Leeds CITY COUNCIL

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Report of the Chief Officer – Financial Services

Report to Executive Board

Date: 24th July 2019

Subject: Medium Term Financial Strategy 2020/21 – 2024/25

Are specific electoral wards affected? If relevant, name(s) of ward(s):	☐ Yes	☒ No
Has consultation been carried out?	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration	☒ Yes	☐ No
Will the decision be open for call-in?	☒ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	☐ Yes	☒ No

Summary

1. Main issues

In the absence of the Government's spending plans from April 2020, this Financial Strategy reflects the Council's best estimate of the level of resources that will be available to Leeds through the Settlement Funding Assessment (SFA) after this date. In addition, it includes assumptions around business rate retention and continuation of the current 75% pilot, future Council Tax increases as well as taking account of increasing costs from rising demand for services, inflation and other cost pressures.

However largely due to the uncertainty arising from the Conservative Party leadership election and the uncertainly over the likely Brexit outcome, it is looking increasingly unlikely that there will be a three year Spending Review presented in the Autumn 2019 Budget. Instead, this Strategy assumes a single year Settlement for 2020/21 to bridge the gap to a three year Settlement commencing in 2021/22. As a consequence of this assumed delay, it is also anticipated that the outcome of the Government's Fair Funding Review, Business Rates Retention Reform and the move to 75% Business Rates retention nationally will also be delayed until 2021/22. Until the outcome of the Spending Review is known, the Strategy assumes that

changes would be revenue neutral and that transitional arrangements will be in place.

The issuing in 2018 of two Section 114 (Local Government Finance Act 1999) notices at Northamptonshire County Council, combined with both CIPFA's planned implementation of its Financial Resilience Index in the autumn of 2019 and the implementation of its Financial Management Code of Conduct emphasises the requirement to undertake sound longer-term planning. This is a fundamental element of robust financial management to ensure the Council's financial position is financially sustainable and resilient. Therefore the Medium term Financial Plan is to be over a five year period.

The Council is facing continued financial pressures through uncertainties with regard to the level of future funding, rising costs and growing demand. The scale of the funding gap between 2020/21 and 2024/25 is projected to be £93.7m with £36.8m and £43.5m falling in 2020/21 and 2021/22 respectively.

In recognition of the levels of savings that have been delivered since 2010, combined with both the challenge faced by estimated budget gaps identified in this Medium Term Financial Strategy and the requirement to ensure that the Council's revenue budget position is both financially sustainable and financially resilient, the Council has embarked on a series of service and budget reviews which have been largely informed by the benchmarking work stream. The outcome of these reviews will be reported to Executive Board in advance of the Initial Budget Proposals to be received by the Board in December.

The Medium Term Financial Strategy also recognises the synergies between the revenue budget and the Council's Capital Programme and a planned review of the Capital Programme will result in an affordable 10 year programme that aligns itself with the priorities of the Council.

2. Best Council Plan implications (click here for the latest version of the Best Council Plan)

- The Best Council Plan is the Council's strategic plan, setting out its ambitions, outcomes and priorities for the City of Leeds and for the Local Authority. The City ambitions set out in the Best Council Plan are: the Council, working in partnership, will continue to tackle poverty and inequalities through a combination of strengthening the economy and doing this in a way that is compassionate and caring. Three pillars underpin this vision: inclusive growth, health and wellbeing, and – more recently following the Council's 27th March declaration – climate change emergency which aims to embed sustainability across the Council's decision-making. The Authority's internal 'Best Council' focus remains on becoming a more efficient, enterprising and healthy organisation. Together, these 'Best City' and 'Best Council' ambitions set the strategic context for the Medium Term Financial Strategy.
- The Best Council Plan can only be delivered through a sound understanding of the organisation's longer-term financial sustainability which enables decisions to be made that balance the resource implications of the Council's policies against financial constraints. This is a primary purpose of the Medium Term Financial Strategy which also provides the financial framework for the annual budget. Initial proposals for the 2020/21 refreshed Best Council Plan and supporting

Budget will be brought to the Executive Board in December 2019, with final proposals being considered by the Board and subsequently Full Council in February 2020.

3. Resource implications

- This report explains the significant uncertainties and pressures around local government funding which, against a backdrop of ongoing national political and economic uncertainty, means the Council will continue to have to make some difficult decisions on how and where it allocates its capital and revenue resources in order to deliver its priorities as set out in the Best Council Plan.
- In the absence of any certainty about the implications of the Government's next spending review, the implications of the Government's national 75% business retention scheme, the outcome of the Government's Fair Funding Review and delays to the Government's Green Paper in respect of adult social care, a number of assumptions have had to be made as to the likely level of resources that will be available to Leeds City Council and these assumptions are detailed in this report.
- The financial position set out in this report identifies an estimated budget gap of £93.7m and work is being progressed to identify budget savings options which will be reported to Members.

Recommendations

Executive Board is recommended to:

a) Approve the 2020/21 – 2024/25 Medium Term Financial Strategy for both General Fund services and the Housing Revenue Account;

b) Note that budget saving proposals to address the estimated budget gaps will be brought to Executive Board in advance of the Initial Budget Proposals to be received by the Board in December.

c) Note that the Chief Officer – Financial Services will be responsible for implementing these recommendations.

d) Approve the adoption of the revenue and capital principles, as set out in Annex 1, which must be complied with in respect of the arrangements for the financial management of both the revenue budget and the Capital Programme.

1. Purpose of this report

1.1 The 2019/20 budget report to Executive Board in February 2019 included an update of the Medium Term Financial Strategy 2020/21 to 2021/22. Within a set of assumptions, this identified an estimated budget gap of £37.2m and £28.2m in 2020/21 and 2021/22 respectively. It also stated the intention to present an updated Medium Term Financial Strategy to Executive Board at its meeting in July. The financial position of the Council will be updated through the budget setting process as more information is made available.

1.2 In accordance with this requirement, this report presents the Council's updated Medium Term Financial Strategy which has now been extended to cover the five year period 2020/21 – 2024/25 for Executive Board's approval.

1.3 The report also provides an update of the process for the determination of an affordable 10 year Capital Programme.

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 In accepting the Government's four year settlement agreement in 2015, the Council has had some certainty as to the level of resources it would receive through its Settlement Funding Assessment between 2016/17 and 2019/20. This certainty has now come to an end and, at the time of writing this report, the Council has not received notification of the level of resources it will receive for 2020/21 and future years. During the current settlement period the Council's core funding has reduced by £85m which was in addition to the core funding reduction of £182m between in 2010/11 and 2015/2016. It is worth noting that a recent County Councils Network publication identified a cumulative funding gap of £51.8bn by 2025 in national council finances.

2.3 The Chancellor of the Exchequer's Spring Statement on the 13th March 2019 gave an update on the overall health of the economy and the level of public debt. On top of predicted GDP growth of 1.4%, 1.6% and 1.6% in 2020/21, 2021/22 and 2022/23 respectively, borrowing continues to be forecast to fall in every financial year to £14.4b in 2022/23. The Chancellor also announced that, assuming an orderly Brexit, a full three year spending review would go out to consultation before the summer recess, with the outcome to be announced at the 2019 Autumn Budget. With a Conservative Party leadership contest and continuing uncertainty over the likely Brexit outcome the assumption around a full three year spending review looks increasingly unlikely. Therefore, combined with recent comments of the Chief Secretary to the Treasury that the spending review is unlikely to start before the parliamentary summer recess, we have concluded that there will be a delay to the Spending Review and that instead a single year settlement will be required for 2020/21 to bridge the gap between the current spending settlement and the next full settlement which we anticipate will not be implemented until 2021/22 at the earliest. Similarly, it is anticipated that both the outcome of the Government's Fair Funding Review and the move to 75% Business Rates retention nationally will be delayed until 2021 at the earliest. It is in this context that the Council's Medium Term

Financial Strategy has been set and with the Government's future spending plans for the public sector being unknown it is unclear both to what extent "austerity" will continue after 2019/20 and how Government will seek to reset local authorities' Settlement Funding Assessments. All of this inherent uncertainty, which won't be resolved until the autumn at the earliest, needs to be seen in the context of the Council's requirement to publish its Initial Budget and Final Revenue Budget proposals in December 2019 and February 2020 respectively.

2.4 In addition to these reductions in core funding, the Council faces continuing growth in demand for many of its services, particularly for adult and children's social care. In balancing its budget the Council must also deal with inflationary increases in costs and uncertainty with regards to income from specific Government grants, particularly in respect of adult social care. 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 these continuing financial pressures. The Medium Term Financial Strategy needs to ensure that the Council's financial position is sustainable and resilient to withstand pressures such as variations in funding or increased demand for the services that it offers. It is more important than ever that we continue with our programme of becoming a more efficient and enterprising organisation, our stated 'Best Council' ambition.

2.5 In December 2018, the Government notified the Council that the North and West Yorkshire Business Rates Pool application to pilot 75% retention in 2019/20 had been successful. The estimated additional business rates, reduction in the levy and Section 31 grant was built into the 2019/20 budget. To date the Council has been notified that the Pilot is for 2019/20 only. Reform of the Business Rates system was expected to be completed for the 2020/21 financial settlement. This is now looking increasingly unlikely, and it is unclear whether the current 75% Business Rates retention pilot will roll forward into 2020/21 or, failing this, if there will be opportunity for Pools to bid again for 2020/21. If there is such an opportunity the outcome will not be known until December 2019, which is also when the Council's Initial Budget Proposals for 2020/21 are being received at Executive Board. If the current budget assumption that the 75% pilot will continue does not materialise there will be an estimated additional pressure of £10.2m in 2020/21. Greater certainty from Government with regard to the future of Business Rates Retention reform would provide more certainty to Local Authorities at a time when they are determining their financial strategies.

2.6 In December 2017, the Government launched its Fair Funding Review of Local Government finance. Current funding baselines for Local Authorities are based on an assessment of relative needs and resources, using a methodology introduced over ten years ago and data which has not been refreshed since the introduction of the 50% business rates retention system in 2013/14. Since then, demographic pressures and costs have affected local areas in different ways, with the Government themselves recognising that "introducing the new needs and resources formula could result in significant changes to the funding baselines of some Local Authorities". The Fair Funding Review is dependent on the outcome of the delayed Spending Review 2019. Therefore, the result of the Fair Funding Review won't be known until later than anticipated. It is increasingly unlikely that the outcome will be known in time to inform the level of resources available to support budgets from 2020/21 onwards. As such, the Strategy assumes that the Spending Review will be delayed, resulting in a single year settlement in 2020/21, with a three year settlement commencing in

2021/22. Until the outcome of the Government's spending review is known the Strategy also assumes that any such changes will be revenue neutral during the life of this Plan as transitional arrangements are anticipated to be put in place.

2.7 Since 2017/18, the Government has provided additional resources to adult social care through a combination of additional adult social care grants, "Spring Budget grant", the improved Better Care Fund (iBCF), the Winter Pressures grant and the Adult Social Care precept on Council Tax. Local Authorities are often unaware that additional resources, such as Winter Pressures grant which was announced in the Chancellor's Autumn Statement, are to be provided and consequently this makes financial planning challenging. For 2020/21 and beyond, there is no certainty that additional resources for adult social care will be receivable or that some of the current funding streams, such as the Winter Pressures grant announced in the Chancellor's Autumn Statement, will continue. In the identification of funding solutions for adult social care, in March 2017 the Government said that it would publish a Green Paper on social care in order to allow a public consultation to be held. This followed the decision in July 2015 to postpone the introduction of a cap on lifetime social care charges and a more generous means test as had been proposed by the Dilnot Commission. The Government has said that the proposals in the Green Paper will "ensure that the care and support system is sustainable in the long term". The continued delay in the publication of the Green Paper has added to the uncertainty in respect of the Government's intentions around the future funding of adult social care.

