2.5	0.0	6.8
Other funding - Children's Services	5.5	0.0	0.0	5.5
Adult Social Care - partner funding	4.7	4.6	2.6	11.9
Improved Better Care Fund	(1.5)	(11.1)	(10.1)	(22.7)
Reserves - General (£3.5m) & Earmarked (£4.8m)	8.3	0.0	0.0	8.3
Sub total	29.1	(2.4)	(6.4)	20.3
Change in Funding - (Increase)/decrease	**30.6**	**(9.6)**	**(10.6)**	**10.4**
Estimated Cost Changes				
Inflation (net)	8.3	8.4	8.5	25.2
Employer's LGPS Contribution	1.5			1.5
Apprenticeship Levy	1.6			1.6
Capitalised Pension costs	(0.8)	(0.7)	(1.1)	(2.6)
Campaign for Real Living Wage	0.4	0.7	0.8	1.9
National Living Wage - Commissioned Services	4.7	4.6	4.6	13.9
Demography & demand	9.0	5.9	4.9	19.8
Debt - external interest	1.5	0.1	(0.8)	0.8
Adult Social Care - charging review - full-year effect	(2.0)	0.0	0.0	(2.0)
Minimum Revenue Provision	19.4	6.1	4.1	29.6
Capitalisation of schools capital spend			2.5	2.5
West Yorkshire Transport Fund	0.2	0.2	0.2	0.6
Other Budget Pressures (SEN transport, WYPCC funding, Waste Strategy, car park closures, etc)	7.4	0.7	(1.8)	6.3
Sub total	51.2	26.0	21.9	99.0
Total - Estimated Budget Gap	**81.8**	**16.4**	**11.3**	**109.5**

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6 Budget Gap – Forecast Funding Changes

6.1 Core Spending Power

6.1.1 The Government's indicative assessment of the Council's Core Spending Power for Leeds, as per the 2016/17 final local Government finance settlement, shows a cash reduction of £10.2m in 2017/18 followed by cash increases of £4.7m and £11.1m in 2018/19 and 2019/20. Overall, the table shows a cash increase of £5.6m, or 1% over the four year period to 2019/20. It is important to note that the Government's definition of core spending power excludes reductions in other specific grants such as the Education Services and the Public Health grants and is therefore not an assessment of a local authority's ability to fund spend.

Table 7: Government's assessment of Leeds' Core Spending Power 2016/17 to 2019/20

Core Spending Power - Gov't Assessment	**2016/17 Final**	**2017/18 Indicative**	**2018/19 Indicative**	**2019/20 Indicative**	**2016/20 Increase / (decrease)**
Settlement Funding Assessment	238.0	212.9	198.7	184.8	(53.2)
Council Tax	256.3	264.2	272.7	281.6	25.3
Adult Social Care precept	5.1	10.5	16.4	22.8	17.7
Improved Better Care Funding	0.0	1.5	12.6	22.7	22.7
New Homes Bonus & Returned Funding	17.5	17.6	11.0	10.6	(6.9)
Core Spending Power	**516.9**	**506.7**	**511.4**	**522.5**	**5.6**
Year on Year Change (£m)		(10.2)	4.7	11.1	

6.1.2 Using the same definition of Core Spending Power, table 8 below presents the estimates included in the Financial Strategy. Overall, the table shows a cash increase of £4.9m or 0.9% over the four year period to 2019/20 which, after taking into account the impact of inflation, is a real-terms reduction in available funding. The main differences between the two assessments is that the Council has a higher figure for council tax base growth in 2016/17 and the phasing of the reduction in the New Homes Bonus (which is discussed in more detail at section 6.7)

Table 8: Leeds' Core Spending Power – 2016/17 to 2019/20

Core Spending Power - LCC	**2016/17 Budget £m**	**2017/18 Indicative £m**	**2018/19 Indicative £m**	**2019/20 Indicative £m**	**2016/20 Increase / (decrease) £m**
Settlement Funding Assessment	238.0	212.9	198.7	184.8	(53.2)
Council Tax	262.0	270.7	278.4	287.7	25.7
Adult Social Care precept	5.1	10.5	16.1	21.8	16.7
Improved Better Care Funding	0.0	1.5	12.6	22.7	22.7
New Homes Bonus & Returned Funding	17.6	11.0	10.6	10.6	(7.0)
Core Spending Power	**522.7**	**506.6**	**516.4**	**527.6**	**4.9**
Year on Year Change (£m)		(16.1)	9.8	11.2	

6.1.3 A point to note on the assessment of Core Spending Power is the change in the mix between national and local funding. In 2016/17, the split is 21.2% national funding and 78.8% local funding – by 2019/20, the forecast is that the proportion of national funding will fall to 11.6% with a corresponding increase in local funding to 88.4%. This shift from national to local funding echoes the shift in how the Council's net revenue budget will be funded and is before the move to 100% business rates retention and the phasing out of the Revenue Support Grant.

6.2 Settlement Funding Assessment

6.2.1 Through the final 2016/17 local government finance settlement, Government set out an offer to any council that wishes to take it up, of a four-year funding settlement to 2019/20. Government states that as part of the move to a more self-sufficient local government, these multi-year settlements can provide the funding certainty and stability to enable more proactive planning of service delivery and support strategic collaboration with local partners and that local authorities should also use their multi-year settlements to strengthen financial management and efficiency. The Government stated that it is making a commitment to provide central funding allocations for each year of the Spending Review period, should councils choose to accept the offer and on the proviso that councils have published an efficiency plan. Indicative allocations were published alongside the 2016/17 final settlement and for Leeds are shown in the table below in terms of the indicative Settlement Funding Assessment from 2016/17 through to 2019/20.
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Table 9 – Settlement Funding Assessment 2016/17 to 2019/20 split by Revenue Support Grant and Business Rates baseline funding

Settlement Funding Assessment	2016/17 Final £m	2017/18 Indicative £m	2018/19 Indicative £m	2019/20 Indicative £m	2017/20 Increase / (decrease) £m
Revenue Support Grant	93.0	65.0	46.5	27.8	(65.2)
Business Rates Baseline Funding	145.0	147.8	152.2	157.1	12.1
Total	238.0	212.9	198.7	184.8	(53.1)

6.2.2 As per the table above, between 2016/17 and 2019/20 the level of the core Revenue Support Grant is forecast to reduce by £65.2m, or approximately 70%. By 2019/20, the Revenue Support Grant is estimated to form just 5.5% of the Council's net revenue budget requirement.

6.2.3 The levels of revenue support grant and business rates baseline funding assumed in the Financial Strategy are in line with the indicative figures set out by Government and outlined in the table above.

6.3 Business Rates

6.3.1 Leeds has the most diverse economy of the all the UK's main employment centres and has seen the fastest rate of private sector jobs growth of any UK city in recent years. Yet this apparent growth in the economy is not being translated into business rates growth; in fact the Council's business rates income has declined month by month since the start of the 2015/16 financial year and other authorities are reporting similar problems.

6.3.2 Under the Business Rates Retention (BRR) scheme which was introduced in 2013/14, business rates income is shared equally between local and central government. Local authorities that experience growth in business rates are able to retain 50% of that growth locally. The downside is that local authorities also bear 50% of the risk if their business rates fall or fail to keep pace with inflation, although a safety-net mechanism is in place to limit losses from year to year to 7.5% of their business rates baseline.

6.3.3 Although BRR allows local authorities to benefit from business rates growth, it also exposes them to risk from reductions in rateable values. The system allows ratepayers and their agents to appeal against their rateable values if they think they have been wrongly assessed or that local circumstances have changed. When agreement cannot be reached, appeals may be pursued through the Valuation Tribunal and then through the courts. One major issue with the system is that successful appeals are usually backdated to the start of the current Valuation List, i.e. 1st April 2010, and this greatly increases the losses in cash terms – by nearly six times in the current financial year. At end of September 2015 there were approximately 6,500 appeals outstanding in Leeds and the total rateable value of the assessments with at least one appeal outstanding totals some £485m, which equates to more than half of the total rateable value of the city

Appeals Risk and Volatility

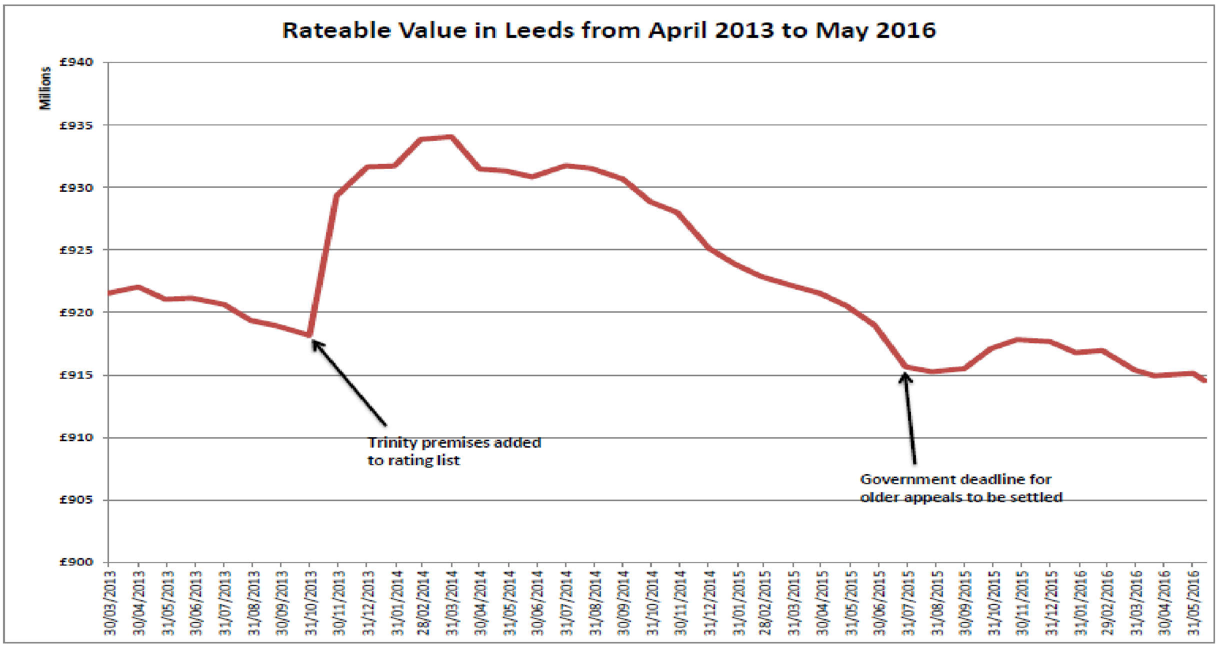
6.3.4. Perhaps the biggest flaw of the current 50% retention system is the effect of back-dated appeals which, for many authorities, including Leeds, has severely undermined the benefits of growth and over which local authorities have almost no control. The cost of appeals in Leeds since the system started in 2013/14 is almost £100m. Under 50% retention that risk is at least shared equally with Whitehall, but under 100% retention all the appeals risk will fall on local government.

