

Report of the Chief Officer – Financial Services

Report to: Executive Board

Date: 17th July 2017

Subject: Medium-Term Financial Strategy 2018/19 – 2020/21

Are specific electoral Wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, name(s) of Ward(s):		
Are there implications for equality and diversity and cohesion and integration	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, Access to Information Procedure Rule number		

Summary of main issues

1. This report presents the Council's 2018 /19 – 2020/21 Financial Strategy for Executive Board's approval.
2. This Financial Strategy reflects Government's known planned reductions in public sector funding, as well as taking account of increasing costs from rising demand for services, inflation and other cost pressures.
3. Following the Queen's Speech on 21st June 2017, the Strategy reflects the assumption that 100% business rate retention is unlikely to be implemented during the life of the current Parliament. However, it is understood that the Fair Funding Review, which is considering the relative needs and resources of authorities, will continue. The Strategy assumes that should changes to funding allocations arise as a result of the Review they will be revenue neutral to this Plan as transitional arrangements would be anticipated to be in place. Likewise, should any changes to the business rates system itself be introduced it is assumed for the purposes of this Plan that they would be revenue neutral.
4. The Strategy also incorporates an identified programme of efficiencies for the next three financial years and this contributes towards how the Council will manage the known reduction in resources that support the services that the Council delivers. Sound longer-term financial planning is also a fundamental part of a robust financial control environment.
5. 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 2018/19 and 2020/21 is projected to be in the order of £13.9m, £4.1m and £26.2m respectively in

each financial year. For the period covered by the Financial Strategy there is an estimated overall budget gap of £44.2m.

6. Whilst 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. Further options to consider in respect of addressing the budget gap for the period 2018/19 to 2020/21 will be required and officers will continue working on proposals for consideration by members.
7. In reviewing the strategy it needs to be appreciated that over the planning period there are a number of significant risks which may impact upon the Council's finances. Moreover, there is much uncertainty within the national and economic environment within which local government operates. As such the strategy serves to indicate the range and scale of challenge and a direction of travel rather than a precise state of resources.
8. In the context of these uncertainties and financial challenge, it is nevertheless clear that the Council will need to continue to make difficult decisions around the level and quality of our services to ensure the delivery of the ambitions and priorities for the City and the Authority set out in the Best Council Plan. The development and implementation of the Best Council Plan will continue to inform, and be informed by the Council's core funding, its staffing and other resources and ongoing collaboration and engagement with partners across all sectors and the communities and citizens of Leeds. Initial proposals for the 2018/19 Best Council Plan and supporting budget will be brought to this Board in December 2018.
9. While this Financial Strategy provides a financial planning framework through to 2020/21, it does not represent the proposed budget for the next three years. 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.

Recommendations

Executive Board is recommended to:

- i) Approve the 2018/19 – 2020/21 Medium-Term Financial Strategy;
- ii) Note that further proposals will be brought forward to address the current identified shortfall as part of the Council's budget process;
- iii) Note that the Chief Officer – Financial Services will be responsible for implementing these recommendations.

1. Purpose of this report

- 1.1 The 2017/18 budget report to Executive Board in February 2017 included an update of the Medium Term Financial Strategy 2018/19 to 2019/20. Within a set of assumptions, this identified a balanced budget position for these two years and it also stated the intention to present a fully updated Medium Term Financial Strategy to Executive Board at its meeting in July.
- 1.2 In accordance with this requirement this report presents the Council's updated Medium-Term Financial Strategy covering the period 2018/19 – 2020/21 for Executive Board's approval.

2. Background information

- 2.1 The environment in which local government operates continues to be one which presents significant financial challenges to all local authorities, including some areas of significant uncertainty.
- 2.2 The Government's spending review of 2015 set out plans for spending on public services by all government departments for the period 2016/17 to 2019/20. Between 2010/11 and 2017/18 Leeds' core funding from Government has reduced by £239m and on-going annual reductions will continue until 2019/20 in line with the four year settlement agreement with the Government.
- 2.3 In addition to the reductions in our core funding the Council faces continuing growth in demand for many of its services, particularly for adults and children's social care. In balancing its budgets the Council must also deal with inflationary increases in costs and reductions in income from specific government grants and partner funding. Whilst we have responded successfully to these financial challenges to date, it is important that the Council has a robust Financial Strategy in place to address the continuing financial pressures. It is also more important than ever that we continue with our programme of becoming a more efficient and enterprising organisation, our stated 'Best Council' ambition.
- 2.4 Government did not re-introduce the Local Government Finance Bill in the 2017 Queens Speech. As a result it is assumed that Government's plan to introduce 100% local retention of business rates is unlikely to be implemented during the current Parliament. Whilst 100% retention would no doubt present opportunities for councils, it is also likely to increase the level of risk. At the time of writing it is seemingly unlikely that any reform of the business rate system will be introduced during the period of this Financial Strategy. It is, however, assumed that any such changes would be revenue neutral to this Plan.
- 2.5 Government has confirmed that the Fair Funding Review, which was being carried out alongside work to introduce 100% retention, will continue. The Fair Funding Review will conduct a thorough review of the needs assessment formula used to allocate government funding to local authorities, taking account of their relative needs and resources. The outcome of the review could impact on the level of government funding available to the Authority, however the Strategy assumes that any such changes will be revenue neutral during the life of this Plan as transitional arrangements are anticipated to be in place.
- 2.6 Looking more widely, the potential impact that the vote by the British public to leave the European Union may have upon the Council (and indeed on the economy as a whole) is unclear. In the medium term there are likely to be both positive and negative impacts but for the immediate future the impact is most certainly to increase uncertainty.
- 2.7 In the context of these uncertainties and financial challenges, the Council will need to continue to make difficult decisions around the level and quality of our services to ensure the delivery of the ambitions and priorities for the city and the authority set out in the Best

Council Plan. Both the development and implementation of the Best Council Plan will continue to inform, and be informed by, the Council's core funding, its staffing and other resources, ongoing collaboration and engagement with partners across all sectors and the communities and citizens of Leeds. Initial proposals for the 2018/19 Best Council Plan and supporting budget will be brought to this Board in December 2018.

