

**Report of the Chief Officer – Financial Services**

**Report to: Executive Board**

**Date: 25<sup>th</sup> July 2018**

**Subject: Medium-Term Financial Strategy 2019/20 – 2021/22**

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

**Summary of main issues**

1. This report presents the Council's 2019/20 – 2021/22 Financial Strategy for Executive Board's approval.
2. This Financial Strategy reflects Government's known planned reductions in public sector funding, assumptions in respect of business rate retention as well as taking account of increasing costs from rising demand for services, inflation and other cost pressures.
3. The Chancellor of the Exchequer delivered his Spring Statement to the House of Commons on 13<sup>th</sup> March 2018. This not only provided an update on the economy and public sector debt but it confirmed that the Autumn 2018 budget will include an overall path of Government spend for 2020 and beyond and that there will be a Spending Review at Departmental Expenditure Level in 2019. Following the Local Government Finance Settlement in December 2017 the Government announced its aim to implement greater business rate retention, most likely 75%, nationally in 2020/21. This Medium Term Financial Strategy also assumes that the 100% Business Rate Retention Pilot continues into 2019/20. The Government has commenced its Fair Funding Review of Local Government finance which will consider the relative needs and resources of local authorities and introduce a new methodology for funding allocations. The Strategy assumes that should changes to allocations arise as a result of the Review, which won't be known until the autumn of

2019, these will be revenue neutral to this Plan as it is anticipated that transitional arrangements would be in place.

4. The recent issuing in February 2018 of a Section 114 (Local Government Finance Act 1999) notice at Northamptonshire County Council and the subsequent review undertaken through a Best Value review emphasise the requirement to undertake sound longer-term planning as a fundamental element of a robust financial management.
5. The Strategy also incorporates an identified programme of efficiencies for the next three financial years and this will contribute towards how the Council will manage the known reduction in resources that support the services we deliver. In addition the Council has identified a number of cross cutting key workstreams that will contribute towards reducing the estimated budget gap.
6. 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 2019/20 and 2021/22 is projected to be in the order of £13.8m, £52.0m and £31.0m respectively in each financial year. For the period covered by the Financial Strategy there is an estimated overall budget gap of £96.8m.
7. Whilst work has been undertaken already to identify how the Council can make savings, at this stage it has not been possible to identify sufficient savings or income generation opportunities to entirely close the estimated gap over the next three years. Further options to consider in respect of addressing the budget gap for the period 2019/20 to 2021/22 will be required and officers will continue working on proposals for consideration by members.
8. In reviewing the strategy it needs to be appreciated that over the planning period there are a number of significant risks which may impact upon the Council's finances. Moreover, there is much uncertainty within the national and economic environment within which local government operates. As such the strategy serves to indicate the range and scale of challenge and a direction of travel rather than a precise forecast of resources.
9. In the context of these uncertainties and financial challenge, it is clear that the Council will need to continue to make difficult decisions around the level and quality of our services to ensure the delivery of the ambitions and priorities for the City and the Authority set out in the Best Council Plan. The development and implementation of the Best Council Plan will continue to inform and be informed by the Council's core funding, it's staffing and other resources and ongoing collaboration and engagement with partners across all sectors and the communities and citizens of Leeds. Initial budget proposals for the 2019/20 Best Council Plan and supporting budget will be brought to this Board in December 2018.
10. While this Financial Strategy provides a financial planning framework through to 2020/21, it does not represent the proposed budget for the next three years. It should be stressed that under the Council's constitution, decisions to set the annual budget, the council tax base and the rate of council tax can only be taken by Full Council and therefore these decisions will continue to be made as part of the Council's annual budget-setting process.

11. This report also incorporates the Medium Term Financial Strategy for the Housing Revenue Account (HRA).

## **Recommendations**

Executive Board is recommended to:

- i) Approve the 2019/20 – 2021/22 Medium-Term Financial Strategy for both General Fund services and the Housing Revenue Account;
- ii) Note that further proposals will be brought forward to address the current identified shortfall as part of the Council's budget process;
- iii) Note that the Chief Officer – Financial Services will be responsible for implementing these recommendations.