6.3.5 Leeds has been lobbying on this issue since 50% retention was introduced in 2013/14. DCLG do recognise the problem and have suggested that appeals that are backdated to the 1st April 2017 (that is, the start of the new Valuation List) should be compensated for centrally under 100% retention. Whilst this is to be welcomed because it will remove much of the volatility in the system, it will be funded by a top-slice from elsewhere in the system, so in the long-run, authorities that would otherwise suffer large losses through appeals will effectively be compensated by authorities with lower levels of appeals.

6.3.6 Changes to large properties are also a major cause of volatility, particularly when a small number of properties dominate the valuation list in a small district. A good example is Hartlepool where a nuclear power station had its rateable value reduced by 48% to correct an error in the original 2010 valuation. That single change reduced Hartlepool's business rates income by 20% and resulted in them falling into safety-net for 2015/16 through no fault of their own. (The safety net mechanism is designed to protect local authorities from significant negative shocks to their income by guaranteeing that no authority will see its income from business rates fall beyond a set percentage of its spending baseline.) Leeds and others have argued that large, potentially volatile assessments should be placed in a Central List to protect vulnerable local authorities from large reductions in rateable value. However, some authorities are arguing that such properties should be retained in local lists so that they can benefit from growth if rateable values go up.

6.3.7 The chart below shows the headline rateable value for the city from the introduction of business rates retention in 2013/14 to the present day. From the chart we can see the impact from the opening of the Trinity shopping centre and other significant developments and thereafter how this growth in business rates has been eroded over time through successful appeals.

Chart 8 Business rateable value 2013-2016



Leeds City Region Business Rates Pool

6.3.8 The Council is a member of the Leeds City Business Rates Pool along with the other four West Yorkshire Authorities, Harrogate and York. The benefit of the pooling arrangement is that the levy income generated by Leeds, Harrogate and York is retained in the region rather than being paid over to the Government. The financial strategy assumes that this arrangement will continue through to 2019/20 although the business rate reforms may lead to the levy system being abolished which would remove one of the primary reasons for establishing the business rates pool.

100% Business Rates Retention

6.3.9 As detailed above in the national context and issues section, the move to 100% business rates retention has been widely publicised and a DCLG hosted Business Rates Retention Steering Group established and consultation process to end in September 2016. Given the uncertainties around this fundamental change to the whole local government finance system, the assumptions underpinning the Financial Strategy take no account of the potential national changes and are assumed to be revenue neutral Leeds.

6.4 Council Tax

6.4.1 The estimated funding within this financial strategy assumes, for planning purposes, that the Leeds element of the council tax will rise annually by 1.99% between 2017/18 and 2019/20. This is consistent with the Government's assessment of 'core spending power' for Leeds.

6.4.2 However, it should be stressed that under the Council's Constitution, the decision to set the council tax base and the rate of council tax can only be taken by Full Council and therefore these decisions will continue to be made as part of the Council's annual budget-setting process.

6.4.3 For 2016/17, the Leeds element of a band D council tax is £1,421.20 per year. The table below compares the level of council tax in Leeds against other core cities and shows that Leeds continues to be relatively low being 7th out of the 8 Core City local authority areas.

Table 10

Band D Council Tax 2016/17	**£:p**
Nottingham	1,771.08
Bristol	1,692.87
Liverpool	1,675.46
Newcastle	1,604.79
Sheffield	1,581.27
Manchester	1,435.12
Leeds	1,421.20
Birmingham	1,372.23

6.4.4 Recognising the city's housing growth strategy, the financial strategy assumes that the number of homes, and therefore the council tax base, will continue to grow. The combination of growth in the number of homes, together with the increase in the council tax rate, generates additional funding of £42.4m of funding over the 3-year period.

Table 11 Estimated Council Tax funding – 2016/17 to 2019/20

	2016/17 Baseline £m	**2017/18 Forecast £m**	**2018/19 Forecast £m**	**2019/20 Forecast £m**
Previous year Council Tax Funding	251.9	267.1	279.7	294.5
Change in Collection Fund - increase/(decrease)	(0.2)	(1.5)	0.0	0.0
Change in tax base - increase/(decrease)	5.2	3.3	3.6	3.6
Increase in Council Tax level	5.1	5.4	5.6	5.7
Adult Social Care precept	5.1	5.4	5.6	5.7
Total - Council Tax Funding	**267.1**	**279.7**	**294.5**	**309.5**
Increase from previous year		12.6	14.8	15.0
Cumulative increase from 2016/17 baseline		12.6	27.4	42.4

6.5 Adult Social Care Precept

6.5.1 The Spending Review announced that for the rest of the current Parliament, local authorities responsible for adult social care 'will be given an additional 2% flexibility on their current council tax referendum threshold to be used entirely for adult social care'. This flexibility is being offered in recognition of demographic changes which are leading to growing demand for adult social care, and increased pressure on council budgets. To ensure that this flexibility is used in accordance with the Government's intentions, and to ensure transparency for council tax payers, authorities will be required to provide certain information and undertake a number of actions. In addition, the Secretary of State has indicated that he will take account of authorities' actions when setting referendum principles in future years.

6.5.2 The estimated funding within this financial strategy assumes, for planning purposes, that the Council will continue to levy an Adult Social Care precept and that this will rise annually by 2% between 2017/18 and 2019/20. As with council tax, this is consistent with the Government's assessment of 'core spending power' for Leeds and will generate additional funding of £33m over the 3-year period.

6.6 Net Revenue Budget

6.6.1 The Council's Net Revenue Budget is the sum of income and funding from Council Tax, the Adult Social Care precept, the Revenue Support Grant and locally retained business rates.

6.6.2 The Council's net revenue budget for 2016/17 is £496.4m which was a reduction of £31.5m from the 2015/16 financial year. Taking into account the estimated changes in funding, the net revenue budget is forecast to reduce further in 2017/18 before increasing in both 2018/19 and 2019/20. As per the table below, the estimated increase between 2017/18 and 2019/20 is £9.9m.

Table 12 – Estimated changes to the Net Revenue Budget 2017/18 to 2019/20

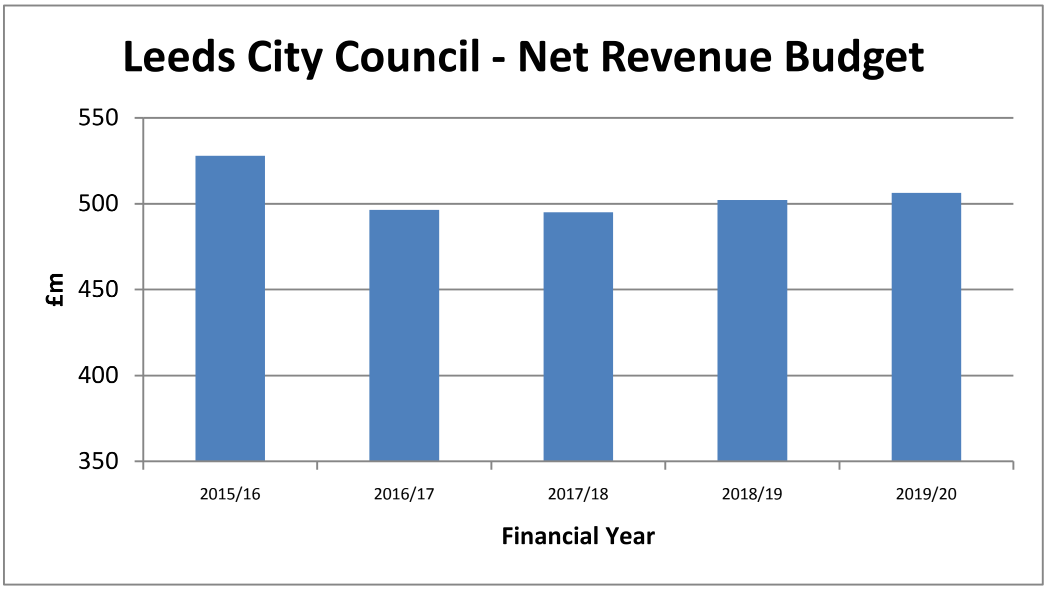
Funding Envelope	**2017/18 In-year £m**	**2018/19 In-year £m**	**2019/20 In-year £m**	**2017/20 Total £m**
Government Funding				
Settlement Funding Assessment	25.2	14.2	13.8	53.2
Sub-total Government Funding	**25.2**	**14.2**	**13.8**	**53.2**
Locally Determined Funding				
Council Tax	(8.4)	(7.7)	(9.3)	(25.4)
Adult Social Care Precept	(5.4)	(5.6)	(5.7)	(16.7)
Business Rates	(9.9)	(8.1)	(3.0)	(21.0)
Sub-total Locally Determined Funding	**(23.7)**	**(21.4)**	**(18.0)**	**(63.1)**
Decrease/(increase) in Net Revenue Budget	**1.5**	**(7.2)**	**(4.2)**	**(9.9)**

6.6.3 The table and chart below present the net revenue budget for 2016/17 and the forecasts for 2017/18 to 2019/20.

Table 13 – Forecast Net Revenue Budget – 2015/16 to 2019/20

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Net Revenue Budget	496.4	495.0	502.2	506.4

Chart 9 – Forecast Net Revenue Budget – 2015/16 to 2019/20



6.6.4 Within the overall net increase in the net revenue budget there is a significant forecast shift between nationally and locally derived funding. As per the table below, in 2016/17 the locally derived funding makes up 81.2% of the net revenue budget and the forecast is that this will increase to 94.5% by 2019/20. This shift from national to local funding reflects the phasing out of the Revenue Support Grant, the introduction of the Adult Social Care precept in 2016/17 and the estimated increase in the council tax base and council tax rate.