- 2.8 In September 2016 Executive Board received the Council's Medium Term Financial Strategy which detailed a funding gap of £110m of which £81.8m was frontloaded to 2017/18. The report detailed how the Council intended to address the resources gap with detailed proposals totalling £58m. These and further proposals were incorporated into the Council's Initial Budget Proposals for 2017/18 which were received at Executive Board in December 2016. Following consultation the recommended budget was received at Executive Board and subsequently approved at Council in February 2017.
- 2.9 The Medium Term Financial Strategy 2017/18 – 2019/20 that was received at Executive Board in September 2016 also requested that Council accept Government's offer of a four year funding settlement covering the period 2016/17 to 2019/20. This recommendation was agreed and the implications of the four year spending settlement have been incorporated into the Medium Term Financial Strategy 2017/18 – 2020/21.
- 2.10 Since the 2017/18 budget was approved in February 2017 the Council has been notified of the receipt of additional adult social care grant ("Spring Budget grant") and additional Homelessness Grant. The additional £28.8m of Spring Budget grant, receivable from 2017/18 to 2019/20 is intended to fund social care services: examples provided include care packages for more people, support to social care providers, and to relieve pressure on the NHS locally e.g. reducing delayed transfers of care. The grant conditions for the improved Better Care Fund (iBCF) require councils to include this money in the local BCF Plan, working with their NHS colleagues to consider how the funding can be best spent.
- 2.11 The additional £3.43m of Homelessness Grant, receivable in 2017/18 and 2018/19 will be used to support continued reductions in the number of homelessness cases.
- 2.12 Given the known level of funding reductions for 2018/19 to 2020/21 along with increased demand for services, the impact of business rate appeals, increasing cost pressures and other known reductions in funding there is a requirement to refresh the Medium Term Strategy to take account of the impact of all these issues on the overall level of resources available to support the Council's budget, and to roll the strategy on an additional year, namely to include 2020/21.
- 2.13 While this Financial Strategy provides a financial planning framework through to 2020/21, it does not represent the proposed budget for the next three years. 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 Settlement Funding Assessment (SFA) and changes in Local Funding

- 3.1.1 As part of the 2016/17 financial settlement, Government offered councils a 4-year funding settlement for the period 2016/17 to 2019/20, described as part of the move to a more self-sufficient local government. The levels of Revenue Support Grant and Business Rates Baseline funding assumed in the Financial Strategy to 2019/20 are in line with the indicative figures provided by Government and updated by them in the 2017/18 Final Settlement as outlined in the table below. The increases in Baseline funding and business rates growth

assumed in 2020/21 reflect Government's plan to switch the indexation of Business Rates from the Retail Price Index to the lower Consumer Price Index measure in that year.

3.1.2 Table 1 Estimated Level of Resources

	2017/18	2018/19	2019/20	2020/21
	Final	Indicative	Indicative	Indicative
	£m	£m	£m	£m
Revenue Support Grant	65.0	46.5	27.8	27.8
Business Rates Baseline	148.0	152.7	158.1	161.3
Settlement Funding Assessment	213.0	199.2	185.9	189.1
Business Rates Growth	16.7	18.9	21.8	24.4
Business Rates Deficit	(21.8)	(12.5)	(4.0)	0.0
Council Tax: Core	270.0	280.6	291.9	303.5
Council Tax: Adult Social Care Precept	13.2	21.8	21.8	21.8
Council Tax surplus/(deficit)	1.5	0.0	0.0	0.0
Net Revenue Budget	492.7	508.0	517.4	538.8
Change in Resources		15.3	9.4	21.4

- 3.1.3 Business Rates figures to 2020/21 are based on the 50% business rates retention scheme currently in place, reflecting the assumption that 100% retention of business rates is now unlikely to be implemented during the life of this Financial Strategy. Given Government's assurances that the 100% scheme was intended to be fiscally neutral nationally, it is assumed that the impact of the 100% scheme not having been implemented will be revenue neutral to Leeds in this plan.
- 3.1.4 The Strategy assumes that business rates income retained by the Authority in 2019/20 (£158.1m) will rise to £161.3m in 2020/21, in line with the forecast Consumer Price Index.
- 3.1.5 There remain many uncertainties around the future of business rates within the local government finance system. However, it is assumed that any reforms which may be introduced during the period of this Financial Strategy would be revenue neutral to this Plan as transitional arrangements would be applied.
- 3.1.6 A key assumption within the plan is whether beyond the current spending review period, i.e. beyond 2019/20, will there be further reductions in government funding for local government. At this stage the strategy does not assume any further reductions, or for that matter increases in Revenue Support Grant in 2020/21. As such the level of Revenue Support Grant assumed for 2020/21 is in line with that notified for 2019/20, i.e. £27.8m.
- 3.1.7 Business rates growth above the baseline is based on current projections and includes estimates of in year growth. Growth above the baseline of £18.9m is included in 2018/19 and increases to £21.8m in 2019/20 and £24.4m in 2020/21. The growth figures in the Strategy include additional income generated as a result of the 2017 revaluation of business premises, which Government has not incorporated into the Business Rates Baseline.
- 3.1.8 The shortfall between budgeted business rates income and actual in-year income becomes a cost that has to be met in the following year. In 2017/18 this totalled £21.8m and in 2018/19 this deficit is estimated to fall to £12.5m and has taken into consideration a range of risks to 2017/18 income, including levels of growth achieved and the impact of business rates appeals. It is expected that such risks will reduce in future years as the Council settles