## **1. Purpose of this report**

- 1.1 The 2018/19 budget report to Executive Board in February 2018 included an update of the Medium Term Financial Strategy 2019/20 to 2020/21. Within a set of assumptions, this identified an estimated budget gap of £30.5m and £41.4m in 2019/20 and 2020/21 respectively. It also stated the intention to present an updated Medium Term Financial Strategy to Executive Board at its meeting in July.
- 1.2 In accordance with this requirement, this report presents the Council's updated Medium Term Financial Strategy covering the period 2019/20 – 2021/22 for Executive Board's approval.

## **2. Background information**

- 2.1 The environment in which local government operates continues to be one which presents significant financial challenges to all local authorities, including some areas of significant uncertainty.
- 2.2 The Government's spending review of 2015 set out plans for spending on public services by all Government departments for the period 2016/17 to 2019/20. Between 2010/11 and 2018/19 the core funding for Leeds from Government has reduced by £251m and a further reduction of £15.3m is expected in 2019/20 in line with the four year settlement agreement with the Government.
- 2.3 The Chancellor of the Exchequer's Spring Budget statement on the 13th March 2018 gave an update on the overall health of the economy and the level of public debt. On top of predicted GDP growth of 1.3%, 1.3% and 1.4% in 2019/20, 2020/21 and 2021/22 respectively, borrowing continues to be forecast to fall in every financial year to £26m in 2021/22. On the back of these forecasts the Chancellor stated that if public finances continue to reflect current improvements by the autumn then he "would have capacity to enable further increases in public spending and investment in years ahead." The 2018 Autumn Budget will include an overall path of Government spend for 2020 and beyond with a Spending Review at Departmental Expenditure level being issued in 2019. Therefore in the determination of the

Council's Medium Term Financial Strategy the implications of the future spending plans with regard to Local Government and other areas of the public sector from 2020/21 onwards remain unknown and therefore it is unclear to what extent "austerity" will continue after 2019/20.

- 2.4 In addition to the reductions in our core funding the Council faces continuing growth in demand for many of its services, particularly for adults and children's social care. In balancing its budgets the Council must also deal with inflationary increases in costs and reductions in income from specific government grants and partner funding. Whilst we have responded successfully to these financial challenges to date, it is important that the Council has a robust Financial Strategy in place to address these continuing financial pressures. 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 2017 the Government notified the Council that the Leeds City Region Business Rates Pool to pilot 100% Business Rates retention had been successful and the estimated additional business rates, reduction in the levy and Section 31 grant was built into the 2018/19 budget. To date the Council has been notified that the Pilot is for 2018/19 only and final details are awaited in respect of the arrangements for 2019/20. It is unclear whether the Leeds City Region Pool will be required to bid again or whether the current 100% Business Rate retention arrangement will simply roll forward into 2019/20. From a planning perspective, and if Leeds City Region has to bid again, it will not know whether it has been successful until December 2019 which is also when the Council's Initial Budget Proposals for 2019/20 are being received at Executive Board. Greater certainty from Government with regard to their intentions around the future of Business Rates Pools pilots would provide more certainty to Local Authorities at a time when they are determining their financial strategies. The Government has announced its aims to implement greater business rate retention, most likely 75%, nationally in 2020/21. At the time of writing it is unclear what, if any, reforms of the business rate system will be introduced during the period of this Financial Strategy. It is, however, assumed that any such changes would be revenue neutral to this Plan.
- 2.6 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 outcome of the Fair Funding Review won't be known until the autumn of 2019 and will inform the level of resources available to support budgets from 2020/21 onwards. The Strategy 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 grant, "Spring Budget grant", the improved Better Care Fund (iBCF) and the adult social care precept on Council Tax. This increase in funding has only been confirmed until 2019/20. 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 the Spring of 2018, 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”. Receipt of the Green Paper will hopefully provide greater certainty around the Government’s intentions around the funding of adult social care, however publication has now been delayed until Autumn 2018.