Table 14 – Estimated breakdown of the net revenue budget

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Council Tax	267.1	280.9	294.2	309.2
RSG	93.0	65.0	46.5	27.8
Business Rates	136.2	149.0	161.4	169.3
Net Revenue Budget	496.4	495.0	502.2	506.4

	2016/17	2017/18	2018/19	2019/20
	%	%	%	%
Council Tax	53.8	56.8	58.6	61.1
RSG	18.7	13.1	9.3	5.5
Business Rates	27.4	30.1	32.1	33.4
Net Revenue Budget	100.0	100.0	100.0	100.0

6.7 Other Grant and Funding Streams

Public Health grant

6.7.1 On the 4th November 2015, Government announced the outcome of the consultation on the implementation of a £200m national in-year cut to the 2015/16 ring-fenced Public

Health grant allocation. This confirmed the Department of Health's preferred option of reducing each local authority's allocation by 6.2%, which resulted in a reduction of £2.82m for Leeds in 2015/16.

6.7.2 In the Spending Review and Autumn Statement, the Government indicated it will make savings in local authority public health spending with a further cash reduction of 2.2% in 2016/17. It has become apparent that these reductions are in addition to the 6.2% 2015/16 reductions which will now recur in 2016/17 and beyond. Confirmation of the funding allocation was received on 11th February 2016 which confirmed a reduction to the Council's public health grant of £3.9m (7.7%) in 2016/17 with a total estimated reduction to the Council's grant allocation of £7.4m by 2019/20. This will effectively mean that the Council will have £25m less to spend on public health priorities between 2015/16 and 2019/20.

6.7.3 The Financial Strategy phases the further £3.5m of estimated cut in grant with reductions £1.2m in 2017/18, a further £1.2m in 2018/19 and a further £1.1m in 2019/20.

6.7.4 It is widely thought that with the introduction of 100% retention of business rates that the ring-fenced Public Health grant will disappear and become part of the new burdens to be funded by business rates.

Education Services grant

6.7.5 The Council and Academies in the city are allocated an Education Services Grant (ESG) on a per pupil basis according to the number of pupils for whom they are responsible.

6.7.6 The current consultation on the National Funding Formula indicates that the ESG will be significantly reduced and this is reflected in the financial strategy will a reduction of £4.2m for 2017/18 (equivalent to a 49% reduction on the 2016/17 grant allocation of £8.5m), and a further reduction of at least £2.4m in 2018/19.

New Homes Bonus (NHB)

6.7.7 The Government introduced an incentive scheme in 2011 to encourage housing growth across the country: councils receive additional grant equivalent to the average national Council Tax for each net additional property each year which is received annually for six years.

6.7.8 Whilst the New Homes Bonus is intended as an incentive for housing growth, it should be noted the funding for this initiative comes from a top-slice of the Local Government Funding Settlement and the distribution of this funding benefits those parts of the country with the highest level of housing growth and is weighted in favour of properties in higher Council Tax bands.

6.7.9 The Chancellor announced in the 2015 Spending Review that the New Homes Bonus would be reduced by at least £800m in order to redirect funding to support adult social care services via the improved Better Care Fund. A consultation was launched in December 2015 which has now ended and the Government are considering the responses, with any announcement on a revised New Homes Bonus unlikely until later in 2016.

6.7.10 The Financial Strategy assumes reductions in the level of New Homes Bonus of £6.6m in 2017/18 with a further reduction of £0.4m in 2018/19. These reductions reflect the Government's indicative Core Spending Power assessment for Leeds adjusted to reflect that we accrued for the funding at the outset of the scheme.

Health Sector Reforms and Better Care Funding

6.7.11 Partnership working with the health sector Sustainability and Transformation Plans (STPs) are discussed in more detail at section 3.

6.7.12 The Financial Strategy includes an additional £22.7m by 2019/20 of additional grant funding from the Improved Better Care Fund. The estimates assumed in the Financial Strategy are in line with the indicative amounts included in the Final Local Government Settlement and are set out in the table below;

Table 15: Improved Better Care Fund

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2017/20 £m**
Improved Better Care Fund	0.0	1.5	11.1	10.1	22.7

6.7.13 At the same time, the Financial Strategy also assumes reduced funding from health partners of £11.9m by 2019/20, although this is subject to ongoing discussion.

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7 Budget Gap - Forecast Cost Changes

7.1 Inflation

7.1.1 The financial strategy makes allowance for £25m of net inflation across 2017/18 through to 2019/20. This includes provision of £4m each year for a 1% pay award in each year over and above the cost of implementing the living wage. The financial strategy makes allowance for inflation where there is a contractual commitment, but anticipates that the majority of other spending budgets are cash-limited. An anticipated 3% rise in fees and charges has also been built into the financial strategy.

7.2 Real Living Wage

7.2.1 At its September 2015 meeting, the Executive Board agreed that the Council would move towards becoming a real Living Wage employer. In November 2015, the Campaign for Living Wage Foundation announced a living wage of £8.25 per hour (outside London) and the Council began the move to become a real living wage employer during 2016/17 by implementing a minimum rate of £8.01 per hour from April 2016. The latest estimated cost of implementation to the general fund is £2.6m in 2016/17 with additional costs of £0.7m in 2017/18 and 2018/19 and a further increase of £1m in 2019/20. In addition, the cost to the Housing Revenue Account would be in the region of £0.2m in 2016/17 with the impact for schools-based staff being around £2.1m. By paying a real Living Wage of £8.01 per hour from the 1st April 2016, the Council is not committing to automatic indexed future increases. Any future increases will need to take into account recommendations from the Living Wage Foundation, any national pay increases, affordability and the financial circumstances of the Council.

7.3 Local Government Pensions

7.3.1 The next Actuarial Valuation will take place in December 2016. Employers' pension contribution rates have been fixed at 14.2% until the end of 2016/17. The forecast assumes that further provision will have to be made in 2017/18 to address the service pension deficit. An increase of 0.5% on the Employers' contributions has been included into the forecast, which will cost an estimated £1.5m in 2017/18. Following the referendum vote to leave the European Union the gilt yields have fallen which, if they do not recover, will have implications for the calculation of the LGPS fund liabilities and the pension deficit. Similarly, if share prices fall then this will have a negative impact on the triennial valuation.

7.4 Apprenticeship Levy

7.4.1 The Government has made a commitment to see an additional 3 million apprenticeship starts in England by 2020. An Apprenticeship Levy will be used to fund quality training. From April 2017 larger organisations will pay a levy equivalent to 0.5% of their pay bill. Organisations with pay bills less than £3m will be exempt from the levy. This will be achieved by giving all employers a £15k allowance to offset against their levy payment. The levy will be applied to both private and public employers with the levy will be used to fund apprenticeship training. The overall levy for the Council is estimated to be around

£3.1m in total of which £1.4m and £0.1m relate to Schools and the Housing Revenue Account. The forecast includes a cost of £1.6m in 2017/18 for the general fund services.

7.5 Demography and Demand

7.5.1 The forecast recognises the increasing demography and consequential demand pressures for services in Adult Social Care and Children's Services with increased costs of £19.8m across the life of the financial strategy. The population growth forecast assumes a steady increase from 2015, in the number of people aged 85 -89 during 2016 and 2017 (2.9% and 2.8% respectively) followed by further increases but at a lower rate at 1.8% for the later years of the strategy, resulting in additional costs for domiciliary care and placements (£3.5m). In addition, the strategy reflects the anticipated impact of increasing cash personal budgets of £2m across through to 2020. The Learning Disability demography is expected to grow by £3.7m per annum, which includes an anticipated growth in numbers of 3.5% (based on ONS data) over the period; but noting that the high cost increase is primarily a combination of increasingly complex (and costly) packages for those entering adult care, as well as the meeting the costs of the increasing need for existing clients who's packages may last a lifetime.

7.5.2 Children's Services continues to face significant demographic and demand pressures as a result of high birth rates (particularly within the most deprived clusters within the city), increasing inward migration into the city (particularly from BME groups from outside the UK), the increasing population of children & young people with special and very complex needs, greater awareness of the risks of child sexual exploitation, growing expectations of families and carers in terms of services offered and changes in government legislation, including "staying put", arrangements that enable young people to remain with their carers up to the age of 21.

7.6 Debt (external interest)

7.6.1 The forecast makes allowance for an increase in the Council's estimated debt costs with additional costs of £1.5m in 2017/18, £0.1m in 2018/19 and a reduction of £0.8m in 2019/20. This reflects the on-going investment through the capital programme together with anticipated changes to interest rates across the planning period. 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.

7.7 Minimum Revenue Provision (MRP)

7.7.1 The Minimum Revenue Provision (MRP) is an annual revenue charge for the repayment of borrowing and other capital financing liabilities. Statutory guidance sets out the broad aims of a prudent MRP policy, which should be to ensure that borrowing is repaid either over the life of the asset which the capital expenditure related to or, for supported borrowing, the period assumed in the original grant determination. The forecast includes additional costs of £29.6m over the period which arise from a combination of additional investment in assets via the Council's capital programme alongside the impact of one-off savings in the 2016/17 budget which will reverse in 2017/18.

7.8 National Living Wage

7.8.1 As part of the budget in July 2015, Government announced the introduction of a new National Living Wage of £7.20 per hour, rising to £9 per hour by 2020. Implemented from April 2016, the national living wage would be paid to all employees aged over 25. In addition to the additional cost of implementing the Real Living Wage for all directly-employed staff, the financial strategy also makes allowance for implementing the cost of the National Living Wage for commissioned services. Additional costs of £13.9m have been recognised in the forecast with £4.7m falling to 2017/18 and £4.6m falling to 2018/19 and 2019/20.