appeals against the 2010 ratings list, particularly as Government anticipates fewer appeals against the new 2017 ratings list.

- 3.1.9 Government recently announced a number of new reliefs for ratepayers during 2017/18, including a local discount scheme for businesses adversely affected by the 2017 Revaluation. The cost of these reliefs will add to the deficit carried forward to 2018-19 and reduce in-year income in future years. The Council is recompensed for this by means of a Section 31 grant in the period 2017/18 to 2020/21.
- 3.1.10 The Financial Strategy assumes council tax base growth of 1.7% per annum (around 3,800 Band D properties in 2018/19), which is in line with the tax base increase in 2017/18. Further, the Strategy assumes that councils will continue to be able to raise core council tax by up to 1.99% in each year without the need for a referendum. Additionally, the Provisional Local Government Finance Settlement 2017 confirmed the continuation of the Adult Social Care precept, capping the total increase between 2017/18 and 2019/20 at 6%. A 3% precept was raised in 2017/18 and the Strategy assumes a further 3% in 2018/19, maximising this flexibility, with no additional precept in 2019/20. This precept will generate an additional £8.6m of local funding in 2018/19.
- 3.1.11 After taking account of the changes in the level of funding available to the Council, Table 1 above, this shows that the net managed budget for the Council will increase from £492.7m in 2017/18 to an estimated £538.8m in 2020/21.
- 3.1.12 The £21.4m increase in the level of funding between 2019/20 and 2020/21, when compared to the changes between the earlier financial years, assumes that the reductions in the level of revenue support grant that were a feature of the four year funding settlement cease and that in 2020/21 there will be no further reductions in spending power, i.e. the end of austerity.

3.2 Other Funding Changes

- 3.2.1 The paragraphs below outline the key changes to other funding that the Council receives.

3.3 New Homes Bonus

- 3.3.1 In 2011 Government introduced an incentive scheme to encourage housing growth across the country. Councils received additional grant equivalent to the average national council tax for each net additional property each year and this was to be received annually for six years. The 2015 spending review made a number of changes to the scheme, including the receipt of the grant being receivable over 4 years and the imposition of baseline before any reward is paid; the £1.7m pressure reflects the impact of these changes upon the base budget.

3.4 Homelessness Grant

- 3.4.1 Within the Housing Options service details of the new flexible Homelessness Support Grant were received after Council agreed the 2017/18 revenue budget in February 2017 and as such this resource is required to be injected into the budget. The Government has replaced Temporary Accommodation Management Fee (TAMF) with Flexible Homelessness Support Grant (FHSG) from April 2017. TAMF was a £60 per week management fee for temporary accommodation placements made through the private sector. Leeds has an average of 7 placements per night made through the private sector and therefore would have received £23k in TAMF if the funding arrangements had been maintained in 2017/18. FHSG has been calculated on the basis of homeless prevention outcomes and, as Leeds has achieved a high level of preventions, the allocation for Leeds in 2017/18 has been set at £1.636m and at £1.794m in 2018/19. The Medium Term Strategy assumes that the grant will fall after

2018/19 although Government has indicated that FHSG will continue in 2019/20 with allocations to be set at some point in 2017/18.

- 3.4.2 The FHSG allocation represents a significant windfall for the Council and, whilst Government has advised that it expects authorities to use the allocation to tackle homelessness, there is significant scope within this definition. Funding use proposals are currently being drawn up and will be set out for decision as appropriate. The expectation is that the funding will be used to achieve further increases in homeless prevention outcomes, further reductions in temporary accommodation placements and to best assist entrenched rough sleepers with drug and alcohol dependency issues.

3.5 Adult Social Care Grants

- 3.5.1 In February 2017 Government announced a total of £2.021bn as supplementary funding to the improved Better Care Fund (iBCF) to be spent on social care. This is to be distributed as £1.01bn in 2017/18, £674m in 2018/19 and £337m in 2019/20.

For Leeds the announced funding is: -

2017/18	£14.7m	}	Figures included in the Financial Strategy
2018/19	£9.4m		
2019/20	£4.7m		

- 3.5.2 This money is intended to fund adult social care services: examples include care packages for more people, support to social care providers, and to relieve pressure on the NHS locally e.g. reducing delayed transfers of care. The grant conditions for the iBCF require councils to include this money in the local BCF Plan, working with their NHS colleagues to consider how the funding can be best spent. Whilst the detailed policy guidance has been published, a key determinant of the grant relating to the planning requirements of the improved Better Care Fund has still to be issued by Government. Plans in Leeds are currently being developed and discussions with health partners are ongoing. It is recognised that this money is short-term in nature and reduces year on year and this is helping to inform the best use of the funding.
- 3.5.3 The one off Adult Social Care support grant of £3.3m, part funded by changes in New Homes Bonus, will fall out of the base budget in 2018/19.