- 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 it’s projected impact will have to be factored into the Government’s determination of the 2019 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 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 Review supports the call from the Association of Directors of Children’s Services (ADCS) and the Local Government Association (LGA) for Government to make up the £2 billion shortfall in children’s social care.
- 2.10 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 a Section 114 by Northamptonshire County Council in February 2018 and the subsequently commissioned Best Value Inspection, has increased the focus on Local Authorities’ financial resilience and sustainability.
- 2.11 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, it’s staffing and other resources, ongoing collaboration and engagement with partners across all sectors and the communities and citizens of Leeds. Initial proposals for the 2019/20 Best Council Plan and supporting budget will be brought to this Board in December 2018.
- 2.12 In July 2017 Executive Board received the Council’s Medium Term Financial Strategy which detailed a funding gap of £44.2m for the period 2018/2019 to 2020/21 of which £13.9m related to 2018/19. The 2018/19 Revenue Budget and Council Tax report which was received at Executive Board and Council in February 2017 required the identification of £33.9m of budget savings in order to address corresponding cost and funding pressures. The same report also provided an update in respect of 2019/20 and 2020/21 and this showed a revised gap of £30.5m and £41.4m in 2019/20 and 2020/21 respectively.
- 2.13 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 Strategy to take account of the impact of all these issues on the overall level of resources available to support the Council's budget, and to roll the strategy on an additional year, namely to include 2021/22.

- 2.14 While this Financial Strategy provides a financial planning framework through to 2021/22, it does not represent the proposed budget for the next three years. It should be stressed that, under the Council's constitution, decisions to set the annual budget, the council tax base and the rate of council tax can only be taken by Full Council and therefore these decisions will continue to be made as part of the Council's annual budget-setting process.

### 3. Main Issues

#### 3.1 Settlement Funding Assessment (SFA) and changes in Local Funding

##### 3.1.1 Table 1 Estimated Level of Resources

	2018/19 Final £m	2019/20 Indicative £m	2020/21 Indicative £m	2021/22 Indicative £m
Revenue Support Grant	0.0	0.0	0.0	0.0
Business Rates Baseline	198.9	183.5	176.9	170.6
<b>Settlement Funding Assessment</b>	<b>198.9</b>	<b>183.5</b>	<b>176.9</b>	<b>170.6</b>
Business Rates Growth	23.6	23.6	21.7	25.7
Business Rates Surplus/(Deficit)	-13.3	-5.7	-0.5	-0.3
Council Tax: Core	282.6	296.0	306.9	318.1
Council Tax: Adult Social Care Precept	18.9	22.0	22.0	22.0
Council Tax Surplus/(Deficit)	0.2	0.0	0.0	0.0
<b>Net Revenue Budget</b>	<b>510.9</b>	<b>519.5</b>	<b>527.0</b>	<b>536.1</b>
<b>Change in Resources</b>		<b>8.6</b>	<b>7.5</b>	<b>9.2</b>

- 3.1.2 As part of the 2016/17 financial settlement, Government offered councils a 4-year funding settlement for the period 2016/17 to 2019/20, described as part of the move to a more self-sufficient local government. The levels of Revenue Support Grant and Business Rates Baseline funding assumed in the Financial Strategy to 2019/20 are in line with the figures provided by Government in the 2018/19 Final Settlement as outlined in the table above. The increases in Baseline funding and business rates growth assumed in 2020/21 reflect Government's plan to switch the indexation of Business Rates from the Retail Price Index to the lower Consumer Price Index measure in that year.

- 3.1.3 A key assumption within the Plan is whether beyond the current spending review period, i.e. beyond 2019/20, will there be further reductions in government funding for local government. The £7.5m increase in the level of funding between 2019/20 and 2020/21 and the £9.2m increase between 2020/21 and 2021/22 reflect the assumption that reductions in the level of revenue support grant that were a feature of the four year funding settlement will ease, reflecting the Chancellor's Spring 2018 statement that if public finances continue to reflect current improvements then he

“would have capacity to enable further increases in public spending and investment in years ahead.” As a result 3.6% cuts in SFA are assumed in these years in comparison with cuts of 6.6% and 7.7% in 2018/19 and 2019/20 respectively.