7.9 West Yorkshire Combined Authority (WYCA)

7.9.1 From the 1st April 2015 the WYCA began operations overseeing strategies for growing the economy, creating jobs, developing new affordable homes and improving the transport network. Discussions as to how to bridge the gap between the aspiration to deliver a £1.4bn Transport Fund compared to the Government's commitment of £1bn over 20 years may result in an increase in contributions by local council from 2016/17. The initial forecast for council levies indicates a further £1.8m per annum would eventually be required from Leeds by 2024/25, with the levy increasing on average by £0.2m per year. This has been built into the forecast.

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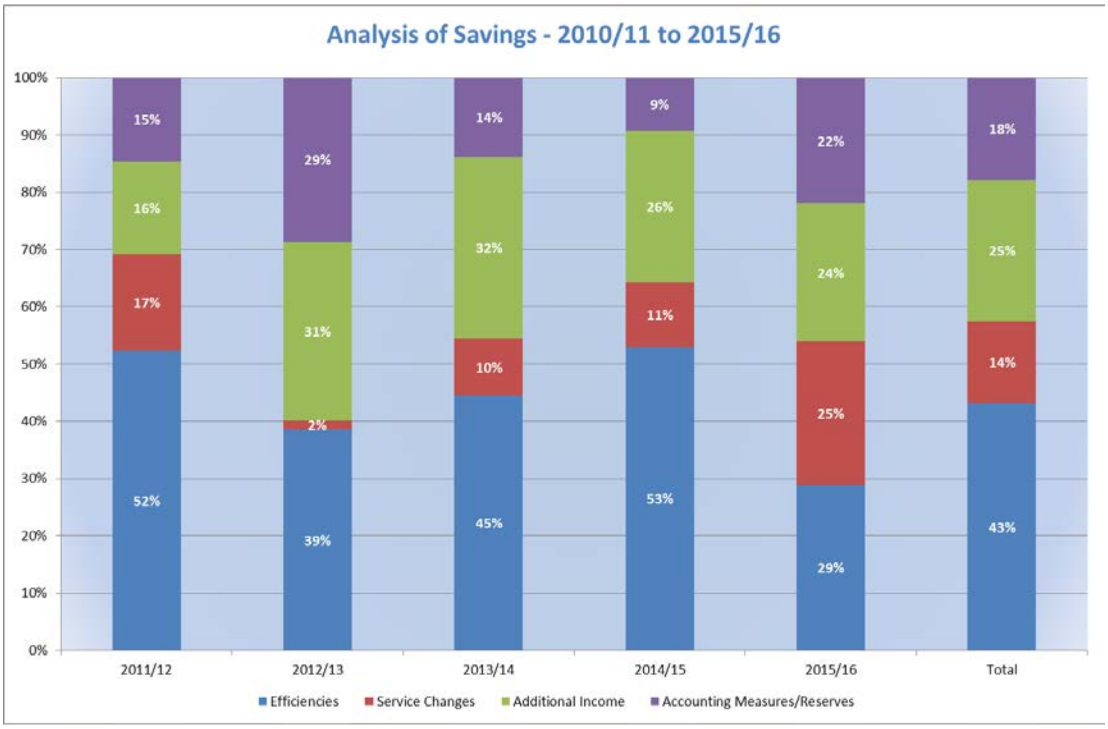
8 Financial & Efficiency Plan

8.1 Since 2010, the Council has delivered over £400m of savings, efficiencies and additional income. The chart below presents a summary of these savings, efficiencies and additional income with more detail available in the annual budget reports to full council.

Chart 10: Analysis of Savings, efficiencies & income since 2010



8.2 In terms of efficiencies, the Council has taken quite a distinctive approach. Our focus has been on efficiencies from: stimulating good economic growth; and creatively managing demand for services. This whole city approach drives ambitious plans despite austerity. It's born from our vision for Leeds to be the best city in the UK: one that is compassionate with a strong economy that can tackle poverty and reduce inequalities. This approach coupled with a significant programme of more traditional efficiencies has enabled the council to make the £400m of savings whilst simultaneously creating the conditions for a thriving and sustainable city where people's lives are better

8.3 Of course, efficiency of the Council's own operations remains important and we have reduced budgets in all areas of the council and continue to do so, whilst protecting frontline services and those for the most vulnerable. At the centre of this work is a whole organisation cultural change programme coupled with modernisation of the work environment creating the necessary conditions for fundamental organisational change and efficiency improvements. Our key achievements include:

- Staff reductions of 2,500 without compulsory redundancy – saving £55m pa.
- £2.4m savings from changes in terms and conditions of staff;
- Over 50% reduction in agency staff since 2013;
- Over £35m of procurement savings since 2010/11;

- Asset review – getting the most from the assets we own and investing in new assets where it makes financial sense, saving over £4m since 2013/14;
- An annual saving in the cost of waste disposal of approximately £7m following the completion of the Recycling and Energy Recovery plant in 2015.
- Innovative use of balance sheet to generate £35m savings in 2015/16; and
- More effective working with city partners to maximise the impact of the 'Leeds Pound'.

8.4 Inevitably, managing the large reduction in government funding and increasing cost pressures has also meant that the council has had to make some difficult decisions around the level and quality of services. However, as signposted in the 2016/17 Best Council Plan and 2016/17 Budget reports to Council in February 2016, and noted in the Foreword to this Strategy, it will become increasingly difficult over the coming years to identify further financial savings without significant changes in what the council does and how it does it. This will have significant implications for the services provided directly and commissioned by the local authority, impacting upon staff, partners and service users. In order to deliver the council's ambitions aimed at tackling poverty and reducing inequalities, those services that are no longer affordable and a lesser priority than others will be delivered differently or, in some cases, stopped. This will be achieved through a proactive process of policy and service reviews across the council's functions and ongoing consultation and engagement.

Policy & Service Review Programme

8.5 In February 2016, Full Council approved the 2016/17 Best Council Plan and the supporting Budget. The Best Council Plan is the council's strategic planning document and sets the context and policy direction against which the budget and medium-term financial strategy are developed. The policy direction is clearly explained in the 2016/17 Best Council Plan: that the council's 'Best City' and 'Best Council' ambitions remain - articulated around Leeds having a strong economy and being a compassionate city and the council being an efficient and enterprising organisation – with a focus on reducing poverty and tackling the range of interlinked inequalities that persist across the city.

8.6 The reports that accompanied the proposals to Executive Board and then Full Council on the 2016/17 Best Council Plan and Budget identified that the future financial climate for local government presented significant risks and challenges to the council's priorities and ambitions and that, whilst every effort would be made to protect the front-line delivery of services, changes to *what* the council does and *how* it does it would be unavoidable.

8.7 To help identify options for what those changes might be, from April 2016 an ongoing process of reviews has been carried out across a range of services and policy areas with the active involvement of the Best Council Leadership Team (the c. 50 most senior managers) and service managers throughout the organisation. With the Best Council Plan focus on tackling inequalities being central to any proposals, the reviews have identified possible savings / income generation opportunities, decision-making routes for any changes to be implemented, initial identification of possible third sector and equality impacts and a high-level risk assessment. Of particular note are the two key cross-cutting reviews on Support Services and Locality working / leadership (both incorporating reviews of JNC – senior management – staff) and reviews assessing options around income and trading.

8.8 The latter follows on from Executive Board's approval at its February 2016 meeting of the recommendations in the report on fees and charges from Scrutiny Board (Strategy & Resources). These included agreement that all fees would be reviewed annually by at least the rate of inflation, that officers should benchmark their charging frameworks each year and that full-cost recovery in line with CIPFA guidance should apply as part of the annual budget setting process.

8.9 The service and policy reviews have been – and will continue to be – updated as part of an iterative approach to developing the council's strategic plan and aligned medium-term financial strategy and annual budgets. All services are within scope though the council remains committed to protecting front-line services as far as possible – especially those that provide support to the most vulnerable.

8.10 The table below presents a summary of the potential savings arising from the service & policy review savings, presented thematically.

Table 16 – Summary of policy & service review savings

	In-year variation			
	2017/18	2018/19	2019/20	Movement from 16/17 baseline
	£m	£m	£m	£m
Estimated Budget Gap	81.8	16.4	11.3	109.5
Service Efficiencies & Reviews	(31.4)	(8.1)	(8.0)	(47.4)
Review of Locality Services	(2.5)	(0.5)	0.0	(3.0)
Review of Support Services	(5.6)	(2.0)	0.0	(7.6)
Sub Total Service Reviews & Efficiencies	**(39.5)**	**(10.6)**	**(8.0)**	**(58.0)**
Additional Income from existing charges	(8.2)	(0.9)	(0.4)	(9.5)
New Fees and Charges	(1.0)	(0.2)	(0.1)	(1.2)
Reduction in spend funded by specific grant	(4.4)	(1.3)	(1.1)	(6.7)
Accounting Measures	(3.2)	(0.6)	0.0	(3.8)
Use of One off / Reserves	(12.9)	7.2	(6.1)	(11.8)
Draft Savings Proposals	**(69.0)**	**(6.4)**	**(15.6)**	**(91.0)**
Gap	**12.8**	**10.0**	**(4.3)**	**18.5**

8.11 The total estimated savings from service reviews, efficiencies and additional income from fees and charges that the council is seeking to generate over the three year plan total approximately £91m. This is not sufficient to entirely deal with the forecast cost pressures and grant reductions of £110m that the council faces.

8.12 The current gap over the three year plan is £18.5m, with £12.8m being the forecast level of the shortfall in 2017/18. Further work will be required to close this gap and officers will continue to work on proposals for members' consideration

8.13 Service reviews and opportunities for further efficiencies have been undertaken and it is proposed that savings of £58m can be made through the successful implementation. Those areas which are anticipated to be able to generate significant savings beyond £0.5m are identified in the table below.