3.6 Public Health grant

- 3.6.1 In the 2015 spending review the Government indicated its intention to make savings in local authority public health spending and a further £2.33m reduction is projected to the end of 2020/21.

3.7 Partner Funding

- 3.7.1 The 2017/18 budget for Adults and Health includes financial support from health partners which recognises that without adequately resourced social care timely hospital discharges would be adversely affected and people's conditions could necessitate more emergency hospital admissions. The Medium Term Financial Strategy assumes that £8.0m of the additional £14.7m Spring Budget grant receivable in 2017/18 will be used to offset an income target in the base budget. This recognises that it has become apparent that both local and national pressures within the Health Service mean that this target is no longer realistically achievable.

3.8 Children and Families Services

- 3.8.1 Within Children and Families, the Education Services grant will cease to be received after September 2017 with a further loss of grant income in 2018/19 of £2.47m.
- 3.8.2 There will be a reduction of £2.5m of Department for Education Innovations grant supporting the base budget.
- 3.8.3 The Council received £7.3m of Innovation Grant in late 2016/17. This has been carried forward into 2017/18 and will be used to invest in continuing the Leeds children strategy in two important ways: to continue to lead the way in trialing new approaches to working with children and families; and to continue to invest and reform preventative services in order to reduce demand and costs over.

3.9 Movement on use of Reserves

- 3.9.1 The movement on earmarked reserves is largely due to the requirement to establish a reserve for 2018/19 to fund payments to staff who are exiting the Council through the Early Leaver's Initiative (£2m) and the creation of a £2m business rate appeals reserve; other movements reflect the fact that earmarked reserves supporting the base budget in 2017/18 will not be available to do so from 2018/19 onwards.
- 3.9.2 The Strategy assumes that £2.5m of General Reserve is used to support the 2018/19 budget whilst in 2019/20 it is assumed this will be paid back.

4. Changes in Costs

4.1 Inflation

- 4.1.1 The Financial Strategy makes allowance for £28.6m of net inflation from 2018/19 to 2020/21. This includes provision for a 1% pay award over and above the cost of implementing the living wage. In addition the 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, where they can be borne by the market, has also been built into the Financial Strategy.

4.2 Local Government Pensions

- 4.2.1 The most recent Actuarial Valuation of the West Yorkshire Pension Fund took place in December 2016 and the authority has been notified that employer's contribution will rise from the 15.6% contribution in 2017/18 to 16.2% by 2019/20. Overall this creates a pressure of £1.8m. It should be noted that as part of the recent Actuarial Valuation of the Fund, given the volatility of equity markets and the valuation of sterling, it was agreed that the contributions of the West Yorkshire authorities would be subject to an annual mini review of contribution rates which could result in further increases in April 2018 and April 2019.

4.3 Leeds Living Wage

- 4.3.1 At its September 2015 meeting Executive Board agreed that the Council would move towards becoming a real Living Wage employer. In November 2015 the Living Wage Foundation announced a living wage of £8.25 per hour (outside London) and this was implemented by the Council in January 2017. The Medium Term Financial Strategy provides £3.7m for further increases in the Leeds City Council minimum wage which will see it rise from the current £8.25 per hour to £9.20 in 2020/21. Similarly in respect of services commissioned from external providers provision has been included that is consistent with the national minimum wage forecasts over the period (£16.7m).

4.4 Fall out of capitalised pension costs

- 4.4.1 The fallout of capitalised pension costs associated with staff who have left the Council under the Early Leavers Initiative (ELI) will save £1.5m.

4.5 Demand and Demography

- 4.5.1 The forecast recognises the increasing demography and consequential demand pressures for services in Adult Social Care and Children's Services with provision of £8.8m included in the Financial Strategy.
- 4.5.2 Within Adults and Health 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 of 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 through to 2020. The Learning Disability demography is expected to grow by 3.5% (based on ONS data) over the period; but it should be noted that the high cost increase is primarily a combination of increasingly complex (and costly) packages for those entering adult care, as well as meeting the costs of the increasing need for existing clients whose packages may last a lifetime.
- 4.5.3 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.

4.6 Adult Social Care

- 4.6.1 The financial strategy reflects the additional grant monies made available by Government and a proposed precept of 3% in 2018/19. Together the precept and the grant will be utilised to fund a range of adult social care pressures and priorities identified elsewhere in this report, for example demand and demography, the minimum wage in commissioned services, further reductions in the public health grant and the loss of targeted income from partners.
- 4.6.2 The Council has also written to all partners, both internal and external, requesting they submit proposals for the balance of the use of the 'Spring Budget' grant. These will be evaluated against the funding criteria and the detailed proposals will be submitted to a forthcoming Leeds and Health Wellbeing Board and subsequently reported to a future Executive Board.
- 4.6.3 The table below outlines how the additional funding provided by the improved Better Care Fund, the 'Spring Budget' grant announcement and the proposed adult social care council tax precept all combine to increase the 'spending power' within adult social care.