2.8 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) still remains unclear although the projected impact will have to be factored into the Government's Spending Review. Similarly this financial strategy does not take account of the financial impact of any devolution proposals that may emerge during this period.

2.9 Nationally, many councils are reporting increasing financial pressures on children's services. The Care Crisis Report, published this year, noted that in England and Wales the number of care order applications reached a record level in 2017 and the number of looked after children was at its highest since the Children Act 1989. The recent County Councils Network publication reviewing council finances identified a cumulative funding gap of £51.8bn and also recognised that by 2025 council spend on children's services will need to rise by £3.9bn a year compared to what they were spending in 2015. For 2020/21 and beyond there is no certainty that the current Social Care Support grant announced in the Chancellor's Autumn Statement will continue.

2.10 The Council has significant capital aspirations to fulfil in investing in its existing estate and new capital investment, to ensure that it has the right infrastructure in place to support its ambitions. The Council has underpinned this investment by taking advantage of low borrowing rates. However, the reducing revenue funding envelope and the prospects that interest rates will start to rise has required the Council to consider a different approach where capital spending decisions are taken at the same time as when the revenue budget is set. Allied to this the Council is now reviewing its capital requirements and developing a 10 year capital programme with a view to assessing affordability over the longer period.

2.11 Between 2016/17 and 2019/20 Councils were required by the Welfare Reform and Home Act (2016) to reduce social housing rents by 1% per annum. Properties within PFI areas have been exempt from this requirement. From 2020/21, and for a five year period, the Government are allowing councils to return to the rent formula of CPI+1% for future rent increases. These increases in rent will help the Council deliver its housing priorities.

2.12 In the autumn of 2019, CIPFA's intention is to launch their Financial Resilience Index which will contain a number of indicators including "reserves depletion time", "level of reserves", "change of reserves", "council budget flexibility" and "council tax to net revenue". The purpose of the indicators is to allow local authorities to assess whether they are in a financially stable position or if there is some potential risk to their financial stability.

2.13 Similarly, in order to ensure that each local authority has in place appropriate financial management arrangements, CIPFA has issued a Financial Management Code which will be applicable from 1st April 2020. The code has been issued in the context of the two Section 114 notices that were issued at Northamptonshire County Council in 2018 and a number of other local authorities reporting that they are facing significant financial challenges. The Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. Local Authorities will be required to demonstrate that the requirements of the Code are being satisfied. Both the Financial Resilience Index and the Financial Management Code will complement one another.

2.14 In addition to the two CIPFA initiatives described in 2.12 and 2.13 above, the Council is proposing to adopt a number of principles for the management of its revenue and capital budgets, provided at Annex 1. The revenue principles have been developed to support both the process for determination of the budget and the financial management arrangements for delivery of a balanced revenue budget position. The capital principles have been developed to enable the Capital Programme resource to achieve the priorities within the Best Council Plan and will support the development and monitoring of the Capital Programme for 2020/21 and future years.

2.15 In the determination of both this Medium Term Financial Strategy and subsequent annual budgets, it needs to be ensured that our processes and assumptions are sufficiently robust. The issuing of Section 114 notices by Northamptonshire County Council in February 2018, combined with the planned implementation of CIPFA's Resilience Index and Financial Management Code, has increased the focus on local authorities' financial resilience and sustainability. The decision to extend the Medium Term Financial Strategy to cover a five year period will contribute towards ensuring that the decisions that the Council makes are sustainable over a longer planning period.

2.16 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, staffing and other resources, ongoing collaboration and engagement with partners across all sectors and the communities and citizens of Leeds. Initial proposals for the

2020/21 Best Council Plan and supporting budget will be brought to this Board in December 2019.

2.17 In July 2018, Executive Board received the Council's Medium Term Financial Strategy which detailed a funding gap of £96.8m for the period 2019/2020 to 2021/22 of which £13.8m related to 2019/20. The 2019/20 Revenue Budget and Council Tax report which was received at Executive Board and Council in February 2019 required the identification of £22.6m of budget savings in order to address corresponding cost and funding pressures. The same report also provided an update in respect of 2020/21 and 2021/22 and this showed a revised gap of £37.2m and £28.2m in 2020/21 and 2021/22 respectively.

2.18 Given the known risks associated with the level of funding available for 2020/21 to 2021/22, the increased demand for services, the impact of business rate appeals and increasing cost pressures there is a requirement to refresh the Medium Term Financial 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 for a further three years so that it now incorporates the years to 2024/25.

2.19 While this Financial Strategy provides a financial planning framework through to 2024/25, it does not represent the proposed budget for the next five 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 <u>Table 1 Estimated Level of Resources</u>

	2019/20 Final £m	2020/21 Indicative £m	2021/22 Indicative £m	2022/23 Indicative £m	2023/24 Indicative £m	2024/25 Indicative £m
Revenue Support Grant	0.0	0.0	0.0	0.0	0.0	0.0
Business Rates Baseline	183.7	183.7	199.3	199.3	199.3	199.3
Settlement Funding Assessment	**183.7**	**183.7**	**199.3**	**199.3**	**199.3**	**199.3**
Business Rates Growth	16.8	17.5	2.3	-0.2	-1.3	-0.7
Business Rates Surplus/(Deficit)	-0.6	-2.5	-7.8	-6.5	-5.0	-3.5
Council Tax: Core	296.0	310.4	325.5	341.3	357.8	375.0
Council Tax: Adult Social Care Precept	22.0	22.0	22.0	22.0	22.0	22.0
Council Tax Surplus/(Deficit)	-1.1	-1.2	-1.0	-0.8	-0.6	-0.4
Net Revenue Budget	**516.7**	**530.0**	**540.3**	**555.0**	**572.2**	**591.7**
Change in Resources		**13.3**	**10.3**	**14.7**	**17.1**	**19.5**

3.1.2 Local government is now in the final year of a four year settlement period. For 2020/21 and beyond, there is little clarity about the future of local government funding. Previous Government announcements indicated that Spending Review 2019 would allocate funding to local government for the three year period 2020/21 –

2022/23. The Fair Funding Review and Business Rates Retention Reform were then intended to follow on from a published three year settlement. However, as referred to above, delays to the Spending Review and uncertainties caused by Brexit have led us to conclude that there will be a single year settlement covering 2020/21, with a three year settlement period commencing in 2021/22. This leads us to assume a likely delay in the two local government reviews: the Fair Funding Review and Business Rates Retention Reform. It is within this context that the resources available, shown in **Table 1** above, have been assessed.

3.1.3 Further to this, it is assumed that the 2020/21 Settlement Funding Assessment (SFA) will not change from 2019/20. In 2021/22 SFA will increase by £15.6m following the redistribution of accumulated business rates growth across England. The Strategy assumes that this accumulated business rates growth will not be reduced or top-sliced before redistribution. It is then assumed that SFA remains static for the remainder of this Strategy.

3.1.4 No separate figures for Revenue Support Grant (RSG) are shown in **Table 1** as authorities piloting 75% retention forego RSG and the value of the grant foregone is then taken into account in setting their new Business Rates Baseline, increasing it so that their SFA remains unchanged. It is Government's stated intention to continue to 'roll in' RSG alongside the national implementation of 75% retention, discussed at paragraph 3.2.2 below.

3.1.5 Changes in local funding, i.e. Business Rates Retention and Council Tax, are discussed in more detail below. After taking account of the overall changes in the level of funding available to the Council, **Table 1** shows that the Net Revenue Budget for the Council will increase over the life of the Strategy, from £516.7m in 2019/20 to an estimated £591.7m in 2024/25.

3.2 Business Rates Retention

3.2.1 In December 2018, Government notified the Council that the North & West Yorkshire Business Rates Pool bid to pilot 75% Business Rates Retention in 2019/20 had been successful. This followed the success of the Leeds City Region 100% business rates retention pilot in 2018/19. The new pilot scheme allows Pool member authorities to retain 75% of growth in business rates, and associated Section 31 grants, above the business rates baselines as determined by Government, whereas non-pilot authorities only retain 50% of that growth. To date, the Council has been notified that this Pilot is for 2019/20 only. Further information is awaited about the future of pooling arrangements in the light of the possible introduction of 75% retention across England in 2020/21.

3.2.2 As a consequence of delays in amending relevant legislation, it was not possible for Government to introduce 100% Business Rates Retention nationally in 2020/21. They instead signalled their intention to roll out a 75% retention scheme in that year and to continue to work towards greater business rates retention. However, the introduction of 75% retention nationally in 2020/21 is now considered to be unlikely and Business Rates figures in the Medium Term Financial Strategy for 2020/21 reflect the assumption that the current 75% retention pilot will continue into next year with 75% business rates retention implemented nationally in 2021/22. However, there remains a risk that the North & West Yorkshire Pool will be ended by the

Government in March 2020 and member authorities returned to 50% retention for 2020/21. The potential financial losses for Leeds City Council are estimated to be around £10.2m in 2020/21, relating to both retained Business Rates income and its associated grants. It is possible that the Authority will not know the final position on business rates in 2020/21 until December 2019.

3.2.3 The Strategy assumes that budgeted Business Rates income retained by the Authority in 2019/20 (£199.8m) will reduce to £198.7m in 2020/21 and further decrease to £193.8m in 2021/22 and £192.5m in 2022/23 before increasing to £193.0m in 2023/24 and to £195.1m in 2024/25. This medium term increase reflects: the forecast Consumer Price Index of 2%; that SFA will remain constant in cash terms throughout the period; that national accumulated Business Rates growth to 2019/20 will be redistributed through SFA in 2021/22 following a baseline reset, reflected in the £15.6m increase in **Table 7**; and that any further estimated business rates growth will be retained locally from 2021/22. It also includes any estimated business rates deficit on the Collection Fund during those years. Further reforms to the administration of the Business Rates Retention Scheme, currently being considered by the Government, remain too uncertain to anticipate at this time.

3.2.4 Business Rates growth above the baseline represents the growth in retained Business Rates income achieved by the Authority since the start of the Retention Scheme in 2013/14. Originally, the Government stated that the growth achieved nationally would be pooled in 2020/21 and redistributed following the Fair Funding Review along with further reforms to the Retention Scheme, a process known as a ‘reset’.

3.2.5 Both the Fair Funding Review and reforms to the Scheme now seem unlikely in 2020/21 and therefore it is assumed that this reset will also be delayed by a further year. Based on current projections and including estimates of in-year growth, growth above the baseline of £17.5m is included in 2020/21, decreasing to £2.3m in 2021/22 following an assumed reset, after which it is expected that business rates income will be £0.2m below the baseline in 2022/23, £1.3m below the baseline in 2023/24 and £0.7m below the baseline in 2024/25. All estimates assume the Authority will retain 75% of growth above the baseline.

3.2.6 This decline in net Business Rates Growth above the baseline in later years, as can be seen in **Table 1,** continues to reflect an underlying assumption that there will be annual in-year growth of approximately £10m in Rateable Value in the City. The net decline in growth above the baseline is due to a number of factors, including reductions brought about by successful appeals submitted by ratepayers and the ongoing impact of increasing deficits in later years.

3.2.7 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 2019/20, this deficit fell to £0.6m, the lowest since 2013/14. In 2020/21 the deficit is expected to rise to £2.5m taking into account a shortfall in receipts of business rates since the 2019/20 deficit was calculated. Given the uncertainties about business rates yield in future years, it is expected this deficit will increase significantly with a deficit of £7.8m estimated for 2021/22, £6.5m in 2022/23, £5.0m in 2023/24 and £3.5m in 2024/25.

3.2.8 The risks posed by appeals against the 2010 ratings list will reduce as the number of outstanding appeals reduces over the forthcoming months. The 2017 ratings list was introduced alongside a new appeals process and to date the number of appeals against this list has been much lower than the 2010 ratings list, although it remains uncertain as to whether this situation will continue.