Table 17

Proposals for Savings from Review of Services & Efficiencies

			2017/18 £m	2018/19 £m	2019/20 £m	Movement from 16/17 Base £m
a)	**Adult Social Care**	Review the number / cost of care packages across all client groups	(4.0)	(3.0)	(1.5)	(8.5)
b)		Review of Council run services including residential homes and day care facilities	(1.9)	(0.4)	(0.4)	(2.7)
c)		Reduction in spend to limit budget increase to the 2% ASC precept & increase in Better Care Fund	(2.6)			(2.6)
d)	**Children's Services**	Review of Children's Social Work services and staffing savings	(1.6)	(0.5)	(0.5)	(2.6)
e)		Reduction in the cost of looked after children		(1.5)	(2.5)	(4.0)
f)		Review of children's centre services	(1.6)			(1.6)
g)		Review and reduce spend on commissioning and other contracts	(1.5)			(1.5)
h)		Additional income from traded activity with schools	(1.4)			(1.4)
i)	**City Development**	Sport & Active lifestyle - review of facilities to generate cost reductions and additional income from reinvestment	(0.7)	(0.4)	(0.4)	(1.5)
j)		Review of library and museum provision across the City	(0.5)	(0.1)	(0.0)	(0.7)
k)	**Environment & Housing**	Waste Management - review of the refuse collection service	(1.6)			(1.6)
l)		Parks and Countryside - Reduction in horticultural maintenance, number of grass cuts and other operational cost reductions	(0.9)		(0.1)	(1.0)
m)		Strategic Housing support - contract savings and reduction in staffing costs	(0.8)			(0.8)
n)		Leeds Building Services - service efficiencies & reduction in the use of sub contractors	(1.8)			(1.8)
o)	**Citizens and Communities**	Contact Centre review; savings from improved productivity, improved technology and reduced calls from channel shift	(0.6)	(0.3)		(0.9)
		Review Community teams and grants to the 3rd sector	(0.4)	(0.1)		(0.5)
p)	**Cross Cutting**	Reduction in cost of all support services including a focus on reducing numbers of senior management posts	(5.6)	(2.0)		(7.6)
q)		Reduce cost of locality leadership, management & working through greater integration of services	(2.5)	(0.5)		(3.0)
		Major Review Areas	**(30.0)**	**(8.8)**	**(5.4)**	**(44.2)**
		Other Service Reviews and Efficiencies	(9.5)	(1.8)	(2.5)	(13.8)
		Sub Total Service Review and Efficiencies	**(39.5)**	**(10.6)**	**(8.0)**	**(58.0)**

8.14 **Support Services** - savings in excess of £7m across the council's support services functions are included within the strategy. The savings are front loaded, with £5m included in 2017/18 and a further £2m in 2018/19. The savings are anticipated to accrue from all support services areas including business administration, finance, HR, IT and programme /project management. There will also be a focus on reducing the number of senior management (JNC) posts in these functions.

8.15 **Localities** – Continuing the work on locality management /working the proposal is to review and reduce locality leadership and management through a greater integration of services, whilst ensuring that the Council continues to support communities and families. This will generate savings of £3m by March 2019The forecast total savings over the period of the plan is approximately £91m which still leaves a gap of £18.5m to be found.

8.16 **Income** - A key feature of the financial strategy is for the Council to become more efficient and enterprising in the way it trades with external organisations and to generate additional income from both existing chargeable services and the introduction of new charges for some services. The strategy assumes that an additional £10m will be generated over the next three years.

8.17 **Accounting Measures** - The financial plan assumes that there will be further capitalisation totaling £3.8m over the three year period. This includes capitalising Highways Maintenance spend (£0.8m).

8.18 The table below provides an indicative budget for 2017/18 based on the cost pressures identified in Section 7 and the proposed savings from service reviews, efficiencies and additional income.

Table 18: Indicative 2017/18 budget

Net Managed Budget	**OE 2016/17**	**Indicative 2017/18**	**Change**	
	£000	**£000**	**£000**	**%**
Adults	201,340	208,111	6,771	3.4
Children's Services	120,453	125,934	5,481	4.6
City Development	42,994	37,624	(5,370)	(12.5)
Environment & Housing	53,903	47,176	(6,727)	(12.5)
Strategy & Resources	35,412	30,268	(5,144)	(14.5)
Citizens & Communities	24,575	21,648	(2,927)	(11.9)
CEL	23,371	23,387	16	0.1
Public Health	346	396	50	14.5
Strategic & Central Accounts	2,249	24,834	22,585	
Budgeted use of Reserves	(8,265)	(11,700)	(3,435)	
Savings still to find		(12,800)	(12,800)	
Net Budget	**496,378**	**494,878**	**(1,500)**	
Note: Adults and Children %	64.8	67.5		2.7

8.19 This indicative budget, whilst recognising the fact that £12.8m of savings still need to be identified in the next financial year, shows that the council is continuing to prioritise its general fund budget towards front line services. The proportion of the total general fund budget being spent in Adult Social Care and Children's services now is forecast to be over 67% with an estimated £12m of additional spend in these services.

8.20 It should be stressed that the proposals resulting arising from the service / policy reviews and charging proposals will be subject to specific decision-making processes in which the legal implications, access to information and call-in will be considered in accordance with the council's decision-making framework. This includes compliance with the legal requirements around managing staffing reductions.

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9 Workforce Strategy

9.1 Following the 2015 Comprehensive Spending Review the council re-issued a Section 188 notice (notice to collectively consult to avoid redundancies issued under s.188 TULRCA 1992) stating that it is anticipated the council will need to downsize by 1,000 – 2,000 FTEs by the end of March 2020.

9.2 The council will continue to seek ways of avoiding compulsory redundancies - for example through the authority's Early Leavers Initiative (ELI) scheme and normal staff turnover - however, it is unlikely that this will be sufficient.

9.3 The process for making redundancies is clearly set out in the council's Managing Staffing Reductions (MSR) policy and is based on the assumption that the requirement for activities and / or work has either lessened or stopped. Trade Union and staff engagement will be critical to try and maintain trust and confidence to minimise the impact on staff morale and productivity.

9.4 There are specific timescales set out in law for collective consultation to avoid redundancies which must be adhered to in order to avoid the very real risk of legal challenge around failing to meet minimum consultation requirements, incorrect selection for redundancy and/or failure to give adequate notice of termination due to redundancy.

9.5 In addition to staffing levels being reduced by the methods outlined above, many of the service reviews being undertaken will generate efficiency savings. These efficiencies may require some members of staff to change how and where they work as part the council's Changing the Workplace and other transformational change programmes.

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10 Housing Revenue Account

10.1 The Housing Revenue Account (HRA) includes all expenditure and income incurred in managing the Council's housing stock and, in accordance with Government legislation, operates as a ring fenced account.

10.2 Policy changes already implemented by Government will have a significant impact on the HRA budgets from 2017/18 to 2019/20, particularly in respect of rental income streams. These changes are as follows:-

- The 2016 Welfare Reform and Work Act introduced the requirement for all registered social housing providers to reduce social housing rents by 1% for the 4 years from 2016/17. This reduction was implemented by the Council in 2016/17 with a subsequent loss of £2.1m in rental income. Reducing rents by a further 1% in each of the three years from 2017/18 to 2019/20 equates to an additional estimated loss of £18.5m in rental income over this period.
- The rollout of Universal Credit in Leeds commenced in 2016 and once fully implemented it will require the Council to collect rent directly from around 24,000 tenants who are in receipt of full or partial Housing Benefit. Although the financial impact of this is still difficult to quantify it is likely to have implications for the level of rental income receivable.
- A reduction in the qualifying period after which tenants are able to submit an application to purchase a council house through the Government's Right to Buy legislation continues to sustain an increase in the number of sales and the subsequent reduction in the amount of rent receivable.

10.3 In addition to the above, the Housing and Planning Act 2016 which received Royal Assent in May 2016 introduces a number of Government proposals which when implemented are likely to have a significant impact on HRA resources.

10.4 The Act requires local authorities to sell their higher value homes and allows the Government to estimate the amount of money that they expect each local authority to receive from such sales each financial year. Authorities will then be required to pay a proportion of these receipts to the Treasury every quarter. Details of the definition of higher value homes and the mechanism by which the Government will calculate the amount to be paid by each Authority are yet to be published.

10.5 The Act also requires local authority tenants with a higher income (defined as a household earning more than £31,000 per year) to pay a higher rent from April 2017. The Act requires that tenants declare their income to their landlord and that additional income collected is paid to the Treasury. While it is understood that authorities will be able to retain reasonable administrative costs of applying the policy, it is anticipated that initially, significant staffing resources from the service will be needed to implement the policy. It is also anticipated that the policy may lead to an increase in Right to Buy applications, as a mortgage will offer greater value for money for some tenants.

10.6 Since all housing priorities are funded through the HRA any variations in the rental income stream or Government call on resources will impact upon the level of funding available for the delivery of the Council's housing priorities.

10.7 The Council remains committed to maintaining investment in its stock and to replacing homes lost through Right to Buy by the investment in new homes and the buying up of empty homes.

10.8 Reduction in resources will need to be managed in addition to other service, pay and price pressures. Balancing the HRA budget will continue to be achieved through a proactive process of service reviews leading to efficiencies and improved targeting of resources. The use of reserves and borrowing will be considered as appropriate.

10.9 Value for money will continue to be delivered through the informed commissioning of more planned maintenance programmes which will mitigate the requirement to resource more expensive responsive repairs to properties.

10.10 Consideration will be given each year to increasing charges where appropriate to reflect more closely the costs associated with providing services. This will generate additional income which will contribute towards offsetting the reduction in resources.

10.11 The HRA Business Plan (which includes a 10 year Financial Plan) is the strategic plan of how the Council intends to manage the delivery of its council housing. This is currently being revised and will include the impact of the above legislation when known. It is anticipated that additional details and guidance will be available in the next few months.

10.12 The HRA Business Plan will be received at a future meeting of the Executive Board.

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11 Schools

National Funding Formula for Schools and Academisation

11.1 The Queen's speech to parliament in May 2016 reaffirmed the government's commitment to the academisation agenda and to the introduction of a new national funding formula (NFF) intended to deliver a fairer and more transparent funding system for all schools.

11.2 Following recent criticism of the government's plans to 'force' all schools, regardless of their performance, to become academies, it is anticipated that the new 'Education for All Bill' references within the Queen's speech, will enable the government to focus their efforts on those schools that are deemed to be most at risk of failing their pupils.