4.6.4 Table 2 Adult Social Care “Spending Power”

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Base Budget	207.7	222.4	233.6	239.0
Spring Grant 17/18	14.7	(14.7)		
Spring Grant 18/19		9.4	(9.4)	
Spring Grant 19/20			4.8	(4.8)
improved Better Care Fund		11.1	10.1	
ASC Support Grant		(3.3)		
Precept 18/19		8.6		
"Spending Power"	222.4	233.6	239.0	234.2

4.6.5 Members should note that the increased “spending power” figures above will not necessarily translate into how the Council’s Adults and Health managed budget for 2018/19 and beyond will look. This is because the grant income and the associated expenditure will net each other off in budget terms in each year that the grant is received.

4.6.6 Members will also note that the Spring Budget additional funding for adult social care is both time limited and reduces over the life of this plan.

4.7 **Tour de Yorkshire**

4.7.1 In order for the Council to host one of the stages of the Tour de Yorkshire a resource of £0.2m is required to be reinstated into City Development’s budget. This budget was removed in 2017, a year in which Leeds was not a start / finish stage for the race.

4.8 **West Yorkshire Transport Fund**

4.8.1 The financial strategy assumes a £0.6m increase in the levy to the West Yorkshire Combined Authority in respect of the Transport Fund over the planning period.

4.9 **Other pressures and savings**

4.9.1 Over the life of the Medium Term Financial Strategy 2018/19- 2020/21 other cost pressures amount to £14.6m.

4.9.2 There are additional costs of £0.7m within Waste Management, which mainly reflect the plan to roll out garden waste collections to more properties, additional disposal and collection costs associated with housing growth in the next 3 years and the revenue costs of the recently approved waste depot development, partially offset by savings in business rates at the RERF.

4.9.3 The net impact of the switch to Universal credit is forecast at around £1m over the next 3 years, mainly from reduced receipt of housing benefit overpayment income.

4.9.4 Within the strategic and central accounts, the strategy also recognises pressures around S278 income from developers of £2.3m; additional business rates levy to the pool of £0.6m and also the plan to reduce reliance on capitalisation of revenue spend by £3.5m from 2019/2020.

4.9.5 Other pressures across all Directorates amount to around £6.5m. These include £0.7m for projected rises in the cost of insurance, £0.2m for the coroner's service and £0.2m to provide additional capacity for the Digitalisation agenda.

4.10 Capital Financing costs

4.10.1 The Council's capital programme is determined by its capital spending priorities which combine a number of annual programmes investing in the existing key assets and services. In addition capital spend is directed towards the priorities laid out within the Best Council plan. The revenue cost and affordability of the capital programme is considered as part of treasury management strategy. The Council set its forecast for capital spend over the next 3 years in February and outlined a programme of £881m in the Council's general fund services and its housing revenue account.

4.10.2 The Council forecasts an additional borrowing requirement of £141m to support the 2018/19 capital programme spend of £281m. The additional revenue cost of this borrowing is forecast at £4m. This increase comprises £2.4m relating to funding new capital programme spend, £0.5m additional cost of switching short term funding to long term funding, £0.3m additional costs of premiums as a result of previous restructuring of debt and the remainder due to the impact of use of capital receipts to fund PFI liabilities, £0.3m brokerage fees and movements in other income streams.

4.10.3 The Treasury strategy continues to fund the borrowing requirement from a combination of historically low short term rates and its balance sheet strength. However, it references that interest rates are expected to rise and as such allows for some longer term borrowing when market opportunities materialise. If interest rates rise at a faster pace than expected then the treasury strategy will look to lock in longer term funding providing the Council with greater funding certainty over the longer term.

4.11 Minimum Revenue Provision

4.11.1 The Minimum Revenue Provision (MRP) is an annual revenue charge for the repayment of borrowing and other capital financing liabilities. Local Authorities are required by statute to determine each financial year what they consider to be a prudent amount of MRP and are required by statutory guidance to approve an annual statement setting out their MRP policy. The policy should be approved by full Council, as should any proposed subsequent revisions.

4.11.2 The 2017/18 Revenue Budget and Council Tax budget report, received at Executive Board in February 2017, identified that the Council had overprovided for MRP on its debt set aside since 2008/2009. This historical overprovision has been applied over a four year period (2016/17 to 2019/20) and has the effect of reducing the rate of repayments of borrowing over the period to which the overprovision is being applied, which is partly offset by additional interest costs in the meantime. However in the current climate of low interest rates Council agreed that this would be an acceptable cost given the benefits to be gained from the change. Moreover, it was recognised that, whilst this strategy provided an opportunity for the Council to transform its operations over a longer time period than otherwise, it would be necessary by 2020/21 to reinstate the budget for a "normal" level of MRP.

4.11.3 In 2020/21 it is therefore necessary to increase the MRP to meet the calculated level required. The calculated £35.6m increase can be partially offset by the identification of

additional capital receipts (£7.45m) which are over and above the amount required to support the revenue budget.

5. Estimated Budget Gap

- 5.1 After taking account of changes to the settlement funding assessment, changes in local funding plus other cost and funding changes as outlined above there is an estimated budget gap of £83.0m over the period covered by the Medium Term Financial Strategy. This estimated budget gap along with the incidence of the gap by financial year are detailed below.