- 3.1.4 No separate figures for Revenue Support Grant (RSG) are shown in Table 1 above as authorities piloting 100% retention forego RSG and the value of the grant foregone is then taken into account in setting the new Business Rates Baseline, increasing it so that their SFA remains unchanged. It is Government’s stated intention to continue to ‘roll in’ RSG when they introduce 75% retention nationally in 2020/21 (see 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 managed budget for the Council will increase from £510.9m in 2018/19 to an estimated £536.1m in 2021/22.

## 3.2 **Business Rates Retention**

- 3.2.1 In December 2017, Government notified the Council that the Leeds City Region Business Rates Pool bid to pilot 100% Business Rates Retention in 2018/19 had been successful. The pilot scheme allows Pool member authorities to retain all additional growth in business rates above the business rates baselines determined by Government and associated Section 31 grants, whereas non-pilot authorities are required to remit 50% of that growth to Government. To date the Council has been notified that this Pilot is for 2018/19 only and further information is awaited in respect of the arrangements for 2019/20 and whether a further bid from the Leeds City Region Business Rates Pool is required.
- 3.2.2 As a consequence of delays in amending relevant legislation, it is not possible for Government to introduce 100% Business Rates Retention nationally in 2020/21, and they have signalled their intention to roll out a 75% retention scheme in that year and to continue to work towards greater business rates retention. Business Rates figures in the Medium Term Financial Strategy for 2019/20 reflect the assumption that the current 100% retention pilot will continue into next year and that 75% business rates retention will be implemented in 2020/21. It is possible that the Authority will not know the final position on business rates in 2019/20 until December 2018.
- 3.2.3 The Strategy assumes that budgeted business rates income retained by the Authority in 2018/19 (£209.1m) will reduce to £201.5m in 2019/20, £198.1m in 2020/21 and to £195.9m in 2021/22. This reduction reflects the forecast Consumer Price Index, assumed reductions in SFA, estimated business rates growth and any estimated business rates deficit.
- 3.2.4 Business rates growth above the baseline is based on current projections and includes estimates of in year growth. Growth above the baseline of £23.6m is included in 2019/20, decreasing to £21.7m in 2020/21 and then increasing to £25.7m in 2021/22. The lower growth in 2020/21 is a consequence of the assumed move from 100% retention in 2019/20 to a 75% scheme in 2020/21.

- 3.2.5 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 2018/19 this totalled £13.3m and in 2019/20 this deficit is estimated to fall to £5.7m and has taken into consideration a range of risks to 2018/19 income, including levels of growth achieved and the impact of business rates appeals. It is expected that such risks will reduce in future years as the Council settles appeals against the 2010 ratings list and as Government anticipates fewer appeals against the new ratings list introduced in April 2017. This new list was introduced alongside a new appeals process and with so few ratepayers having appealed to date it is very difficult to estimate the potential impact of 2017 list appeals on future business rates income.
- 3.2.6 There remain many uncertainties around the future of business rates within the local government finance system. However, it is assumed that any reforms, which may be introduced during the period of this Financial Strategy, would be revenue neutral to this Plan as transitional arrangements would be applied.

### 3.3 Council Tax

- 3.3.1 The Financial Strategy assumes council tax base growth of 1.4% per annum (around 3,200 Band D properties in 2019/20), which is in line with the tax base increase in 2018/19. Further, the Strategy assumes that councils will continue to be able to raise core council tax by up to 2.99% in 2019/20, following the announcement of an increased referendum limit in 2018/19 and later confirmation that this higher limit would apply in 2019/20, subject to the usual consultation on the Local Government Finance Settlement and to parliamentary approval. It is assumed that the referendum limit will then return to 1.99% in subsequent years. Additionally, the Provisional Local Government Finance Settlement 2017 confirmed the continuation of the Adult Social Care precept, capping the total increase between 2017/18 and 2019/20 at 6%. A 3% precept was raised in 2017/18 and a 2% precept in 2018/19. As such the Strategy assumes a further 1% in 2019/20, maximising this flexibility, with no additional precept in later years. This precept will generate an additional £3.1m of local funding in 2019/20.