11.3 The 2016/17 bill is therefore likely to bring forward legislation which will trigger the conversion of <u>all</u> schools within a local authority area where the government considers that:

- A local authority can no longer viably support its remaining schools because a critical mass of schools within that area have already converted to academy status; and/or
- A local authority consistently fails to meet a minimum performance threshold across its schools, demonstrating an inability to bring about meaningful school improvement (this threshold still to be defined)

11.4 Currently only a relatively small proportion of primary schools in Leeds have converted to academy status (25 academies equating to circa 11% of all primary schools), however a larger proportion of secondary schools have converted (currently 20 secondary academies equating to 50%+ of all secondary schools in Leeds).

11.5 The first stage of consultation on the new National Funding Formula (NFF) for schools was launched in March 2016 and reinforced the government's direction of travel in terms of significantly reducing the role of local authorities in running and supporting schools. The consultation also gave an indication of the scale of reduction in Education Services Grant (ESG) that Council's will face in 2017/18 and beyond - which for Leeds is expected to be £4.2m for 2017/18 with a further reduction of around £2.4m expected by 2018/19.

11.6 The first stage of consultation which closed in April 2016 dealt with only the general principles of the NFF and so at this stage it is not possible to gauge the potential change on the total funding for Leeds or in the distribution of funding between types of schools/academies. The Education Secretary did however recently confirm that the government is no longer intending to implement the NFF from 2017/18 and that for the 2017/18 academic year schools will continue to be funded through the local formula set by their local authority.

11.7 The majority of the Dedicated Schools Grant is passed directly to schools and therefore any conversion of maintained schools to academies, whilst affecting the Council in its duties as a local education authority, will not have a direct significant impact on the Council's net budget.

11.8 However, the National Funding Formula does signal an end to Leeds' ability to top-slice Schools Block Dedicated Schools Grant (DSG) to fund the Council's cluster arrangements. Historically, this top-slice has provided £5.2m of additional funding to support early intervention and preventative work in clusters. From April 2017 individual schools will have the choice of whether or not they want to invest in this arrangement.

11.9 The Government has indicated that it will respond to the first phase of consultation on the National Funding Formula in autumn 2016 and will launch the second phase of consultation around the proposed detail of the policy "later in the year".

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12 Reserves Policy

General Fund Reserves

12.1 Under the 2003 Local Government Act, the Council's statutory financial officer (in Leeds the Deputy Chief Executive) is required to make a statement to Council on the adequacy of reserves as part of the annual budget setting process. It is also good practice for the Authority to have a policy on the level of its general reserve and ensure this is monitored and maintained.

12.2 The purposes of the general reserve policy are to:

a. Maintain general reserves at a level appropriate to help longer-term financial stability; and
b. Identify any future events or developments which may cause financial difficulty, allowing time to mitigate for these.

12.3 The general reserve policy encompasses an assessment of financial risks both within the medium-term financial strategy and also in the annual budget. These risks should include corporate/organisational-wide risks and also specific risks within individual directorate and service budgets. This analysis of risks should identify areas of the budget which may be uncertain and a quantification of each 'at risk' element. This will represent the scale of any potential overspend or income shortfall and will not necessarily represent the whole of a particular budget heading. Each assessed risk will then be rated and scored in terms of impact and probability.

12.4 As part of the policy, all directorates are required to prepare action/contingency plans to mitigate potential spending variations on budgets controlled by directorates during the financial year. These plans should recognise the assessed level of risk in the directorate's budget.

12.5 Given the uncertainty about the future government funding, the financial challenges ahead and the inherent risks in future budgets, there is a strong argument that the level of general reserves should be increased over the next few years in order to increase the Council's financial resilience. To this end, it is proposed that additional specific capital receipts from asset sales are ring-fenced and used to reduce the Council's minimum revenue provision requirement and that these additional savings are then used to increase the level of the general reserve.

12.6 The financial strategy therefore looks to use some of the general reserve in 2017/18 to mitigate some of the front-loading impact financial challenge but then to successively increase the level of general reserve in 2018/19 and 2019/20 to almost £25m at April 2020. Table 19 sets out the indicative general reserve level from 2017/18 through to 2019/20.

Table 19 – Estimated General Reserve balances

General Reserve	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Brought Forward 1st April	17.8	16.4	17.3
Movement in year	(1.4)	0.9	7.5
Carried Forward 31st March	**16.4**	**17.3**	**24.8**

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13 Treasury Management Strategy

13.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities as amended 2011.

13.2 The objective of treasury management is to ensure that the Council's: debt portfolio and new debt requirement is efficiently managed; investments provide the best return that is consistent with the Council's risk appetite; and Council cash flow is managed efficiently.

13.3 The Treasury Management Policy Statement (TMPS) outlines the procedures and considerations for the treasury function as a whole and the Treasury Management Strategy (TMSS) sets out the strategy for the forthcoming financial year. This strategy is then submitted to the Executive Board and full Council for approval before the commencement of each financial year.

13.4 The borrowing strategy continues to fund the capital programme borrowing requirement from short dated loans and internal cash balances whilst looking for opportunities to lock into attractive longer dated funding. Section 16 of this document highlights the borrowing requirements of the capital programme.

13.5 The forecast path of longer term rates is clearly dependent upon how the economy performs both here and abroad. If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a sustained US recovery, improvement in world economic activity or increase in inflation risks, then the strategy will be re-appraised with the likely outcome that longer term funding will be acquired. At that point the prospect of a higher debt cost would be viewed against whether:

- The forecast capital borrowing requirement had reduced or slipped into future years;
- The levels of reserves/ balances were forecast to increase or reduce

13.6 The table below shows that over the 4 year time horizon the proportion of the Council's book exposed to interest rate risk is expected to rise to 31%. This level is reached only if no longer term borrowing is taken over this period to cover either new borrowing or refinance maturities. The Prudential Code specifies that the Variable Interest Rate exposure Indicator should be set in relation to net external borrowing position. Included within the net external borrowing are 2 elements that are by definition variable, these are short term loans and LOBO loans with an option which falls within 12 months.

13.7 In conjunction with the prudential code structure the Council's current policy of using its balance sheet strength, reserves, provisions etc. to defray long term borrowing presents an additional risk that needs to be recognised. The Council has a forecast need to borrow with a Capital Financing Requirement (CFR) at 31/03/2017 of £2,045m. Of this, external funding is expected to be £1,774m with the difference of £271m being the use of internal balance sheet strength to finance this need. The long term funding element of the external debt is forecast to be £1,467m and therefore, accepting that in current conditions LOBO options are unlikely to be exercised, the Council's gross exposure is the difference between its CFR and its current stock of long term external funding or £578m. This is forecast to rise to £812m by 2019/20.

Table 20 Total Capital Financing Requirement

	Year-end Projections			
	2016/17	**2017/18**	**2018/19**	**2019/20**
	£m	**£m**	**£m**	**£m**
Capital Financing Requirement Borrowing	2,044.9	2,154.1	2,186.6	2,212.0
Forecast External Borrowing	1,773.5	1,877.5	1,903.5	1,921.5
Of which Short term External	306.7	410.7	477.7	521.7
Forecast Internally Financed	271.4	276.6	283.1	290.5
LOBO loans with options	55.0	55.0	150.0	65.0
Variable debt PI (Limit 40%)	**20.4%**	**24.8%**	**33.0%**	**30.5%**

13.8 The exposure to interest rate risk is mitigated by the Council having a stable long term financed loan book. The current long term debt of £1.467bn has an average maturity of nearly 39 years if all its debt runs to maturity. Approximately 30% of the Council's long term external debt has options for repayment, in the unlikely event that all these options were exercised at the next option date then the average maturity would be lowered to nearly 24 years. This compares favourably with the average maturity of the UK Government's debt portfolio of nearly 15 years. The existing profile of the Council's debt provides considerable certainty of funding costs. The maturity profile of the Council's long term fixed debt shows that 55% matures in periods greater than 10 years

13.9 Therefore the interest rate exposure is considered manageable given historical capital programme slippage, the continued strength of the Council's balance sheet and the market for supplying short term funds remaining relatively strong. These factors will continue to be monitored and should be considered in the context of the stability of the current debt maturity profile. Given that short term rates continue at historical lows the Council will continue to fund the remaining borrowing requirement, if required, at short term rates.

13.10 This strategy is prudent as investment returns are low and counterparty risk remains a concern. This strategy is expected to continue over the medium term as the outlook for the bank rate remains lower as shown in the latest projections in the table below.

Table 21: Forecast Bank Base Rates

	Now	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
BANK RATE	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
3 month LIBID	0.50	0.30	0.30	0.30	0.30	0.30	0.40	0.50	0.50	0.60	0.60	0.60	0.60
6 month LIBID	0.55	0.50	0.50	0.50	0.50	0.60	0.60	0.70	0.70	0.70	0.70	0.70	0.70
12 month LIBID	0.75	0.60	0.60	0.60	0.60	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90
5 yr PWLB	1.00	1.00	1.10	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.30	1.30
10 yr PWLB	1.70	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	1.90
25 yr PWLB	2.50	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	2.20	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

Source Capita

13.11 The interest rate assumptions for funding the borrowing requirement are for an average rate of 0.5% in 2017/18 and 0.75% in the following two years. An impact of 0.25% increase in funding costs would result in an additional interest cost of £900k in 2017/18 and then £1.1m and £1.3m in the following two years. The Council will continue to monitor the markets to ensure that longer term funding is locked in when opportunities arise and is balanced against the expectations that rates will remain lower for longer.

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14 Asset Management Plan

14.1 The purpose of the council's Asset Management Plan is to set a framework for enabling achievement of Leeds' Best Council Plan outcomes, through making better use of public assets to support service improvement and best business programmes, maximising benefits of regeneration, housing and economic growth opportunities, and investing, where appropriate, to delivery city priorities and/or generate income. It sets out the Council's direction of travel for asset management over the next 3 years.