5.2 Table 3 Estimated Budget Gap

2018-19 TO 2020/21 PROJECTIONS	2018/19	2019/20	2020/21	Total
	£m	£m	£m	£m
Settlement Funding Assessment	13.3	12.8	(3.4)	22.7
Changes in Local Funding	(28.7)	(22.2)	(18.0)	(68.8)
Other Funding Changes	1.6	2.9	4.5	9.0
Decrease / (Increase) in Funding	(13.7)	(6.5)	(16.9)	(37.2)
Inflation	9.5	9.5	9.7	28.6
Employer's LGPS contribution	0.9	0.9	0.0	1.8
Leeds CC minimum pay rate	0.6	1.3	1.8	3.7
National Living Wage - commissioned services	4.5	6.0	6.1	16.7
Fall-out of capitalised pension costs	(0.6)	(0.9)	0.0	(1.5)
Demand and demography	5.0	2.2	2.1	9.3
Adult Social Care Precept & Grant Spend	13.5	0.0	0.0	13.5
Tour de Yorkshire	0.2	0.0	0.0	0.2
West Yorkshire Transport Fund	0.2	0.2	0.2	0.6
Other pressures/savings	6.5	6.6	1.4	14.6
Debt - external interest / Minimum Revenue Provision	4.0	0.6	28.2	32.8
Projected Cost Increases	44.2	26.5	49.5	120.2
Total Cost and Funding Changes	30.5	20.0	32.5	83.0

5.3 Proposals/Approach to meet the gap

- 5.3.1 In order to both manage the reductions required for the period 2017/18 to 2019/20, and protect front line services, the Council embarked on an ongoing process of review across a range of services and policy areas in April 2016. The outcome of these reviews was incorporated into the Council's 2017/18 budget, approved in February 2017. It is intended that these service and policy reviews continue as part of an iterative approach to the Council's strategic plan and aligned Financial Strategy, and the outcomes of these reviews have been included in the Medium Term Financial Strategy. The table below presents a summary of the identified savings arising, presented thematically.

5.3.2 Table 4 Estimated Budget Gap less Savings Options

	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Estimated budget Gap	30.5	20.0	32.5	83.0
Budget savings proposals				
Accounting adjustments	(1.0)	0.0	0.0	(1.0)
Directorate budget savings proposals				
Changes to service	(0.5)	(4.3)	(0.9)	(5.7)
Efficiencies	(11.6)	(8.7)	(5.0)	(25.3)
Income - fees & charges	(3.0)	(2.8)	(0.5)	(6.3)
Income - traded services, partner & other income	(0.6)	0.0	0.0	(0.6)
Total - Budget savings proposals	(16.6)	(15.8)	(6.4)	(38.9)
 Gap	 13.9	 4.1	 26.2	 44.2

- 5.3.3 The Financial Strategy assumes that the Council can continue to generate additional income through both fees and charges whilst at same time seeking to maximize trading opportunities. A review remains ongoing to ensure that the Council's current fees and charges are consistent with the Council's policy which was agreed at Executive Board in February 2016. In addition savings will be realised through changes to services and efficiencies. The key assumptions for addressing the budget gap are detailed below.

5.4 **Changes to Service**

- 5.4.1 Within Children's and Families services, the plan assumes that from 2019/20 the costs of looked after children will reduce by around £2.6m as a result of the impact of spending the DfE Innovations fund grant of £9.6m on preventative measures
- 5.4.2 Children's and Families services are also seeking to target a further £3m of savings over the life of the plan.
- 5.4.3 In addition, 2017/18 has been a fallow year for local council elections and the 2017/18 budgeted reduction of £0.7m within Communities and Environment needs to be added back.

5.5 **Efficiencies**

- 5.5.1 Savings with Adults and health reflect the need to address the fall out of short term grant funding through the life of the plan, being;
- Adult Social Care support grant (£3.3m)
Public Health grant (£2.3m)
Spring Budget grant (£9.4m).
- 5.5.2 Savings on care packages and other efficiencies over the period are projected at over £4m.
- 5.5.3 Members should note that the plan assumes a net budget increase in Adults & Health in 2018/19 to the value of the 3% Adult Social Care precept; and in addition using in full the Spring Budget grant monies announced in February 2017.

- 5.5.4 Children's Services have identified £1.0m of savings in transport and other running costs over the next 3 years.
- 5.5.5 Within Support Services further savings of £2.1m are targeted to be realised within business administration, finance, HR, IT and programme / project management. Whilst there will be some full year effects of the 2017/18 budget, increasingly the focus will be on reviewing processes and, where business cases exist to make processes more efficient or embrace new technology, resources will be identified to progress these initiatives and realise the savings.
- 5.5.6 Savings of £0.9m in Communities and Environment are proposed, mostly through improved performance and digitalization in the Contact Centre.
- 5.5.7 City Development continues to work towards VAT exemption for Sport, which would generate a saving of £0.6m.

5.6 Income - Fees & Charges

- 5.6.1 An estimated additional £6.3m is forecast from fees and charges by 2020/21. Over £2.8m of this relates to the full year effects (FYE) of decisions taken in the 2017/18 budget, particularly within City Development.
- 5.6.2 There are further plans to generate additional income at Parks attractions (£0.5m) and a further £1.5m of income is targeted relating to the acquisition of assets – based on a similar operating model to the acquisitions of sites at Sovereign Square and Logic Leeds in 2016.
- 5.6.3 The plan also assumes further net income of £1m from additional city centre car parking sites.

5.7 Income – Traded Services / Other

- 5.7.1 Children's services are targeting an extra £0.5m of income from traded activities to help offset the loss of Education Support Grant.

5.8 Accounting Adjustments

- 5.8.1 The Financial Strategy assumes that there will be further capitalisation of revenue spend (£0.5m) in 2018/19 together with the use of £0.5m of balance sheet items no longer required.