3.2.9 There remain many uncertainties around the future of business rates retention within the local government finance system. It is uncertain whether the 2019/20 75% retention pilots will continue into 2020/21 or whether constituent authorities will return to 50% retention, which would represent an estimated loss of £10.2m to this Authority. The timing and mechanism of any baseline reset remains uncertain, as does whether the Government will centralise any of the growth to be redistributed to local government to fund other initiatives. Further, it remains uncertain whether fundamental reforms to the administration of the Business Rates Retention Scheme, currently under consideration by the Government, will be implemented. This Financial Strategy assumes that 2019/20 75% pilots will continue into 2020/21, that national growth will be redistributed in full in 2021/22 according to need and that the current retention scheme will continue during the period of this Strategy. However, the underlying uncertainties persist throughout this period.

3.3 Council Tax

3.3.1 This Medium Term Financial Strategy assumes Council Tax base growth of 1.5% per annum (around 3,400 Band D properties in 2020/21), which is 0.1% above the tax base increase in 2019/20. Further, the Strategy assumes that councils will continue to be able to raise core Council Tax by up to 2.99% in 2020/21, following the announcement of increased referendum limits for both 2018/19 and 2019/20. This would be subject to parliamentary approval and would likely be addressed in the annual consultation on the Local Government Finance Settlement. It is further assumed that the referendum limit will continue at this level in subsequent years. The Provisional Local Government Finance Settlement 2017 confirmed the continuation of the Adult Social Care precept between 2017/18 and 2019/20, capping the total increase at 6%. Leeds City Council have maximised this flexibility and the Strategy assumes no further precept in 2020/21 and beyond.

3.3.2 As with Business Rates, any shortfall between budgeted and actual Council Tax income is a cost that must be met in the following year. In 2019/20 this deficit is £1.1m. The Strategy assumes that the deficit will reduce to £0.4m over the five year period up to 2024/25.

3.4 Other Funding Changes

3.4.1 The paragraphs below outline the key changes to other funding that the Council receives, which are detailed in **Table 7.**

3.5 Specific Grant Funding Changes - New Homes Bonus

3.5.1 In 2011/12, the 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 grant being receivable over a reduced period of 4 years and the imposition of a national growth baseline before any reward is paid.

3.5.2 In 2018/19, the Government announced that they were intending to review the operation of the Bonus with the intention of introducing reforms to better align the scheme with local authorities' performance in meeting local housing demand beyond 2019/20. No further detail has been provided since this announcement. Consequently, this Strategy assumes the current Scheme will continue, although this will not become clear until the provisional Local Government Finance Settlement is published in December 2019.

3.5.3 The income to be earned from New Homes Bonus in 2019/20 is currently projected to be £0.4m below the £10.0m budgeted for in 2019/20. As income earned in 2019/20 will be paid for a further three years under the current Scheme, this shortfall causes a reduction in the income estimated for 2020/21 of £0.5m persisting until this lower than average year falls out of the projections in 2023/24.

3.6 Specific Grant Funding Changes – Children and Families

3.6.1 In 2019/20, Government provided £5.6m of one-off Social Care Support Grant, which Leeds allocated to the Children & Families Directorate to recognise their significant budget pressures. Whilst Government has not indicated a continuation of this funding in 2020/21, it is difficult to think that there will not be some continued recognition of the demand pressure facing social care services. As such, this Medium Term Financial Strategy assumes that funding equivalent to this £5.6m will continue to be receivable.

3.6.2 Current guidance suggests that the Troubled Families Programme Earned Autonomy grant allocations end in March 2020, with the Strategy showing a £2.7m impact of this grant falling out in 2020/21. Likewise, School Improvement and Brokerage grant, which supports school improvement, is anticipated to cease in 2020/21 resulting in a further £0.3m reduction in funding.

3.7 Specific Grant Funding Changes - Adult Social Care Grants

3.7.1 In November 2016 Government announced increased funding for adult social care through the improved Better Care Fund (iBCF). The £10.1m due in 2019/20 represents the final year of the additional funding announced. Whilst Government has not indicated that any further such monies will be receivable in 2020/21 it is difficult to think that there will not be some continued recognition of the demand pressure facing the service, particularly as the Government's Green Paper on the future funding of social care has not yet been published.

3.7.2 In February 2017, Government announced a total of £2.021bn nationally as supplementary funding to the improved Better Care Fund (iBCF) to be spent on social care. 2019/20 is the final year of this three year funding stream leading to £4.7m falling out for the Council in 2020/21.

3.7.3 Government made available one-off Adult Social Care Support Grant in both 2017/18 and 2018/19, £3.3m and £2.1m respectively for Leeds. In 2019/20, alongside the £5.6m of Social Care Support Grant discussed at paragraph 3.6 above, Government provided additional Winter Pressures grant totaling £3.3m for Leeds.

3.7.4 As such, this Medium Term Financial Strategy assumes that additional funding equivalent to iBCF (£10.1m per annum) will continue to be receivable over the period of the Strategy and also that funding equivalent to £3.3m of Winter Pressures grant will continue to be receivable.

3.8 Specific Grant Funding Changes - Public Health grant

3.8.1 In the 2015 Spending Review, the Government indicated its intention to make savings in local authority public health spending over a fixed-term period, with a final £1.2m reduction reflected in the 2019/20 budget. Future allocations are not yet known and this Strategy assumes no further reductions. Some of this reduction was offset by £0.4m of Public Health grant carried forward on the balance sheet in 2019/20. Such additional funding is not available in 2020/21 and later years.

3.9 Specific Grant Funding Changes - Communities and Environment

3.9.1 The Housing Benefit and Local Council Tax Support Administration Subsidy grants are anticipated to continue to reduce, by a further £0.5m in each of the years 2020/21 to 2022/23, reflecting the continuing reductions in the national quantum of funding allocated to Local Authorities. These are indicative assessments at this stage as the final allocations for 2020/21 will not be made until late 2019/early 2020.

3.9.2 Individual Electoral Reform (IER) funding, used in previous years to support the costs of activities aimed at increasing the completeness and accuracy of the electoral register, is assumed not to continue and if no funding is available, the net impact on the budget is £70k. However, if funding is subsequently confirmed, this pressure will be mitigated.

3.9.3 The Prime Minister announced in March 2018 that parents would no longer have to meet the costs of burials or cremations. The fees are to be waived by all Local Authorities and met instead by a Government Funeral Fund for grieving parents who have lost their child, although implementation of the fund has been delayed. Leeds City Council has already abolished these fees for Under 18's and an assumption has been made that, from 2020/21, funding from the Funeral Fund of £0.2m will be available to offset the loss of income already provided for.

3.10 Specific Grant Funding Changes – Strategic Accounts

3.10.1 The Government announced that £56.5m nationally would be made available to help councils carry out Brexit preparations. Of this total, Leeds received £0.1m in both 2018/19 and 2019/20. The strategy assumes that no further grant is receivable in 2020/21 onwards, but also that any related costs will no longer be incurred.

3.11 Specific Grant Funding Changes –Section 31 grants

3.11.1 Section 31 grants are received by the Authority from the Government. They are intended to be compensation for the cost of a series of business rates reliefs introduced by the Government since the start of the Business Rates Retention Scheme and increases to the Small Business Rates multiplier being capped.

3.11.2 As a result of the assumption that the 75% retention pilot will continue into 2020/21, the Strategy recognises an increase of £0.9m in Section 31 grants payable to the

Authority. This reflects the projected increase in the Small Business Rates multiplier which will contribute to the Council's Strategic accounts.

3.12 Movement on the use of reserves

3.12.1 The Strategy assumes that £4.5m will be contributed to the general reserve in 2019/20 and that subsequently £10m from the general reserve is used to support the 2020/21 budget. No further movements are currently anticipated in this Strategy.

3.12.2 This Strategy assumes a £7.8m pressure relating to earmarked reserves in 2020/21. It proposes the creation of two new reserves – an Innovation Fund and Investment Fund, setting aside £1m for each. The Investment Fund would focus on service improvement or transformation or additional income generation where an initial investment would generate cost reductions or income for the Council. The Innovation Fund would support those more conceptual schemes which need to be developed further. Not all of these schemes would be successful, and there would be a requirement for successful schemes to repay the Fund with the aim of it becoming self-financing. The schemes supported by these funds strengthen the Council's longer term financial resilience.

3.12.3 The remaining movement of £5.8m reflects a combination of contributions to and from reserves. These include the use of the ELI reserve, the Public Health reserve and Resources and Housing reserves in 2019/20. In addition it assumes contributions to S106 balances, schools balances and schools PFI Sinking Funds.

4. Changes in Costs

4.1 Inflation

4.1.1 The Financial Strategy makes allowance for £46.4m of net inflation from 2020/21 to 2024/25. It provides 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 Employers Local Government Pensions Contributions

4.2.1 The actuarial valuation of the West Yorkshire Pension Fund took place in March 2019 and the Authority will not be notified of its outcome until the autumn. An update was provided to West Yorkshire Chief Financial Officers in the autumn of 2018 by the West Yorkshire Pension Fund actuaries, AON, which projected a surplus on the fund. As such, the Medium Term Financial Strategy does not assume an increase in the Council's employer's contribution. However, until the outcome of the actuarial review which may contain changed assumptions about the deficit recovery period or the changes to the discount factor is known, the implications for Leeds City Council remain unknown.

4.3 Pay Award and the Leeds Living Wage

4.3.1 Provision of £45.3m has been for the costs of pay awards for the period covered by the Medium Term Financial Strategy. As well as providing for the cost of an annual 2% pay award for the period covered by the strategy, it also provides for increases of

25p per hour in the Council’s minimum pay rate which are consistent with the level of National Real Living Wage increases seen in 2019/20.

4.4 Fall-out of capitalised pension costs

4.4.1 The fall-out of capitalised pension costs associated with staff who have left the Council under the Early Leavers Initiative (ELI) will save an estimated £2.5m.

4.5 Demand and Demography

4.5.1 The Medium Term Financial Strategy recognises the increasing demography and consequential demand pressures for services in Adult Social Care and Children and Family Services with £18.5m being provided for over the five years up to 2024/25.

4.5.2 Within Adults and Health, the population growth forecast assumes a steady increase from 2019 in the number of people aged 85-89 between 2020 and 2025. These increases of 2.8%, 2.7%, 1.8%, 2.6% and 1.3% respectively result in additional costs for domiciliary care and placements. In addition, the strategy reflects the anticipated impact of increasing cash personal budgets through to 2025. The Learning Disability demography is expected to grow by 2.3% (based on ONS data) over the period. 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. The Medium Term Financial Strategy provides £2.0m per annum for this projected growth.

4.5.3 Children and Families 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. Consequently, the Medium Term Financial Strategy provides £1.5m per annum for the projected growth in the 0-19 year old population and the impact that this will have on both CLA and transport costs.

4.6 Adult Social Care

4.6.1 In the absence of either the Government’s Green Paper, which would have hopefully provided greater certainty about their future funding intentions in respect of adult social care, or any details of future increased financial support though grants such as the Better Care Fund or the Winter Pressures grant, the Medium Term Financial Strategy assumes an increase in adult social care resources of £42.7m over the period 2020/21 to 2024/25. This increase is detailed in **Table 2** below. The grant will be utilised to fund a range of adult social care pressures and priorities including demand, demography and inflation increases on commissioned services. As discussed at paragraph 3.3 above, 2019/20 is assumed to be the final year of the Adult Social Care precept increases in Council Tax and no further increases have been assumed in the Medium Term Financial Strategy.

4.6.2 **Table 2** below outlines assumptions as to how the additional funding provided by the improved Better Care Fund, the Spring Budget grant, the Autumn Budget Grant 2018, the Winter pressures Grant 2019/20 and the precept all combine to increase the spending power with adult social care.