14.2 The council is the largest owner of land and property in Leeds, with holdings extending to 9,700 hectares, representing 13% of the entire metropolitan area. The Asset Management Plan sets out the council's approach to asset management to meet the following aims over this time frame:

- Enable achievement of strategic priorities and Best City/Best Council outcomes.
- Ensure that operational property is fit for purpose to deliver the council's services and strategic priorities now, and in the future, in the most efficient manner and to make strategic property acquisitions where necessary to assist service delivery.
- Support regeneration of the city, including delivery of new housing and economic growth.
- Manage underused, empty and derelict council owned property effectively, including listed and other traditional buildings.
- Deliver reductions to the running costs of council buildings by £5 million by 2017.
- Increase the quality and size of the council's investment portfolio, generating additional revenue to support the council's finances.
- Promote the One Public Estate philosophy to ensure an efficient use of assets across the public estate.
- Work with the Third Sector, private and other partners to support, through asset related work, service delivery.

14.3 Theses aims will be achieved by:

- Strategic decision-making on the use of assets, taking a holistic approach to maximise opportunities for regeneration, new housing and economic growth.
- Making strategic property or land acquisitions where there is a strong business case to do so in terms of value for money or delivery of city priorities.
- Developing a strategic approach to ensure responsible stewardship and unlock the potential of historic buildings and heritage assets, particularly those at risk.
- Supporting services across the council to deliver transformational change programmes.
- Identifying latent or under-developed income potential within the council's investment portfolio and release unproductive investment property.

- Working with directorates to support their service plans and planning processes to ensure that asset implications are identified and considered at the earliest opportunity.
- Collaborating with partners across all sectors, through the One Public Estate, to make better use of assets and deliver increased benefits to the City through a joined up approach.
- Transfer of responsibility for assets, where appropriate, allowing locality assets to be managed at a local level, delivering local services.
- Implementing a programme of asset rationalisation based upon assessment of priorities, working with services and Members.

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15 Capital Programme

15.1 The council's capital programme is prepared in the context of the overall resources available to the council. The Government's spending review combined with the Autumn Statement and the provisional local government settlement in December of each year set out the revenue funding local authorities can expect over the coming years and this capital programme is therefore constrained by these funding reductions.

15.2 In terms of general fund services, the council's reducing revenue funding envelope over the medium term places constraints on the level of debt that council can afford. As such only those schemes supported by a robust business case and meet the council's priorities will progress. However, the strategy allows for an additional increase in debt where the additional debt cost is met from schemes that generate greater savings, or avoid revenue costs, or provide income streams. The council will continue to explore and take advantage of investment opportunities as they arise and these will also be subject to robust business case review and Executive Board approval in line with financial procedure rules.

15.3 The General Fund capital programme currently stands at £730m for the period up to 2019/20. It provides for investment in improved facilities and infrastructure and also has an impact on the Leeds economy through supporting jobs and income and business generated throughout the city. The HRA capital programme provides for capital investment of £339.3m for the 3 years 2016/17 through to 2018/19.

15.4 A large proportion of resources used to finance the council's capital expenditure comes from borrowing. Since 2004, the council can take up unsupported borrowing, subject to the requirements of the prudential code for capital expenditure in local authorities. The revenue costs of this borrowing are met by the council and therefore decisions to raise capital finance from this source must be prudent and affordable. Additional unsupported borrowing proposals are also considered on a business case approach, where revenue savings or additional revenue income will be sufficient to pay for the borrowing costs.

15.5 Government funding that has previously been provided through supported borrowing is now provided through capital grant. These grants are not ring-fenced to specific services and therefore the council has flexibility in how these resources are used. There is however an expectation from government departments that the council will meet relevant targets and priorities for which these resources are provided.

15.6 Specific capital grants are also received and represent funding which has been secured for specific schemes. Examples of these are: devolved formula capital grants for schools; Disabled Facilities Grant and Section 31 transport grant.

15.7 Other specific funding sources within the capital programme are in the form of grants from external bodies, including the Heritage Lottery Fund, Regional Growth Fund, European Regional Development Fund (ERDF) or third party contributions in the form of Section 106 or CIL funding from developers or private sector funding.

15.8 The Housing Revenue Account self-financing system is used to fund Council Housing Investment Needs.

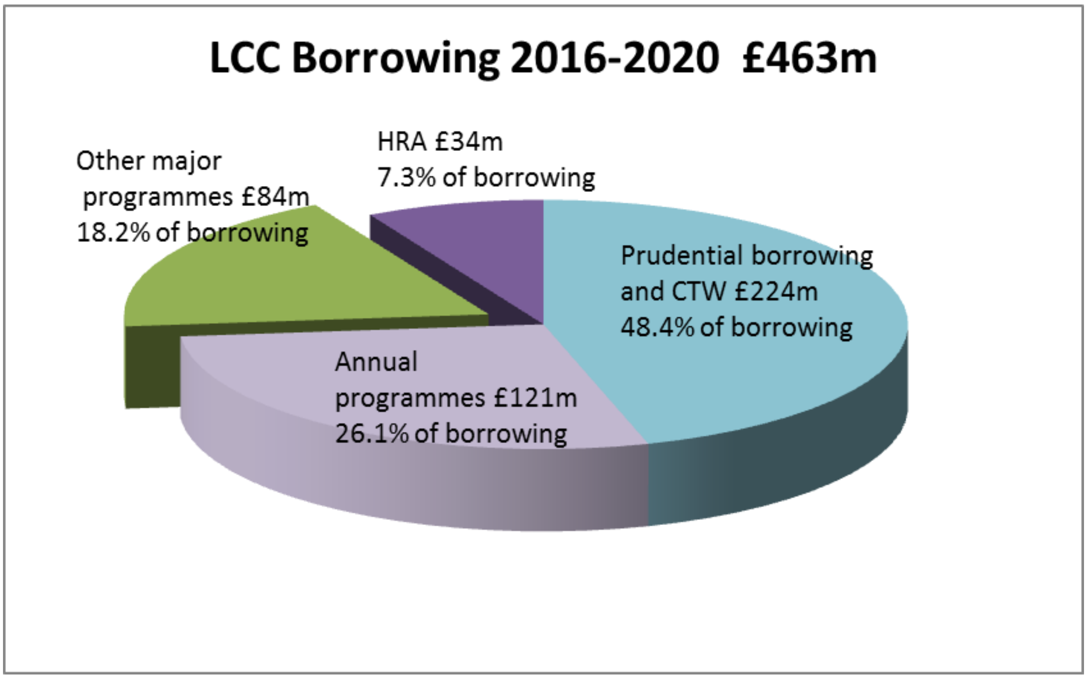
15.9 The table below shows the revised capital programme as at September 2016.

Table 22 Capital Programme Funding

Capital Programme Resources 2016-2020	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**Total £m**
Funded By:					
LCC Borrowing (**See pie chart below for split**)	189.8	156.1	83.3	33.8	463.0
Government Grants	124.8	89.9	52.4	25.7	292.8
Other grants & contributions	16.9	5.3	0.6	0.7	23.5
HRA Self Financing	98.3	81.6	77.7	0.0	257.6
HRA Right to Buy Receipts	11.5	16.1	4.5	0.0	32.1
Total Forecast Resources	**441.3**	**349.0**	**218.5**	**60.2**	**1069.0**

15.10 Overall the level of borrowing required to fund the full 2016-20 capital programme is £463m. 82% or £379m of borrowing relates to capital expenditure that is funded by additional income or generates revenue savings or ensures that our assets are maintained to an acceptable standard. The remaining 18% or £84m supports the Best Council Plan objectives. The split of LCC borrowing for the full programme is shown in the pie chart below.

Chart 11



15.11 In order to ensure that schemes meet council priorities and are value for money, the council has agreed processes to ensure:

- The introduction of new schemes into the capital programme will only take place after completion and approval of a full business case and identification of the required resources;
- Promotion of best practice in capital planning and estimating to ensure that scheme estimates and programmes are realistic; and

- The use of departmental unsupported borrowing for spend to save schemes is based on individual business cases and in the context of identifying the revenue resources to meet the borrowing costs.

15.12 One of the main risks in managing the capital programme is that insufficient resources are available to fund the programme. As the capital programme is fully funded this risk lays within the treasury management of the debt budget. The section on Treasury Management considers the funding in more detail.

15.13 Monthly monitoring procedures are in place for expenditure, resources and capital receipts and debt monitoring to ensure that this risk can be managed effectively. In addition, the following measures are in place:

- Ensuring written confirmation of external funding is received prior to contractual commitments being entered into;
- Provision of a contingency within the capital programme to deal with unforeseen circumstances in addition to specific scheme contingencies; and
- Compliance with both financial regulations and contract procedure rules to ensure the council's position is protected.

15.14 New capital expenditure continues to be directed towards schemes that are fully funded (either by external resources or departmental prudential borrowing), or are essential (on health and safety grounds or in order to ensure council assets are maintained for continued service provision).

15.15 The council continues to seek to deliver a substantial capital programme across the city which will deliver improved facilities and infrastructure and also support the Leeds economy.

15.16 The capital programme is currently categorised into the following investment objectives:

Table 23

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 on £m	Total £m
IMPROVING OUR ASSETS	279.8	208.7	133.0	19.5	641.0
INVESTING IN MAJOR INFRASTRUCTURE	28.2	12.7	8.6	10.4	59.8
SUPPORTING SERVICE PROVISION	66.2	97.6	49.6	19.1	232.6
INVESTING IN NEW TECHNOLOGY	8.9	6.2	5.3	0.3	20.7
SUPPORTING THE LEEDS ECONOMY	40.3	11.3	10.8	1.9	64.3
CENTRAL & OPERATIONAL EXPENDITURE	17.8	12.6	11.2	9.0	50.6
TOTALS	441.3	349.0	218.5	60.2	1069.0

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16 Risks & Risk Management

16.1 The Council's Risk Management Arrangements

16.1.1 Our vision is for Leeds to be the best city in the UK: one that is compassionate with a strong economy that tackles poverty and reduces the inequalities that still exist. A risk is something that, if it occurred, could impact on this vision and our best city and best council ambitions. It is essential that we understand, manage and communicate the range of risks that could threaten the city and the vital services provided by the council, so that we're better placed to prevent them from happening and to reduce the impact if they do. The council has risk management arrangements in place throughout the organisation with significant risks escalated to appropriate boards and management teams as required.