5.9 Revised Gap

- 5.9.1 The total estimated savings from service reviews, efficiencies and additional income from the fees and charges that the Council is seeking to generate over the three year plan total approximately £38.9m. This is not sufficient to deal with changes to the settlement funding assessment, changes in local funding plus other cost and funding changes. Even after account is taken of the identified savings options there is an estimated budget gap of £44.2m for the three year period covered by the Medium Term Financial Strategy.

5.10 Comparison to the February position

- 5.10.1 As outlined above this Medium Term Financial Strategy identifies a shortfall of resources of £44.2m over the period 2017/18 to 2020/21 - £18.0m of which relates to the period 2018/19 to 2019/20. This is in contrast to the balanced position for 2018/19 – 2019/20 reported to Executive Board in February.

5.10.2 The main elements of this variation of £18.0m can be explained by the fact that the strategy incorporates increased pressures and changes to savings proposals within Children's Services (£10.9m), the increased cost of managing the Council's debt (£3.1m), creation of ELI and business rate appeals reserves (£4m), reduced contributions from both New Homes Bonus (£2.4m). This is offset by an additional £7.6m of income from business rates and council tax when compared to the February position. This variation is detailed below.

5.10.3 Table 5 Movement in the Financial Strategy since February

Movement in Financial Strategy (2018-2020) since February

	£m
Funding Changes (Net Revenue Charge)	
Council tax base	-2.2
Business Rates	-5.4
Other Funding Changes incl. Reserves	
New Homes Bonus	2.4
Minor other funding changes	-0.4
Earmarked Reserves	
Business Rate Appeals	2.0
Early Leavers Initiative	2.0
Cost Changes	
Children Looked After	3.0
Debt Costs	3.1
Reduced S278 income	2.3
Net Other Cost Changes	1.1
Revised Savings Proposals	
Children's Services -revised savings figures	7.9
Slippage in additional commercial income	1.7
Other minor changes	0.5
Total Movement since February	18.0

6. Reserves Policy

6.1 General Fund Reserves

6.2 Under the 2003 Local Government Act, the Council's Statutory Financial Officer 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.

6.3 The purposes of the general reserve policy are to:

- Maintain general reserves at a level appropriate to help longer-term financial stability; and

- Identify any future events or developments which may cause financial difficulty, allowing time to mitigate for these.

- 6.4 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/organisation-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.
- 6.5 The Financial Strategy seeks to utilise £2.5m of reserves in 2018/19 whilst the 2019/20 budget assumes a contribution of £2.5m back to the General Reserve. The table below sets out the indicative general reserve level from 2017/18 to 2020/21.
- 6.6 By the end of the plan, the level of General Reserve is forecast to be the same as that in April 2017.
- 6.7 Table 6 Forecast Level of General Reserve

General Reserve	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Brought Forward 1st April	20.7	20.7	18.2	20.7
Budgeted contribution/(use) in-year	0.0	(2.5)	2.5	0.0
Carried Forward 31st March	20.7	18.2	20.7	20.7

- 6.8 Whilst the Council maintains a robust approach towards its management of risk and especially in the determination of the level of reserves that it maintains, it is recognised that our reserves are lower than those of many other local authorities of a similar size. Whilst the continued reductions in funding and the pressures faced by the Authority make the current financial climate challenging, we will continue to keep the level of the Council's reserves under review to ensure that they are adequate to meet identified risks.

7. Corporate Considerations

7.1 Consultation and Engagement

- 7.1.1 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 must continue to work in a way that is consistent with this concept. 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.
- 7.1.2 To achieve changes on the scale proposed will require ongoing conversations about the Council and its future role, beyond the 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 this 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 where 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.

7.1.3 If specific changes to council services are identified and subsequently proposed, we will use normal business processes to engage with users and staff to inform decision-making.

7.1.4 When considering any workforce change the trade unions should be meaningfully engaged at the earliest opportunity. In 2016 the Council re-issued the Section 188 notice following the Comprehensive Spending Review and this 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. Further consultation will need to take place once the proposals regarding workforce changes become clearer and more defined. The council's Early Leaver Initiative, effective vacancy controls and other measures to save employment costs have significantly reduced the requirement to reduce FTEs still further, and the intention is to refresh the s188 notice to reflect the revised figures in the MTFP.

7.2 Equality and Diversity / Cohesion and Integration

7.2.1 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.

7.2.2 Previous Executive Board reports provide details of the extensive analysis carried out to understand needs and inequalities in the city and to inform service and financial planning, for example the Joint Strategic Needs Analysis and analysis of the Indices of Multiple Deprivation.

7.2.3 Specific equality impact assessments will be undertaken on the implementation of all budget decisions as they are considered during the decision-making processes in 2017/18. As part of this, the proposed revenue budget for 2018/19 will be subject to Equality Impact Assessments where appropriate with details included in the 2018/19 budget proposal reports to Scrutiny, to this Board and subsequently Full Council.

7.3 Council Policies and Best Council Plan

7.3.1 The Financial Strategy focuses on how the Council intends to respond to Government's indicative reductions in public sector funding and increasing costs associated with rising demand 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.

7.4 Resources and Value for Money

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

7.5 Legal Implications, Access to Information and Call In

7.5.1 There are no legal implications arising from this report. The report recommends the approval of the Financial Strategy itself and any proposals resulting from 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.