Table 2 Adult Social Care "Spending Power"

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Base Budget (restated)	221.1	227.5	232.9	243.0	253.1	263.2
Spring Budget Grant 18/19	(9.4)					
Spring Budget Grant 19/20	4.7	(4.7)				
Improved Better Care Fund	10.1					
Increase in ASC funding (assumed)		10.1	10.1	10.1	10.1	10.1
ASC Support Grant 18/19	(2.1)					
Autumn Budget 2018 2018/19	(3.3)					
Winter Pressures Grant 2019/20	3.3	(3.3)				
Continuation of Winter Pressures Grant (assumed)		3.3	3.3	3.3	3.3	3.3
Continuation of Winter Pressures Grant (assumed) fallout			(3.3)	(3.3)	(3.3)	(3.3)
ASC Precept	3.1					
	227.5	**232.9**	**243.0**	**253.1**	**263.2**	**273.3**
Movement in Adult Social Care "Spending Power"		**5.4**	**10.1**	**10.1**	**10.1**	**10.1**

4.6.3 It is important to note that these increased "spending power" figures do not simply translate into how the Council's Adults and Health managed budget for 2020/21 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.

4.6.4 Adult Social Care "Spending Power" is projected to increase by £5.4m in 2020/21 with assumed increases of £10.1m in each of the later years of the Strategy. It should be noted that Adult Social Care expenditure simply to meet demand and demography costs in the region of £14m each year.

4.6.5 As discussed at paragraph 3.7, the Strategy assumes that there will be some continued recognition of the demand pressure facing the service. As such, **Table 2** reflects the assumptions that additional funding equivalent to iBCF annual growth (£10.1m per annum) will continue to be receivable over the period of the Strategy and also that funding equivalent to £3.3m of Winter Pressures grant will continue to be receivable. If the amounts receivable are greater than the amount assumed in this strategy then the estimated budget gap within Adults and Health will reduce accordingly.

4.7 National Living Wage for Commissioned Services and the Ethical Care Charter

4.7.1 In respect of services commissioned from external providers by both Children and Families and Adults and Health Directorates, provision of £6.9m per annum has been included and this consistent with the National Living Wage assumptions. Elements of the Ethical Care Charter, particularly in respect of better terms and conditions including improved rates of pay for care staff were implemented in 2019/20 and the provision required for the period consolidates this position.

4.7.2 The increased costs associated with both paying our staff the real Living Wage and encouraging the services we commission to pay their staff the national minimum wage have been resourced by the Council without any additional funding from the Government.

4.8 Other pressures

4.8.1 Over the life of the Medium Term Financial Strategy 2020/21-2024/25 other cost pressures amount to £9.4m.

4.8.2 Of these identified pressures £4.9m relate to Adults and Health, £2.0m relates to Communities and Environment, £2.3m to Resources and Housing and £1.0m in the Council’s Strategic budget, whilst £0.9m is net pressure within Children and Families and City Development.

4.9 Capital Financing Costs

4.9.1 The Council’s capital programme is determined by its capital spending priorities which combine a number of annual programmes investing in 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’s latest forecast for capital spend in general fund and HRA over the current and next 3 years is £1,421.6m. This is summarised at **Table 3** and provided in more detail at Annex 4 to this report.

Table 3 Forecast Capital Spend

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
EXPENDITURE					
GENERAL FUND (GF)					
IMPROVING OUR ASSETS	108.5	109.9	82.5	28.1	329.0
INVESTING IN MAJOR INFRASTRUCTURE	149.7	153.6	51.9	21.2	376.4
SUPPORTING SERVICE PROVISION	47.2	43.4	17.9	18.7	127.2
INVESTING IN NEW TECHNOLOGY	15.1	12.8	11.4	0.1	39.4
SUPPORTING THE LEEDS ECONOMY	25.9	16	8.1	1.7	51.8
CENTRAL & OPERATIONAL EXPENDITURE	35.2	25.7	20.7	10.1	91.7
TOTAL ESTIMATED SPEND ON GF	**381.6**	**361.4**	**192.5**	**79.9**	**1015.5**
HOUSING REVENUE ACCOUNT (HRA)					
IMPROVING OUR ASSETS - COUNCIL HOUSING	122.1	130.4	140.9	12.7	406.1
TOTAL ESTIMATED SPEND ON HRA	**122.1**	**130.4**	**140.9**	**12.7**	**406.1**
TOTAL ESTIMATED SPEND	**503.8**	**491.9**	**333.4**	**92.6**	**1421.6**

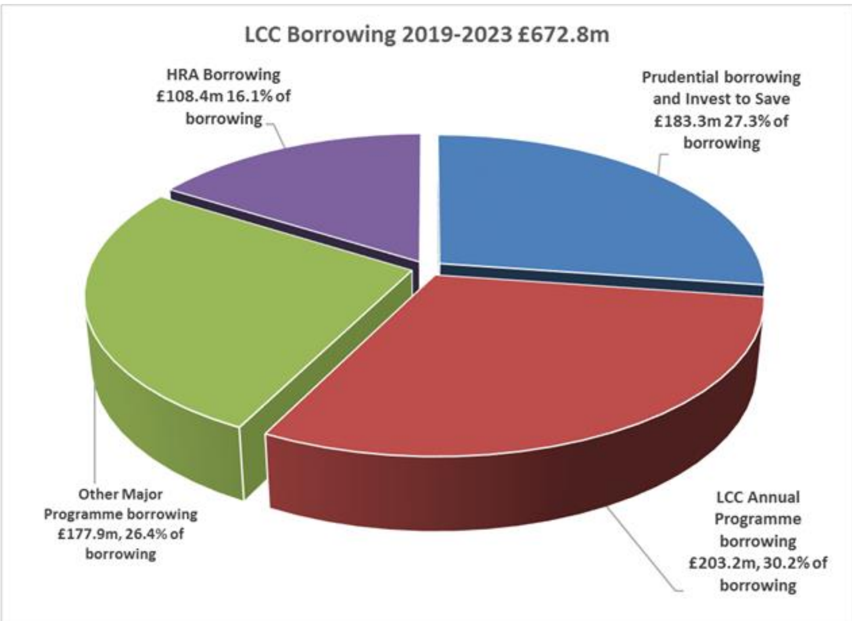
4.9.2 The Councils funds the programme from a variety of sources as outlined at **Table 4:**

Table 4: How the Capital Programme is Funded

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
GENERAL FUND (GF)					
Specific Resources					
GOVERNMENT GRANTS	185.5	192.9	35.9	10.8	425.1
OTHER GRANTS	16.9	5.2	1.7	2.2	26.0
Corporate Resources					
BORROWING - Corporate	138.8	137.8	135.4	38.9	450.8
BORROWING - Departmental	40.4	25.6	19.6	28	113.6
CAP. RESOURCES REQD FOR GF	381.6	361.4	192.5	79.9	1015.5
HOUSING REVENUE ACCOUNT (HRA)					
Specific Resources					
HRA SELF FINANCING	68.3	73.5	74.1	0.7	216.6
R.T.B. CAPITAL RECEIPTS	22.2	18.0	23.2	0.0	63.4
GOVERNMENT GRANTS	0.4	5.2	3	0.0	8.6
OTHER CONTRIBUTIONS	7.6	1.2	0.3	0.0	9.2
BORROWING - Departmental	23.6	32.6	40.2	12.0	108.4
CAP. RESOURCES REQD FOR HRA	122.1	130.4	140.9	12.7	406.1
TOTAL CAP. RESOURCES REQD	503.8	491.9	333.4	92.6	1421.6

4.9.3 The Council forecasts an additional borrowing requirement of £672.8m, before Minimum Revenue Provision (MRP) repayments. Of this £183.3m relates to capital expenditure that is funded by additional income or generates revenue savings, £203m ensures that our assets are maintained to an acceptable standard, £178m supports the Best Council Plan objectives and the remaining £108.4m supports the HRA programme. The split of LCC borrowing for the full programme is shown in Chart 1.

Chart 1



4.9.4 The net debt budget in 2019/20 has been set at £11,490 and is set to increase significantly due to the unwinding of MRP savings as shown at Table 5 and discussed at paragraph 4.10.

Table 5 Net Debt Budget

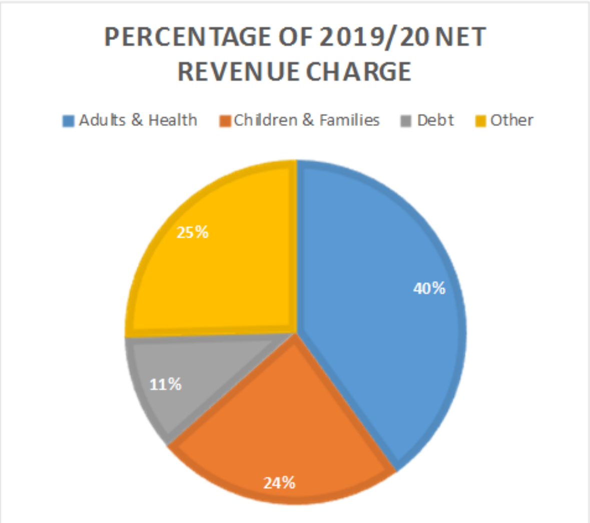
	2019.20	2020.21	2021.22	2022.23
Interest Payable	47,512	53,302	59,957	65,395
Internal Income and Other	-17,265	-21,881	-23,439	-22,857
MRP	19,706	48,787	61,186	67,980
MRP adjustments	-38,463	-39,921	-32,483	-32,645
Net Debt Budget	**11,490**	**40,287**	**65,221**	**77,873**

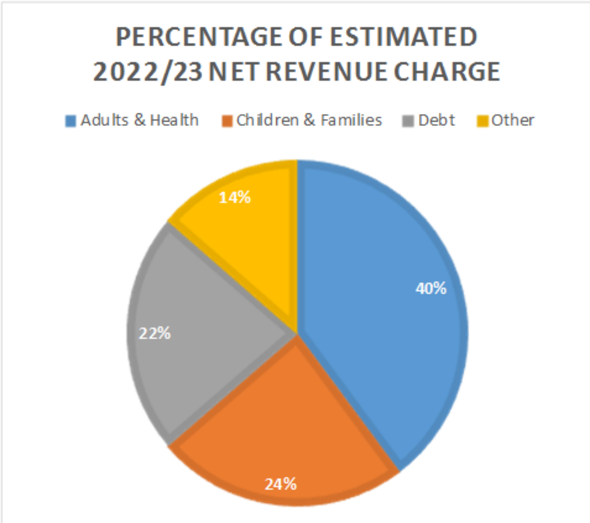
Net Interest Increase		1,174	5,097	6,020
Net MRP increase		27,623	19,837	6,632

4.9.5 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. A 0.25% increase in interest rate assumptions would add additional costs of £2.1m to 2021/22.

4.9.6 Chart 2 illustrates that, based upon the current approved capital programme, the cost of debt including interest and MRP is forecast to double to 22% of the Council's Net Revenue Charge by 2022/23.

Chart 2





4.9.7 A new approach for setting the capital programme was adopted for 2019/20 which ensured that the revenue impact of capital investment decisions were taken at the same time that the revenue budget and treasury management strategy were approved for the following year. Further enhancements have been made to the approach for setting the 2020/21 capital programme. This includes a review of spend in 2018/19, a review of the current capital programme and a review of pressures that directorates will submit. Directorate scheme proposals must be underpinned by a clear business case with robust costings, outline revenue implications and make prudent assumptions on projections of income, where appropriate, that will stand up to scrutiny. The capital review will access the Council's Strategic Investment Board, an Officer led Star Chamber with recommendations being made to Executive Board in September following a challenge to the capital scheme proposals. The Budget Review Group has also been established, a member-led group to consider schemes within the programme.

4.10 Minimum Revenue Provision

4.10.1 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, and any subsequent revisions which are proposed to the approved policy should also be approved by Full Council.