16.1.2 These arrangements include the risk management processes in place to identify and mitigate the risks related to the council's current and future financial position. The adequacy of resources to meet the Best Council Plan outcomes and priorities in the medium-term in a sustainable way is identified as one of the council's corporate risks, as is the authority'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 strategy. Both these risks are subject to regular review.

16.1.3 Financial/budget monitoring is undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget that are judged to be at risk: for example the implementation of budget action plans, those budgets which are subject to fluctuating demand, key income budgets and so on. To reinforce this risk-based approach, specific project management is in place based support and reporting around the achievement of the key budget actions plans.

16.1.4 Budget management and monitoring is a continuous process which operates at a number of levels throughout the council. Although directors are ultimately responsible for the delivery of their directorate budget, operationally these responsibilities are devolved down to budget holders across the various services. The council's budget accountability framework clearly articulates roles and responsibilities and aligns financial accountability and service decision-making and accountability. Every budget has a named accountable budget holder, supported by a budget monitoring officer and a finance officer, who is responsible for managing, monitoring and forecasting income and expenditure against the approved budget.

16.1.5 As part of the annual budget process the Local Government Act (Part II) 2003 places a requirement upon the council's statutory finance officer to report to members on the robustness of the budget estimates and the adequacy of the proposed financial reserves. The authority's financial controls are set out in the council's Financial Regulations. These provide a significant degree of assurance as to the strength of financial management and control arrangements throughout the council.

16.2 Key Financial Risks

16.2.1 A series of potential changes announced collectively in the Spending Review 2015, Local Government Settlement and the Chancellor's Budget Statement in March 2016 inevitably means the numbers of uncertainties, sources of risk attached to the financial forecast are significant and include:

- The impact of national economic performance public sector finance following the result of the EU referendum to leave the EU.
- The growth of the local economy and impact on business rate income and business growth assumptions.
- The fundamental review of relative needs of local authorities in a national funding regime as part of the move to 100% business rates retention.
- The business rates review process, the 2017 business rates revaluation, appeals against the rating list and any future changes in the Business Rate multiplier.
- The integration of health and social care, the financial health of health partners, and the consequential impact on the health of people in the city and the demand for council services.
- Inflation – a 1% variation in pay inflation equates to £4.6m and a 1% change in price inflation would have a £6m impact on expenditure assumptions.
- Treasury management – future levels of interest rates and the extent to which cash balances will determine the need to borrow.
- Change management risk, and the deliverability of existing budget decisions.
- The impact of devolution, regional and other aspects of public sector reform and what this could mean for Leeds.
- The impact of demographic changes in terms of increasing demand for council services.
- The potential transitional costs of service transformation.
- The level of housing growth and the reform to New Homes Bonus reforms.
- The triennial valuation of the local government pension scheme.
- Slippage on the implementation of budget action/savings plans.

16.3 Other Risks

16.3.1 In addition, the council's response to the medium-term financial challenges will necessitate significant changes to council services which carry a number of significant risks that will need to be carefully managed in line with the council's Risk Management Policy. The key risks around the service and policy review programme include:

Risks to Leeds citizens

- Failure to consider the potential cumulative impact of proposals on specific population groups.
- Failure to identify and mitigate unintended consequences of decisions.
- Failure to manage demand.
- Failure to invest in early intervention / preventative measures.
- Best Council Plan outcomes and ambitions not achieved and inequalities worsen.

Workforce risks

- Process for managing staff reductions (and associated development of ELI offer) unclear, insufficiently communicated and/or delayed, damaging staff morale and impacting upon financial savings required – key source of delay may be insufficient capacity across the organisation to deliver the required reductions within the required timescales.
- Council no longer seen as an employer of choice.

Legal / regulatory breach & resulting challenge:

- Council's statutory / regulatory duties not met;
- Failure to ensure due regard for consultation, equality and diversity; and
- Failure to comply with legal requirements for managing staffing reductions.

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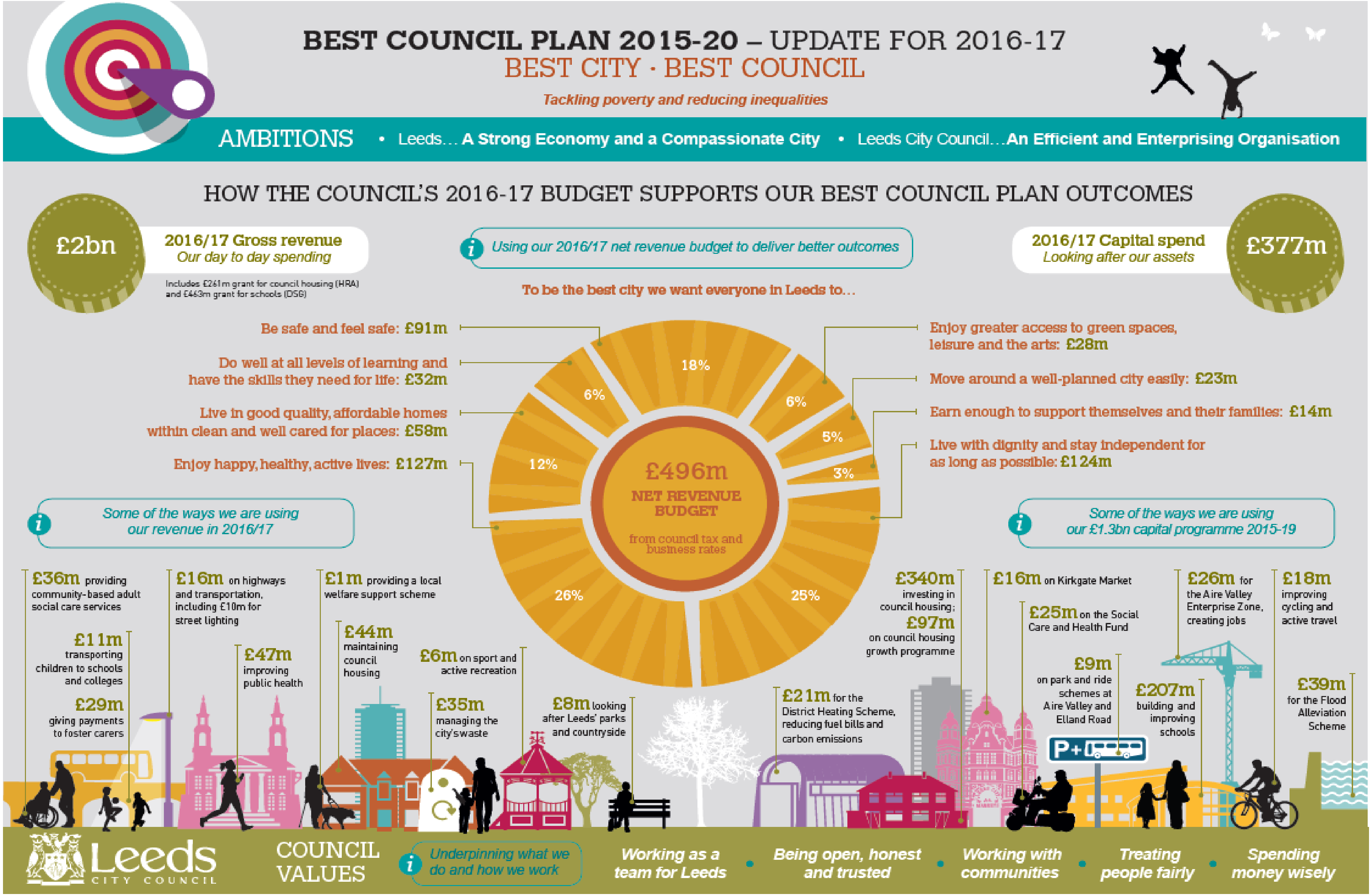
BEST COUNCIL PLAN 2015-20 – UPDATE FOR 2016-17
BEST CITY · BEST COUNCIL
Tackling poverty and reducing inequalities
AMBITIONS • Leeds… A Strong Economy and a Compassionate City • Leeds City Council…An Efficient and Enterprising Organisation
HOW THE COUNCIL'S 2016-17 BUDGET SUPPORTS OUR BEST COUNCIL PLAN OUTCOMES
£2bn
2016/17 Gross revenue
Our day to day spending
Includes £261m grant for council housing (HRA) and £463m grant for schools (DSG)
Using our 2016/17 net revenue budget to deliver better outcomes
To be the best city we want everyone in Leeds to…
2016/17 Capital spend
Looking after our assets
£377m
Be safe and feel safe: £91m
Do well at all levels of learning and have the skills they need for life: £32m
Live in good quality, affordable homes within clean and well cared for places: £58m
Enjoy happy, healthy, active lives: £127m
Enjoy greater access to green spaces, leisure and the arts: £28m
Move around a well-planned city easily: £23m
Earn enough to support themselves and their families: £14m
Live with dignity and stay independent for as long as possible: £124m
18%
6%
6%
5%
3%
12%
26%
25%
£496m
NET REVENUE BUDGET
from council tax and business rates
Some of the ways we are using our revenue in 2016/17
Some of the ways we are using our £1.3bn capital programme 2015-19
£36m providing community-based adult social care services
£11m transporting children to schools and colleges
£29m giving payments to foster carers
£16m on highways and transportation, including £10m for street lighting
£47m improving public health
£1m providing a local welfare support scheme
£44m maintaining council housing
£6m on sport and active recreation
£35m managing the city's waste
£8m looking after Leeds' parks and countryside
£340m investing in council housing;
£97m on council housing growth programme
£21m for the District Heating Scheme, reducing fuel bills and carbon emissions
£16m on Kirkgate Market
£25m on the Social Care and Health Fund
£9m on park and ride schemes at Aire Valley and Elland Road
P+R
£207m building and improving schools
£26m for the Aire Valley Enterprise Zone, creating jobs
£18m improving cycling and active travel
£39m for the Flood Alleviation Scheme
Leeds CITY COUNCIL
COUNCIL VALUES
Underpinning what we do and how we work
Working as a team for Leeds
Being open, honest and trusted
Working with communities
Treating people fairly
Spending money wisely