7.6 Risk Management

- 7.6.1 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 address these issues will ultimately require the Council to consider even more difficult decisions that will have a far greater impact on front-line services, including those that support the most vulnerable, and thus on our Best Council Plan ambition to tackle poverty and inequalities.
- 7.6.2 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 Executive Board.
- 7.6.3 In addition, risks identified in relation to specific proposals and their management will be reported to relevant members and officers as required. Specific risks relating to some of the assumptions contained within this Medium Term Financial Strategy are identified below.

7.7 Risks to Funding

- 7.7.1 The £21.4m increase in the level of resources between 2019/20 and 2020/21, when compared to the difference between the earlier financial years, assumes that the reduction in the level of revenue support grant witnessed in the four year settlement with Government ceases in 2019/20 and that there will be no further reductions in 2020/21. If this assumption that "austerity" has ceased is incorrect, and the Council experiences a similar reduction in resources in 2020/21 to that seen in 2019/20, then the level of resources available to the Council is estimated to reduce from £538.8m to £520.8m – an £18m reduction.
- 7.7.2 Business Rates figures to 2020/21 are based on the 50% business rates retention scheme currently in place, given the assumption that 100% retention of business rates is now unlikely to be implemented during the life of this Financial Strategy. At the time of writing it is unlikely that any reforms to the business rate system will be introduced during the period of this Financial Strategy. It is, however, assumed that any such changes would be revenue neutral to this Plan.
- 7.7.3 Annual increases in Business Rates Baseline funding and business rates growth are currently indexed to the Retail Price Index. Government plans to switch the indexation of Business Rates to the lower Consumer Price Index in 2020/21. Any changes to forecast inflation rates can impact on levels of funding: a 0.1% change in forecast inflation in 2018/19 could have a £166k impact on available resources.
- 7.7.4 The level of business rates appeals continues to be a risk. Whilst there is very little scope for new appeals against the 2010 list and the Council has an appropriate provision for these, there is very little information available on which to assess appeals against the new 2017 list, therefore business rate income could be adversely affected which in turn would reduce the overall level of resource available to fund council services.
- 7.7.5 The Fair Funding Review, which was being carried out alongside work on 100% retention, will continue. Government will conduct a thorough review of the needs assessment formula used to allocate government funding to local authorities, the outcome of which could impact on those funding allocations. Whilst the Strategy assumes that any such changes will be revenue neutral as transitional arrangements are expected, there remains a risk of reductions in government funding to the sector as a whole.

7.8 Key Risks to Cost Assumptions

- 7.8.1 The Strategy assumes a 1% pay award but there are indications that the current policy of pay restraint could be eased over the period covered by the Medium Term Financial Strategy and that pay increases could be in excess of 1%. It should be noted that every 1% increase in the Council's pay bill will result in the Council having to identify an additional £4m to resource this.
- 7.8.2 Following the introduction of the National minimum wage, national negotiations are underway to review the NJC pay spine structure and we are awaiting confirmation of these negotiations to understand the implications for the LCC pay structure to ensure an equal pay proof pay structure. This Medium Term Financial Strategy does not reflect any implications of this review although it is recognised that pending the outcome of discussions it will be necessary to provide for this.
- 7.8.3 There is a risk that the amount specifically set aside in this plan for demand and demography is not sufficient, particularly in regard to the numbers of Children Looked After and the impact of the ageing population.
- 7.8.4 The Medium Term Financial Strategy makes a number of assumptions about the costs associated with managing its debt. Currently the Council benefits from low interest rates which are payable on the debt outside. However if there is an upward movement on interest rates over the period of the Strategy then this will be an additional cost to the Council that will be required to be managed.
- 7.8.5 The Council and City's economic and fiscal position is clearly impacted upon by the wider national economic context. The UK's decision to exit the EU has undoubtedly fuelled economic and political uncertainty and the outcome of the negotiations between the UK and the EU potentially, in the short term, weaken the pound, increase inflation, reduce domestic and foreign direct investment and impact on borrowing costs. All of these have the potential to impact upon both not only the level of resources available to the Council but also the level of demand for the services that it provides.

8. Conclusions

- 8.1 The Medium-Term Financial Strategy reflects 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.
- 8.2 This strategy needs to be seen in the context of a challenging economic outlook combined with a number of significant risks and uncertainties that have the potential to significantly impact upon both the Council's resources and levels of demand for its services. Where it is possible to determine the financial implications of these then they have been accommodated within the strategy. It is acknowledged that the assumptions contained in the strategy are under constant review to reflect any changes in circumstances or if further information emerges in respect of known risks.
- 8.3 In response, a planned and iterative approach continues to be 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 £38.9m represents around half of those required to meet the forecast funding gap of £83m.
- 8.4 After taking account of increased Better Care funding and the application of specific precept increases it is anticipated that the Adults and Health budget will increase by £21m or 10.13% between 2017/18 and 2020/21.

- 8.5 The Council is required to present a balanced budget to Council for approval in advance of the financial year. In advance of the final proposals being considered for approval in February 2018, the Council's Initial Budget proposals are considered at Executive Board in December prior to a period of consultation. Further work is required to close the budget gap, and officers will continue working on proposals for members' consideration.

9. Recommendations

- 9.1 Executive Board is recommended to:
- 9.2 Approve the 2018/19 – 2020/2021 Medium-Term Financial Strategy;
- 9.3 Note that further proposals will be brought forward to address the current identified shortfall;
- 9.4 Note that the Chief Officer – Financial Services will be responsible for implementing these recommendations.

10. Background Documents¹

- 10.1 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.