4.10.2 Changes to previous years MRP policy enabled the Council to benefit from reduced MRP payments in 2017/18, 2018/19 and 2019/20. However this position starts to unwind from 2020/21 when MRP is forecast to increase by £27.6m and then a further £19.8m in 2021/22 and £6.6m in 2022/23. These figures are shown in **Table 7.**

4.10.3 Capital receipts are utlilised to offset PFI liabilities, repayment of MRP and redundancy payments. These are forecast to fall creating a revenue pressure of £8.2m in both 2021/22 and 2022/23 when compared with previous assumptions. Utilisation of capital receipts is reflected in the debt and MRP figures in **Table 7.** The forecast of capital receipts is shown in **Table 6**.

Table 6 Capital Receipts Forecast and Use

	2019/20 £	2020/21 £	2021/22 £	2022/23 £	Totals £	2023 onwards £
Property and Land Sales	29,672,634	14,433,585	19,949,243	11,564,000	75,619,462	23,451,601
Useable RTB capital receipts Forecast	2,391,000	2,391,000	2,391,000	2,391,000	9,564,000	
Long term debtors	46,000	46,000	46,000	46,000	184,000	
Useable Capital Receipts	**32,109,634**	**16,870,585**	**22,386,243**	**14,001,000**	**85,367,462**	
Revenue budget requirement (MRP)	17,551,000	20,000,000	10,000,000	10,000,000	57,551,000	
Flexible use of capital receipts (ELI & Digital)	1,500,000	1,000,000	500,000	500,000	3,500,000	
Revenue budget requirement (PFI)	18,183,000	21,479,000	24,827,000	26,474,000	90,963,000	
Charging PFI over asset life	(13,630,000)	(15,745,000)	(18,152,000)	(18,155,000)	(65,682,000)	
Total Revenue budget requirement	**23,604,000**	**26,734,000**	**17,175,000**	**18,819,000**	**86,332,000**	
In Year Surplus/(Deficit)	8,505,634	(9,863,415)	5,211,243	(4,818,000)	(964,538)	
Useable capital receipts Surplus/(Deficit) b/f	1,467,053	9,972,687	109,272	5,320,515	1,467,053	
Useable capital receipts Surplus/(Deficit)	**9,972,687**	**109,272**	**5,320,515**	**502,515**	**502,515**	

The Council has a limited number of assets but needs to ensure that it reviews both its operational and non-operational asset base. This review is ongoing and should identify further surplus assets.

5. Estimated Budget Gap

5.1 Table 7 Estimated Budget Gap

2020/21 TO 2024/25 PROJECTIONS	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Settlement Funding Assessment	0.0	(15.6)	0.0	0.0	0.0	(15.6)
Changes in Local Funding	(13.3)	5.3	(14.7)	(17.2)	(19.5)	(59.4)
Change in contribution to/(from) General Reserve	(14.5)	10.0	0.0	0.0	0.0	(4.5)
Change in contribution to/(from) Earmarked Reserves	7.8	(2.0)	0.0	0.0	0.0	5.8
Changes in Specific Grant	(1.1)	(9.6)	(9.6)	(10.1)	(10.1)	(40.5)
Changes in S31 grants	(0.4)	0.0	0.0	0.0	0.0	(0.4)
Other Funding Changes	(0.5)	0.0	0.0	0.0	0.0	(0.5)
Decrease/(Increase) in Funding	**(21.9)**	**(11.9)**	**(24.3)**	**(27.3)**	**(29.6)**	**(115.1)**
Inflation	9.1	9.1	9.3	9.4	9.5	46.4
Employer's LGPS contribution	0.0	0.0	0.0	0.0	0.0	0.0
Pay Award including Living Wage	10.5	8.4	8.6	8.9	9.0	45.3
NLW Commissioned Services and Ethical Care Charter	6.9	6.9	6.9	6.9	6.9	34.4
Fall-out of capitalised pension costs	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(2.5)
Demand and Demography	3.7	3.7	3.7	3.7	3.7	18.5
Income pressures	1.1	0.1	0.3	0.1	(0.2)	1.4
Other pressures/savings	8.4	3.2	0.7	0.9	(3.9)	9.4
MRP	27.6	19.8	6.6	0.4	(1.3)	53.2
Other Debt	(0.2)	6.8	6.3	(1.3)	2.0	13.7
Projected Cost Increases	**66.7**	**57.5**	**42.0**	**28.4**	**25.3**	**219.9**
Total Cost and Funding Changes	**44.8**	**45.5**	**17.7**	**1.2**	**(4.3)**	**104.8**

5.2 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 a requirement to deliver £104.8m of savings over the period covered by the Medium Term Financial Strategy. Of this variation of £104.8m, £53.2m relates to the requirement to increase the level of budgetary provision for MRP. As set out in the 2017/2018 Revenue Budget and Council Tax report, which was received at both Executive Board and Full Council in February 2017, it was identified that the Council had overprovided for MRP by £92.3m and the revenue budget was adjusted downwards accordingly for a three year period covering 2017/18 to 2019/20. This reduction in MRP significantly contributed towards the Council, bridging the estimated budget gap of £104m between 2017/18 and 2019/20, of which £63.8m related to 2017/18 alone. Since 2019/20 is the final year of the application of this overprovision, it is necessary to provide an additional £27.6m for MRP in 2020/21. The scale of the overall savings requirement, detailed above, needs to be considered in the context of the Council's current budget: gross budget of £2,051.4m and net budget of £516.7m in 2019/20, as summarised in **Annex 3** to this report.

5.3 Proposals/Approach to meet the gap

5.3.1 Table 8 Estimated Budget Gap less Savings Options

2020/21 TO 2024/25 PROJECTIONS	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Estimated Budget Gap	**44.8**	**45.5**	**17.7**	**1.2**	**(4.3)**	**104.8**
Directorate Budget Savings Proposals						
Planned Fallout of Grant	(4.8)	0.0	0.0	0.0	0.0	(4.8)
Changes to Service	(0.8)	(0.8)	0.0	0.0	0.0	(1.5)
Efficiencies	(1.5)	(0.6)	0.0	0.0	0.0	(2.2)
Income - Fees & Charges	(0.3)	0.0	0.0	0.0	0.0	(0.3)
Income - Traded Services, Partner and Other Income	(0.5)	(0.5)	0.3	0.5	0.0	(0.2)
Other Income Changes	(0.1)	(0.1)	(0.6)	(0.7)	(0.7)	(2.2)
Total Budget Savings Proposals	**(7.9)**	**(2.0)**	**(0.3)**	**(0.2)**	**(0.7)**	**(11.1)**
Gap	**36.8**	**43.5**	**17.3**	**1.0**	**(5.0)**	**93.7**

5.4 Planned Fall Out of Grant

5.4.1 The Medium Term Financial Strategy incorporates a reduction of £4.7m in Spring Budget grant that was receivable within Adults and Health. This assumes that there is an exit strategy associated with this short term funding which is being used to support non-recurring Invest to Save proposals.

5.4.2 The Government provided a grant of £0.1m in both 2018/2019 and 2019/20 to support the Council in its preparations for Brexit. The Medium Term Financial Strategy recognises the £0.1m fall out of the grant from 2019/20 with the corresponding reduction in expenditure.

5.5 Changes to Service

5.5.1 It is assumed that additional income of £1.5m will be realised through investing in commercial assets.

5.6 Efficiencies

5.6.1 As a result of the ongoing review and subsequent rationalisation, the Council's estate will deliver running cost savings of £0.2m from 2020/21. The continued investment in LED lighting in our street lighting columns will result in further savings of £0.95m by 2021/22. As a result of the roll out of universal credit, and the corresponding reduction in case load, it is projected that there will be a reduction in staffing in the benefits service of £0.25m. In addition, it is projected that there will be savings of £0.85m in respect of waste management contracts.

5.7 Income – Fees and Charges/Traded Services/Other

5.7.1 Additional income of £2.7m will largely result from a combination of increased capitalisation and charging out staff time (£3.2m), additional income from advertising

(£0.2m) and additional income at our sport centres (£0.3m). This is offset by a forecast £1.0m reduction in contributions from S106 balances.

5.8 Approach to bridging the Revised Gap

5.8.1 The total estimated identified savings from changes to services, efficiencies and additional income from the fees, charges and traded services that the Council is seeking to generate over the five year plan total approximately £11.1m. This is not sufficient to deal with the changes in funding, expenditure and income pressures that are outlined in this report. Even after account is taken of the identified savings options, summarized in **Table 8**, there is still an estimated savings requirement of £93.7m for the five year period covered by the Medium Term Financial Strategy of which £36.8m and £43.5m relates to 2020/21 and 2021/22 respectively.

5.8.2 Recognising the financial challenge of bridging the estimated budget gaps detailed in this Medium Term Financial Strategy whilst at the same time seeking to ensure that the Council's revenue budget is robust and resilient, work has commenced on a series of directorate service and budget reviews with the intention that the outcome of these will contribute towards reducing the estimated budget gap detailed in this report. Informed by the benchmarking workstream, the intention is that the outcome of these reviews will be reported to Executive Board in advance of the Initial Budget Proposals to be received by the Board in December. After this, a period of consultation in respect of these submitted proposals will commence with the final proposals to feature in the Annual Revenue and Council Tax report to February's Executive Board and Full Council. A timetable relating to the production of the Annual Revenue Budget can be found in **Annex 2**.

6. Reserves Policy

6.1 General Fund Reserves

6.1.1 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.

6.1.2 The level of reserves the Council retains also needs to be seen in the context of CIPFA's Financial Resilience Index, to be launched in the autumn, which will increase the focus upon both the level of and use reserves that every local authority retains on its balance sheet.

6.1.3 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.

6.1.4 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.

6.1.5 The Financial Strategy assumes the use of £10m of general reserves in 2020/21. **Table 9** below sets out the indicative general reserve level from 2019/20 to 2024/25. This position assumes that a balanced budget position is delivered in 2019/20.

6.1.6 By the end of the plan, the level of general reserve is forecast to be £22.5m.

6.1.7 Table 9 Forecast Level of General Reserve

General Reserve	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Brought Forward 1st April	28.0	32.5	22.5	22.5	22.5	22.5
Change in Incidence of Receipt of Innovation Grant	1.7	0.0	0.0	0.0	0.0	0.0
Budgeted Contribution/(Use) In Year	2.8	(10.0)	0.0	0.0	0.0	0.0
Carried Forward 31st March	**32.5**	**22.5**	**22.5**	**22.5**	**22.5**	**22.5**

6.1.8 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. In addition, 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. Housing Revenue Account

7.1 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.

7.2 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 to 2019/20. The Government has confirmed that there will be a return to their rent formula of CPI+1% for 5 years from 2020/2021 and therefore the rental figures are based on this assumed increase.

7.3 Service priorities, pay and price pressures along with commitments within the PFI funding model will be met through a combination of efficiencies, targeted contract savings and improved targeting of resources together with the use of reserves and Right to Buy (RtB) receipts.

7.4 The costs associated with servicing the HRA's borrowing have increased due to a combination of discounts that had previously been applied to the overall level of debt falling out and the planned increase in borrowing to support the Council's new build programme.

7.5 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 since the level of arrears is anticipated to increase. However, work focusing on tenant arrears means the current provision for bad debt is sufficient to meet the forecast calls on it, hence savings against the original planned budget to top up the provision may be made.

7.6 In 2012, the Government increased the discount allowable to tenants exercising their Right to Buy (RtB). The Deregulation Act 2015 reduced the qualifying tenancy period for the RtB from five to three years. The impact of these two policy changes has seen a marked year on year increase in RtB sales, with a subsequent reduction in the amount of rent receivable.

7.7 Since all housing priorities are funded through the HRA, any variations in the rental income stream will impact upon the level of resources that are available for the delivery of housing priorities. Resources will be directed towards key priority areas which include fulfilling the plan to improve the homes people live in, expanding and improving older person's housing and improving estates to ensure that they are safe and clean places to live.

7.8 The Council remains committed to prioritising resources to meet the capital investment strategy and to replace homes lost through Right to Buy by the planned investment in new homes and the buying up of empty homes. Whilst the Council aims to maintain a consistent level of capital expenditure with a view to improving the condition of the stock, this will be within the constraints of the total funding available within the HRA.

7.9 Table 10 Housing Revenue Account

	2020/2021 £000s	2021/2022 £000s	2022/2023 £000s	2023/2024 £000s	2024/2025 £000s
Income					
Rental Income	(213,131)	(217,809)	(223,062)	(229,495)	(235,450)
Service Charges	(8,001)	(8,015)	(8,108)	(8,226)	(8,370)
Other Income	(33,055)	(33,197)	(33,313)	(33,396)	(33,418)
Total	**(254,187)**	**(259,021)**	**(264,482)**	**(271,117)**	**(277,238)**
Expenditure					
Pay and Price pressures	77,942	80,354	82,088	83,027	84,647
Supplies and services	4,567	4,627	4,687	4,749	4,812
Premises	8,920	9,093	9,268	9,447	9,630
Review of provisions	1,472	1,901	1,592	1,655	1,720
Private Finance Initiative as per model	27,488	27,454	25,834	27,602	26,217
Contribution to Major Repairs Reserve	62,364	63,096	65,834	65,161	68,263
Disrepair	1,400	1,170	700	600	500
Repairs to Dwellings	45,578	46,463	47,393	48,223	49,181
Other	24,455	24,864	27,085	30,653	32,268
Total	**254,187**	**259,021**	**264,482**	**271,117**	**277,238**
Overall balance	0	(0)	(0)	(0)	(0)

8. Corporate Considerations

8.1 Consultation and engagement

8.1.1 The Authority's Financial Strategy is driven by its ambitions and priorities as set out in the Best Council Plan 2019/20 to 2020/21, approved by Full Council in February 2019. The Best Council Plan was subject to consultation with members and officers throughout its development with additional extensive stakeholder consultation carried out on the range of supporting plans and strategies.

8.1.2 The proposed Medium Term Financial Strategy has also been informed by the public consultation on the Council's Initial Budget Proposals for 2019/20. Whilst the consultation covered the key 2019/20 proposals, it also incorporated questions around the Council's priorities and the principles that underlie the Authority's financial plans and so the results are relevant to this report. The full results of the consultation are publicly available in the '2019/20 Revenue Budget and Council Tax' report considered by Full Council on 27th February 2019 with a summary of the key points below:

- The public consultation on the Council's Initial Budget Proposals for 2019/20 took place between 20th December 2018 and 20th January 2019. Though focused on the budget, the survey presented findings from the previous year's consultation exercise and explored whether the public's views and perceptions of the Council's priorities had changed in that time.
- The consultation was primarily carried out through an online survey that was advertised on the Council's website and social media sites, via email to partner organisations, Equality Hub members and the Citizens' Panel, and circulated to staff; paper versions were also available. The challenge of balancing the budget was also the theme for the Equality Assembly Conference in November 2018, and a broad range of issues were raised.
- A total of 1,241 surveys were completed, across a range of respondents from different age groups, ethnicities and genders, which generally represented the population of Leeds (as measured against the Census 2011). Responses from younger (18-29 years) and BAME people were found to be slightly underrepresented, however statistically significant numbers were received from each group. In total, 94% of respondents said that they live in Leeds, almost half (49%) work in Leeds and around 1 in 7 (14%) said they work for Leeds City Council.
- In the previous year's budget consultation people had been asked to rate some of the Council's service priorities by how much they matter to them personally, and by how much they think they matter to the City of Leeds. Fifteen priorities were identified with 'Keeping children safe' ranked as the top city priority, followed by 'Supporting older and vulnerable people' – though when it came to rating the priorities at a personal level, 'Keeping streets and neighbourhoods clean and dealing with waste' was ranked top, followed by 'Working with police to prevent and tackle crime and anti-social behaviour'.
- This year, the priorities were listed in a chart showing the percentages of people's previous responses and they were asked whether any of the services should be ranked higher or lower as a priority for the city. 1,225 suggestions from 649 people were received. Three quarters of the comments (942) were to suggest a

service should be ranked higher up the list of priorities, with the rest saying a service should be ranked lower (283). The majority of these related to services in the middle of the rankings (8 to 10).

- **Table 11** shows the services in the order that they were ranked from the prior year, along with the number of comments received this year suggesting the rank should go up or down. The services with the greatest numbers of comments saying to either increase or decrease a rank are highlighted in red and green.

Table 11 Service Priority Ranking: 2018/19 Consultation

Service priority ranking from 2018/19 consultation	Lower	Higher
1. Keeping children safe	28	0
2. Supporting older and vulnerable people	9	37
3. Working with the police to prevent and tackle crime and anti-social behaviour	16	58
4. Keeping streets and neighbourhoods clean and dealing with the city's waste	24	32
5. Making roads safe, reducing congestion and making it easier to get around	35	59
6. Working with schools and families to help children to do well in learning	15	49
7. Helping people earn enough to support themselves and their families	19	53
8. Helping people to live in good quality, affordable housing	7	80
9. Protecting the environment and improving air quality	16	96
10. Preventing and tackling homelessness	9	175
11. Supporting people into jobs, training and apprenticeships	11	71
12. Investing in parks and playing facilities	11	60
13. Encouraging people to live healthier lifestyles	40	81
14. Investing in sport and leisure facilities	15	54
15. City wide cultural events/festivals	28	37
Total Comments	**283**	**942**

- Participants were informed that last year the majority of respondents agreed the Council should balance the budget by reducing or cutting some services and increasing tax and charges, and asked whether these changes have affected them personally. In total, 646 comments were made by 507 people, of which the highest reported issues were:
  - Increased Council Tax (163) – of which a quarter said they are noticeably worse off (42) and some said that they struggle to pay (19).
  - New charges at recycling depots (88) – of which nearly half reported a noticeable or perceived increase in fly tipping (39).
  - Roads and Highways (57) – most of which were about the general condition of roads.
- Thinking about making efficiencies, participants were asked for suggestions on how the Council can save money. In total, 635 comments were received from 541 people, of which the largest numbers referred to:
  - More efficient work practices and staff arrangements (85), including some referring to a need for more collaborative working (16).
  - Reduce staff, management and salaries (67).
  - Tax and charges should be increased (37).

- Participants were asked how much they agree or disagree with the Council's approach to increasing Council Tax in 2019/20:

    - Over 3 in 5 agreed with the approach (62%)
    - Those that disagreed were asked why (498 comments from 427 people):

        - Over a quarter of comments said the increase is already too high or increasing beyond wages and inflation (131).
        - A quarter of comments were concerned with affordability (121), over half of which worried about the impact on others (75) and the rest said they will struggle to pay (46).
        - 1 in 5 comments were concerns around how we spend money (98), with most of these stating that further efficiencies can be made (60).

- Participants were asked how much they agree or disagree with how the Council was proposing to spend the money it receives:

    - Over three quarters said they agree with the Council's proposed revenue budget (77%).
    - A similar number agreed with the Council's investment plans laid out in the capital programme (75%).

- 621 comments from 497 respondents were also received around how the Council proposed to spend money, which covered a range of services and themes, including:

    - City Development, roads and transport (154) - of which half said to prioritise these (76). Some commented there have been poor decisions around transport infrastructure (27) or that the Council should prioritise healthier / green transport initiatives (24).
    - Housing (104) - of which two thirds said this is a priority (69).
    - Adults and Health (46) - of which two thirds said the Council needs to challenge or reduce spending (30)
    - The Environment (38) – of which over half said this is a priority (24)

8.1.3 When considering any workforce change the trade unions should be meaningfully engaged at the earliest opportunity. In December 2018 the Council re-issued the Section 188 notice, which triggered the continuation of the consultation process around the mitigation of redundancies and regular meetings with trade union colleagues have continued around 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.

8.1.4 Over the past few years we have successfully driven culture change across the organisation through a combination of clear top level asks, strong buy in and team based local activity and working collaboratively across services and partnerships.

8.1.5 Continued engagement with all teams, staff and partners is a key part of our Medium Term Financial Strategy, focusing on a number of themes:

- Working smarter and saving money
- Constantly improving customer service, experience and outcomes
- Making the most of digital

- Developing a flexible and collaborative workforce to meet the changing shape and requirements of the council
- Driving an innovative, high performance culture that puts people first, and offers a great overall employee experience
- Promoting a culture of inclusion and diversity, wellbeing and employee engagement – where all employees can be their best, bring their whole self to work and feel like they count.

8.1.6 As part of our engagement approach, we will actively encourage the following:

- Hearing and sharing ideas
- Joint problem solving
- Sharing and celebrating the good things we do
- Taking successful approaches in one part of the organisation and embedding them as widely as possible
- Learning lessons – about what works and what doesn't
- Encouraging everyone to make a change – big and small – to make improvements.

8.2 Equality and diversity / cohesion and integration

8.2.1 The Equality Act 2010 requires the Council to have 'due regard' to the need to eliminate unlawful discrimination and promote equality of opportunity. The law requires that the duty to pay 'due regard' be demonstrated in the decision making process. Assessing the potential equality impact of proposed changes to policies, procedures and practices is one of the key ways in which public authorities can show 'due regard'.

8.2.2 The Council is fully committed to ensuring that equality and diversity are given proper consideration when we develop policies and make decisions. In order to achieve this, the Council has an agreed process in place and has particularly promoted the importance of the process when taking forward key policy or budgetary changes. Equality impact assessments also ensure that we make well informed decisions based on robust evidence.

8.2.3 Equality impact assessments will be carried out on each of the specific service and budget review proposals and these will be reported back to Executive Board in advance of the Initial Budget Proposals. The Initial Budget Proposals for 2020/21 themselves will be received at December's Executive Board and will also be subject to Equality Impact Assessments where appropriate, with details included in the 2020/21 budget proposal reports to Scrutiny, to this Board and subsequently to Full Council.

8.3 Council policies and the Best Council Plan

8.3.1 The refreshed Best Council Plan 2019/20 – 2020/21 sets out the Council's priorities, aligned with the Medium Term Financial Strategy and the annual budgets. Developing and then implementing the Best Council Plan will continue to inform, and be informed by, the Council's funding envelope, staffing and other resources. Additional detail is provided in the summary at the start of this report.

8.4 **Climate emergency**

8.4.1 There are no specific implications for the climate emergency resulting from this Medium Term Financial Strategy. Where there are specific climate emergency issues arising from the outcome of the service and budgets reviews these will be covered in the respective reports which are to be reported to Executive Board in advance of the Initial Budget Proposals to be received by the Board in December.

8.5 **Resources, procurement and value for money**

8.5.1 All resources, procurement and value for money implications are considered in the summary and the main body of the report.

8.6 **Legal Implications, access to information, and call-in**

8.6.1 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.

8.7 **Risk Management**

8.7.1 The Council's current and future financial position is subject to a number of risk management processes. Not addressing the financial pressures in a sustainable way is identified as one of the Council's corporate risks, as is the Council's financial position going into significant deficit in any one year. Both of these risks are subject to regular review.

8.7.2 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 consequently upon our Best Council ambition to tackle poverty and reduce inequalities.

8.7.3 Financial Management and monitoring continues to be 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 e.g. those budgets that are subject to fluctuating demand. This risk based approach is incorporated into the Financial Health reports that are brought to Executive Board.

8.7.4 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.

8.8 **Risks to Funding**

8.8.1 The level of resources available to the Council is estimated to increase from £516.7m to £530.0m in 2020/21, a £13.3m increase. Over the five year period to 2024/25 the total increase is estimated to be £75.0m. The key assumptions and risks underpinning this increase in resources are discussed below.

8.8.2 The period covered by the Government's current spending review ends in 2019/20 and there is uncertainty as to whether the Government will be issuing the outcome of their three year spending review before the summer recess or whether, given the uncertainty arising from Brexit and the contest for the leadership of the Conservative Party, it will be a one year settlement for 2020/21. Either way, it remains uncertain what the quantum of funding for local government will be from April 2020.

8.8.3 Between 2019/20, the final year of the current Spending Review period, and 2020/21 it is assumed that austerity will cease and there will be no further reduction in Government funding available to local government. Therefore, the Settlement Funding Assessment remains the same in these two years. Between 2020/21 and 2021/22 it is assumed that there will be a Business Rates Baseline reset and the growth in business rates accumulated by authorities across England between 2013/14 and 2019/20 will be redistributed in full through the Settlement Funding Assessment. However, the timing, extent and redistribution of this reset remain highly uncertain and constitute a risk to the Authority's future funding levels.

8.8.4 The current estimates in this Strategy assume that approximately £1,300m will be redistributed between authorities nationally in 2021/22 following the current distribution mechanism which will result in Leeds City Council's Settlement Funding Assessment increasing by £15.6m. However, the Authority's Business Rates Baseline will also increase to its 2019/20 retained income levels following such a reset reducing the Authority's locally retained growth by £15.2m compared to 2020/21. Should the Government hold back any of the national accumulated growth or the Fair Funding Review (see below) not be to Leeds City Council's advantage, there is a risk the Council could see reduced funding from a Business Rates Baseline reset.

8.8.5 Business rates figures to 2024/25 are based on the current 75% Business Rates Retention Pool remaining in place until 75% retention is rolled out nationally. The Government originally signaled their intention to introduce 75% retention nationally from 2020/21 along with reforms to the retention scheme. However, it now looks unlikely that this will be the case with the most likely scenario being that these reforms will be delayed by a year. This Medium Term Financial Strategy assumes that the Government will not return the current 75% retention pilots to 50% retention in 2020/21, but the position around the continuation of the Pilot in 2020/21 remains uncertain. To date, the Council has been notified that the Pilot is for 2019/20 only and further information is awaited in respect of the arrangements for 2020/21 and whether a further bid from the North & West Yorkshire Business Rates Pool would be invited. If a further bid is required then the Council may not be notified whether it has been successful in its application until December 2019 when the provisional Local Government Finance Settlement is published.

8.8.6 If the Authority were to be returned to the 50% retention scheme this would represent an overall reduction in income of an estimated £10.2m. Therefore to manage the risk of the 75% Business Rate Retention Pilot not continuing in 2020/21 consideration will be given to the identification of additional budget savings options.

8.8.7 As detailed in this report, there is uncertainty surrounding the Government's future funding intentions with regard to social care. The ongoing delay with regard to the publication of the Green Paper means that local authorities are relying upon annually determined allocations of grants to manage the pressures within adult social care. Any variance in assumptions around the receipt of improved Better Care Fund or

Winter Pressures money will result in a potential shortfall in funding that will require the identification of further budget savings options.

8.8.8 Similarly, it cannot be certain that New Homes Bonus will continue to operate in the way it currently does or indeed that it will continue as a separate identifiable grant after 2019/20. Changes to the calculation methodology for NHB or its incorporation into the Settlement Funding Assessment (SFA) would have implications for the position outlined in this Medium Term Financial Strategy.

8.8.9 Annual increases in Business Rates Baseline funding and business rates growth are currently indexed to the Consumer Price Index. Changes to forecast inflation rates can impact on levels of funding.

8.8.10 The level of business rates appeals continues to be a risk. Whilst there is very limited scope for new appeals against the 2010 ratings list, and the Council has an appropriate provision for these, there remains very limited information available on which to assess appeals against the 2017 list. Therefore income from business rates could be adversely affected which in turn would reduce the overall level of resource available to fund the services that the Council provides.

8.8.11 Alongside the introduction of 75% retention nationally, the Government has consulted on a series of reforms to the Business Rates Retention Scheme with the intention of limiting local government's exposure to appeals risk but these consultations only provide an outline of the proposed new system. The reforms may not be implemented at all and some options proposed by the Government may lead to two years' delay between growth being generated in an area and the relevant local authority being able to account for that growth. Due to these uncertainties the current Financial Strategy assumes that business rates will continue to be retained under the current retention scheme.

8.8.12 The outcome of the Government's Fair Funding Review of Local Government Finance, which is a thorough review of the needs and resources assessment formula used to allocate Government funding to Local Authorities, was expected in the autumn of 2019 after the Spending Review was published but in time for the 2020/21 Local Government Finance Settlement. However, because the Spending Review has been delayed and may only be for a single year, there is no fiscal framework within which a new local government funding system can operate. For this reason the Fair Funding is not expected until 2021/22. This Strategy assumes that any changes brought about will be revenue neutral at the point of introduction as transitional arrangements are expected, although there remains a risk that reductions in Government funding to the sector as a whole may continue.

8.9 Key Risks to Cost Assumptions

8.9.1 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.

8.9.2 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 debt. However, if there is an upward movement on interest rates over the period of the Strategy, this will be an additional cost that the Council will be required to manage.

8.9.3 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 fueled 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 not only the level of resources available to the Council but also the level of demand for the services that it provides. Parliamentary time focused on the legislative changes needed to deliver the EU exit also impact on the time available to Parliament to consider key issues of interest to local government, for example the recent delay in the publication of the anticipated Adult Social Care Green Paper.

9. **Conclusions**

9.1 This Medium Term Financial Strategy needs to be seen in the context of significant inherent uncertainty for the Council in respect of future funding and spending assumptions. Specifically the implications of the Government's future spending plans with regard to local government and other areas of the public sector from 2020/21 remain unknown and therefore it is unclear to what extent "austerity" will continue after 2019/20. To compound this uncertainty, the Government has re-stated its intention to move to 75% business rate nationally and the outcome of the Government's Fair Funding review of the methodology which determines current funding baselines, which are based on an assessment of relative needs and resources won't be known until the autumn of 2019. Adding to this uncertainty is the delay in the publication of the Government's Green Paper on adult social care which will hopefully provide greater certainty around their future funding intentions.

9.2 The period covered by the Council's Medium Term Financial Strategy has been extended to cover a five year period which is considered to be a more appropriate timescale for financial planning. The principle underpinning the strategy over the five years is to ensure that Leeds City Council's is financially sustainable and resilient with less reliance upon short term solutions to fund recurring expenditure.

9.3 In addition this Medium Term Financial Strategy recognises the requirement to closely align the determination of both revenue and capital budgets.

9.4 In the determination of this Medium Term Financial Strategy a number of assumptions have therefore had to be made in respect of the level of resources that are available to the Council to fund the services that it provides and these are detailed within the body of this report. However it is acknowledged that the assumptions contained in this strategy are under constant review to reflect any changes in circumstances or if further information emerges in respect of known risks.

9.5 In response to the estimated budget gap of £93.7m that is detailed in this report, of which £36.8m and £43.5m relates to 2020/21 and 2021/22 respectively, the Council has embarked upon a series of service and budget reviews the outcome of which will be reported to Executive Board in advance of the Initial Budget Proposals being received at December's Executive Board. If the outcome of these reviews is insufficient to close the estimated budget gaps then further work will be required to review all of the cost and income assumptions contained in this position. In addition work will also progress in respect of number of other options that include reviewing the Council's estate, the identification of additional capital receipts and progressing cross authority budget savings options that could include reviewing vacancy factors in all services, targeting procurement savings, challenge fees and charges assumptions and reducing all non-essential expenditure.

9.6 The Council is required to present a balanced budget to Full Council for approval in advance of the financial year. Before final proposals are considered for approval in February 2020, the Council's Initial Budget proposals are received at Executive Board in December prior to a period of consultation.

10. Recommendations

10.1 Executive Board is recommended to:

i) Approve the 2020/21 – 2024/25 Medium Term Financial Strategy for both General Fund services and the Housing Revenue Account;

ii) Note that budget saving proposals to address the estimated budget gaps will be brought to Executive Board in advance of the Initial Budget Proposals to be received by the Board in December;

iii) Note that the Chief Officer – Financial Services will be responsible for implementing these recommendations.

iv) Approve the adoption of the revenue and capital principles, as set out in Annex 1, which must be complied with in respect of the arrangements for the financial management of both the revenue budget and the Capital Programme.

11. Background Documents[1]

11.1 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.

Revenue & Capital Principles

A. REVENUE BUDGET PRINCIPLES

The revenue budget principles have been developed to support the budget process and need to be complied with in conjunction with compliance with the Council's Budget and Policy Framework, the Budget Management Accountability Framework and detailed guidelines provided for setting the 2020/21 to 2022/23 budget.

The budget position is based on a number of significant subjective assumptions. To enable the Council to react to changes in these assumptions in a timely fashion, these principles should be adhered to which should support a balanced budget being set.

The current financial year will also have a significant impact on future years budgets being set and therefore a number of the principles relate to the current financial year.

1. Budget Principles for Future Years Budgets

1.1 The budget will initially be prepared on the basis that current resources support existing service levels in line with budget assumptions and with the exception of:

(a) The full year effect of previous year's savings proposals and spend.

(b) Consequences of the approved capital programme.

(c) Where expenditure needs to be reduced with regard to adjustments in relation to specific 'one year only' allocations and other time expired funding.

(d) Other specific Council decisions.

(e) Directors and Departmental Chief Officers supported by Finance Services are responsible for:

i. Business cases (rationale) need to be developed for growth and invest to save proposals, with evidence based justification for increasing demand included in business cases to be considered as part of the budget gap. These are to achieve the priorities in the Best Council Plan.
ii. All savings within their Directorate are to be agreed by the Executive Member however if a saving is not approved then an alternative must be found. If an approved saving is not delivered in year then a reason why this hasn't happened needs to be considered by the Council's Corporate Leadership Team (CLT).
iii. Identifying potential savings with "No options" for savings being off the table. These savings if previously considered are to be presented to Cabinet at the earliest meeting to obtain the Members views as to whether these are to be progressed.
iv. Contingency Action Plans – The value of any risks / pressures in the Directorates managed budgets should be quantified. Savings proposals as a contingency are to be identified which can be implemented quickly. These proposals will be actioned if the service goes into an overspend position during the financial year.
v. Budget Action Plans – Saving proposals to manage:
   - The savings requirement for the Directorate
   - Pressures identified within the service
   - Future developments

The contingency and Budget Action Plans must be robust and fit for purpose. Each Director will be required to verify that the actions contained in the plan are achievable.

1.2 Salary budgets are to be prepared with reference to the 2019/20 budget (net of any vacancy factor) adjusted for pay awards, approved service changes, savings and other approved variations. The salary budgets can only be used to employ staff in established posts on approved grades in line with the following conditions:

(a) All changes to the approved staffing budget where Council funding is available in full must be approved by Executive Board, or within the requirements of the Scheme of Delegation.

(b) All changes to the approved staffing budget where resource implications arise, even if the costs are met entirely from external funding, must also be approved by Executive Board, or within the requirements of the Scheme of Delegation.

(c) Posts funded from external sources must be established as temporary or specific purpose posts unless it can be demonstrated that:

- the external funding is permanent, or specific approval has been given, or future years' costs can be contained within current budgets.

1.3. Discretionary Fees and Charges. Directors are to provide a report to CLT on their proposals to generate income from within the Directorate.

(a)Fees and charges are to be varied to achieve an overall annual increase in income for each Directorate in line with the Fees and Charges Policy. Increases can be implemented at any time subject to the overall financial target being achieved.

(b) If the target cannot be achieved by varying fees and charges then alternative savings must be identified. Claims by Directors to exempt or apply a lesser increase to any part of their service must be justified in the context of their Directorate policies and plans and referred to CLT.

1.4. External Funding

(a)Wherever possible external funding should be used to reduce pressure on current expenditure, thereby releasing resources for redirection into priority areas.

(b) All legal, human resources, financial and administrative support costs required to manage grant conditions and fulfil the role of the accountable body should be charged, wherever possible, against the funding regime.

2. Current Year Principles

2.1 Revenue Grants received in the year – agreement to be reached at CLT whether substitution of general funding should be identified before the grant is utilised.

2.2 Contributions to a non-ring fenced reserve can only be made if a directorate is forecast to be underspending and contributions needs to be agreed by the Chief Officer Financial Services.

2.3 Carry forward of budget into the next year will be considered by CLT and will only be considered if the service is forecast to be underspending at the reported provisional outturn position.

2.4 Directors must balance service requirements against the need to manage within their budgets when taking decisions to fill vacant posts or employ temporary staff.

2.5 No overspend in budgets should be incurred unless there is a safeguarding / statutory need and these where possible should be agreed by the Director. A report with a budget action is to be provided to CLT detailing proposals as to how this variation will be managed within the Directorate's approved budget.

2.6 When a revenue grants received from Central Government stops the Directorate will need to manage the reduction in both expenditure and loss of income. The Director with support from Finance Services will be required to provide an exit strategy or an evidence based business case of why this expenditure should be added to the base budget.

2.7 Budget pressures. Services need to manage budget pressures identified within the service. Any pressures which the service identifies which cannot be managed need to be agreed by CLT and with clear business case being developed.

2.8 In year saving proposals which have not been achieved in the current financial year, the Director will need to identify budget savings options to mitigate the Directorate from going into an overspend position. These savings options will be incorporated into Financial Health reports which are received initially at Executive Board and then subsequently at both Strategy and Resources and the respective service Scrutiny Boards.

B CAPITAL PROGRAMME PRINCIPLES

The Capital principles have been developed to enable focus on the purpose of the Capital Programme and to seek agreement for the use of limited resources.

1. Capital Programme Principles

1.1 The Capital Programme is compiled at project level for the years 2020/21 through to 2030/31. The format of the capital schemes submissions, which are to be supported by a business case, will be determined by the Strategic Investment Board. The Capital schemes being considered by SIB are to meet the priorities identified in the Business Case Guidance.

1.2 The profiling of capital expenditure into the correct financial years and over the projects development will be key to ensure the amount of re profiling of capital resources from one year to another is kept to a minimum, and to reduce the amount of revenue budget required to finance the project.

1.3 When a Capital Scheme has been completed, the business case and outcomes will be reviewed to ensure the specified outcomes have been achieved and a lessons learnt document will be produced to be used for future capital programmes.

1.4 Capital Resources are to be used as follows:

- Decisions on the use of Capital Receipts will be considered as part of the budget process.
- Un-ring fenced and ring fenced externally funded grants are considered on a case by case basis for their utilisation by SIB.
- Any grant funding received after the Capital Programme is set is to be used to reduce any Prudential Borrowing of the scheme in the first instance, where grant conditions allow.
- Approval of any new borrowing is considered with the implications for the revenue budget position.

1.5 Capital projects for approval are:

- Considered by Executive Member for the service who agree to the Directorates putting forward a request for funding the Capital Scheme.
- Completed to ensure all implications of the Capital Scheme are included in the 'Business Cases'. Business cases are to be developed and a scheme will only be included in the Capital Programme when considered by the Strategic Investment Board and CLT and ultimately approved by the Executive Board in line with the Budget and Policy Framework.
- The Business cases are to be developed by the Directorates with support from Finance Services. The ongoing monitoring of the Capital Schemes is the responsibility of the Director in accordance with the Financial Regulations.
- Inclusive of Multi Year Schemes with spend profiled accurately across the financial years.
- External Funding is maximised before the use of Prudential Borrowing is considered.
- Capital Expenditure is reviewed to ensure the capital scheme provides value for money, is sustainable in the future and meets the priorities detailed in the Best Council Plan. In order to ensure that schemes meet Council priorities and are value for money, the Chief Finance Officer will continue 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; and
    - the use of prudential borrowing by directorates is based on individual business cases and that revenue resources to meet the borrowing costs are identified.
- All revenue implications of the Capital Programme (regardless of the capital funding of those schemes) are considered and provided to SIB to enable informed decisions to be made, i.e.:
    - Ongoing operating costs and life cycle costs
    - Cost of any prudential borrowing including both MRP and Interest

1.6 Capitalisation of expenditure (including staffing costs) is in line with CIPFA Guidance as issued by the Capital Team.

C General Principles

The budget process shall adhere to the approved timetable.

Annex 2

Timetable for the 2020/21 budget

- **End of August 2019:** Outcome of service and budget reviews

- **Autumn 2019:** Receipt of budget saving proposals at Executive Board and consultation on proposals

- **December 2019:** 2020/21 Initial Budget Proposals to be received at Executive Board

- **January 2020:** consultation on 2020/21 budget

- **February 2020:** 2020/21 Budget approved

Annex 3

Summary of 2019/20 budget by type of spending and income

	General Fund excluding Schools £000	Per Band D Property £	Schools £000	HRA £000	Total Budget £000	% of total
Expenditure						
Employees	521,987	2,287	333,350	33,197	888,534	43
Premises	58,723	257	32,098	54,187	145,008	7
Supplies and services	18,501	81	69,738	95,654	183,893	9
Transport	49,046	215	1,549	401	50,996	2
Capital costs	19,875	87	17,658	61,458	98,991	5
Transfer payments	275,214	1,206	0	0	275,214	13
Payments to external service providers	408,669	1,791	0	105	408,774	20
	1,352,015	5,924	454,393	245,002	2,051,410	100
Income						
Grants	(515,030)	(2,257)	(421,348)	(21,385)	(957,763)	65
Rents	(16,439)	(72)	0	(210,020)	(226,459)	15
Fees, charges & other income	(243,290)	(1,066)	(32,645)	(9,863)	(285,798)	19
	(774,759)	(3,395)	(453,993)	(241,268)	(1,470,020)	100
Net budget	577,256	2,530	400	3,734	581,390	100
Contribution to/(from) IAS19 Pensions reserve	(59,451)	(261)		(2,974)	(62,425)	
Contribution to/(from) other earmarked reserves	(5,613)	(25)	(400)	(760)	(6,773)	
Contribution to/(from) General reserves	4,485	20		0	4,485	
	(60,579)	(265)	(400)	(3,734)	(64,713)	
Net revenue charge	516,677	2,264	(0)	0	516,677	

Notes: The number of Band D equivalent properties is 228,209

The total Individual Schools Budget (ISB) has been analysed at a subjective level in the above table. This provisional spend is based on previous expenditure and income patterns but will be subject to final determination by individual schools.

Major Programmes & Other Directorate Schemes

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000s	Total £000
Improving our assets - Council Housing					
HRA Housing Leeds Refurbishment & BITMO	81,822	81,735	81,735	12,706	**257,998**
HRA Council Housing Growth	40,317	48,710	59,122	0	**148,149**
Improving our assets - General Fund					
Children & Families - Capital Maintenance	10,257	20,002	17,172	2,348	**49,778**
Streetlighting Replacement (LEDs)	4,930	8,250	8,040	9,170	**30,390**
Highways Maintenance & Transport Package Local Transport Plan	8,253	8,050	8,050	0	**24,353**
Strategic Investment Fund	1,514	5,639	6,294	0	**13,447**
Section 278 and Section 106 Highways schemes	3,523	4,468	3,750	0	**11,741**
Changing the Workplace Phase 2	4,738	1,000	1,000	4,234	**10,972**
Challenge Fund Bids Highways	3,027	6,500	0	0	**9,527**
Bridges and Structures	3,803	2,900	2,700	2	**9,405**
Schools Devolved Formula Capital	1,750	1,505	1,505	3,888	**8,648**
Parks and Countryside	5,769	1,650	800	0	**8,219**
Assisted Living Leeds	3,797	1,074	725	1,400	**6,996**
Community Hubs Phase 2&3	3,403	3,000	0	0	**6,403**
Highways Network Junction Improvements	3,878	3	0	0	**3,880**
Albion House purchase & Redhall demolition	2,663	0	0	0	**2,663**
Conversion of Fleet Vehicles alternative fuels	0	1,584	1,000	0	**2,584**
City Centre Vehicle Access Restrictions	1,110	1,157	0	0	**2,267**
Highways Adoption of 32 Roads & Beckhills Estate	979	500	0	0	**1,479**
Aire Valley (Temple Green) Park and Ride	275	1,060	0	0	**1,335**
Aireborough Leisure Centre Ph2	941	795	0	0	**1,737**
Other smaller schemes within the objective	5,646	4,849	300	1,802	**12,597**
	192,395	204,432	192,192	35,550	**624,568**
Investing in Major Infrastructure					
Leeds Transport Public Investment Programme	46,476	70,695	8,743	0	**125,913**
East Leeds Orbital Ringroad Highways works	26,864	44,795	25,022	15,000	**111,680**
Flood Alleviation	26,222	29,851	15,150	5,000	**76,224**
Clean Air Zone	38,563	6,819	0	0	**45,382**
Cycle City Ambition	5,104	0	0	0	**5,104**
District Heating Network & Energy Efficiency	4,312	100	227	174	**4,814**
Leeds Integrated Station Masterplan & HS2 Capitalisations	750	750	769	1,000	**3,269**
Leeds Station Joint Venture	0	0	2,000	0	**2,000**
Other smaller schemes within the objective	1,417	617	0	0	**2,033**
	149,708	153,626	51,910	21,174	**376,419**
Supporting Service Provision					
Children & Families - Learning Places (Basic Need)	24,243	30,072	7,111	0	**61,426**
Social Care and Health Fund	1,944	1,706	819	18,575	**23,044**
Private sector Renewal - Equity Loans	4,442	796	1,033	0	**6,271**
Waste Depot and residual Kirkstall Rd HWSS	3,799	0	0	0	**3,799**
Other smaller schemes within the objective	3,571	2,153	307	0	**6,031**
	37,999	34,727	9,269	18,575	**100,570**
Investing in New Technology					
Digital Information Service - Full Fibre Network Bids	1,600	1,000	1,000	0	**3,600**
Customer Access Phase 1 & 2	428	600	517	0	**1,545**
Adults & Health Digital transformation	629	596	0	0	**1,225**
Smart Phone & Tablet Replacements	413	227	523	0	**1,164**
Other smaller schemes within the objective	467	207	183	75	931
	3,537	2,630	2,222	75	8,465
Supporting the Leeds Economy					
Local Centres Programme and Townscape Heritage Initiative (THI)	3,411	3,372	2,574	0	9,356
Kirkgate Market Strategy	2,951	4,089	2,000	0	9,039
West Yorkshire Playhouse & Grand Theatre residual	6,258	890	0	0	**7,148**
Southbank Regeneration (HUV)	2,264	2,750	0	0	**5,014**
Aire Valley Enterprise Zone Power Supply & residual AVEZ	2,324	2,000	0	0	**4,324**
Supporting the Creative Sector	2,056	1,400	840	0	**4,296**
Public Realm	2,461	926	500	282	**4,169**
Ward Based Initiative, ACW & CRIS	52	720	720	721	**2,212**
Other smaller schemes within the objective	4,071	-209	1,390	737	**5,989**
	25,848	15,937	8,023	1,740	**51,548**
Central & Operational Expenditure					
PFI Lifecycle Capitalisations	10,316	9,389	8,678	0	**28,383**
Contingency General & Specific Emergency	0	300	300	7,808	**8,408**
Transformational Change	1,426	1,000	500	0	**2,926**
	11,742	10,689	9,478	7,808	**11,334**
Total Major Programmes & Other Directorate schemes	**421,229**	**422,041**	**273,095**	**84,922**	**1,172,905**
Annual Programmes	82,523.2	69,841.6	60,295.5	7,651.2	220,312
Total Annual & Major Programmes	**503,752**	**491,883**	**333,391**	**92,573**	**1,421,600**