### 3.4 Other Funding Changes

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

### 3.5 Specific Grant Funding Changes - New Homes Bonus

- 3.5.1 In 2011 Government introduced an incentive scheme to encourage housing growth across the country. Councils received additional grant equivalent to the average national council tax for each net additional property each year and this was to be received annually for six years. The 2015 spending review made a number of changes to the scheme, including the receipt of the grant being receivable over a reduced period of 4 years and the imposition of a national growth baseline before any reward is paid. The £0.3m pressure over the period of the Medium Term Financial Strategy reflects the impact of the introduction of the national growth baseline which has reduced the bonus in later years.

### **3.6 Specific Grant Funding Changes – Children and Families**

- 3.6.1 One of the key pressures in Children and Families Directorate is the fall out of external funding over the life of the Medium Term Financial Strategy. The Council received £7.3m of Innovation Grant from the Department for Education (DfE) in late 2016/17. This has been profiled to be spent over the three financial years from 2017/18 and will be used to invest in continuing the Leeds children strategy. The investment will be used to continue trialing new approaches to working with children and families and to invest and reform preventative services in order to reduce demand and costs. An additional £2.3m in grant is expected to be received in 2018/19 subject to meeting the terms and conditions of the agreement. In 2017/18 £1.95m of the Innovation Grant was used to support the Children and Families budget to help offset pressures in respect of the Children Looked After (CLA) budget. This funding will need to be made available in 2019/20 to support planned spend against the programme. In 2020/21 new funding will need to be identified or current spend reviewed.
- 3.6.2 In addition to the Innovation Grant funding there is also uncertainty about the future of a number of other grants beyond 2019/20. These include Troubled Families Programme Earned Autonomy grant and the School Improvement and Brokerage grant.

### **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.
- 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. This additional £9.4m is known as the Spring Budget monies and it will no longer be receivable after 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. Government has not indicated that any further monies will be receivable in 2019/20 as it is difficult to think that there will not be some recognition of the demand pressures facing the service.
- 3.7.4 Though it has not been confirmed, and the Government's Green paper on the future funding of social care will not be published until the autumn of 2018, the Medium Term Financial Strategy assumes that an additional £9.4m will be receivable over the period 2020/21 and 2021/22.

### **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 and a further £1.2m reduction is projected to the end of 2020/21.

### **3.9 Specific Grant Funding Changes - Communities and Environment**

- 3.9.1 The Housing Benefit and Local Council Tax Support Administration Subsidy grants (£3m and £1.1m respectively in 2018/19) are anticipated to reduce by a further

£0.5m in 2019/20 and 2020/21 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 will not be made until early in 2019. The Housing Benefit Admin Subsidy grant could be further influenced by a proposed review of the methodology for allocating the funding across authorities.

- 3.9.2 The reductions outlined above are partially offset by an assumption that £0.1m of additional new burdens funding will be received from the DWP during 2019/20 to compensate Local Authorities for additional workstreams.
- 3.9.3 Following the Prime Minister's announcement in March 2018, parents will no longer have to meet the costs of burials or cremations. The fees will be waived by all Local Authorities and met instead by a Government Funeral Fund for grieving parents who have lost their child. However, as Leeds City Council had already announced that it would abolish these fees as a part of the 2018/19 approved budget, the assumed level of funding of £0.2m will offset the loss of income already provided for.

### 3.10 **Specific Grant Funding Changes – Resources and Housing**

- 3.10.1 The Government have announced that the level of Flexible Homelessness Grant receivable will reduce by £0.7m in 2019/20. This grant, introduced in 2017/18, is designed to provide additional resources to Local Authorities to tackle homelessness and level of allocation is based on homelessness prevention outcomes.

### 3.11 **Specific Grant Funding Changes –Section 31 grants**

- 3.11.1 An error in the methodology used by the Ministry of Housing Communities and Local Government (MHCLG) in their calculation of Section 31 grants paid to compensate Local Authorities for any loss incurred as a result of the Government's decision to cap the business rates multiplier in 2014/15, 2015/16 and 2018/19 has resulted in a reduction of £1m in the level of grant receivable.
- 3.11.2 As a result of the assumption that 100% retention will continue into 2019/20, the Strategy recognizes an increase of £1.1m in Section 31 grants payable to the Authority in that year, which will contribute to the Council's Strategic accounts.

### 3.12 **Movement on the use of reserves**

- 3.12.1 The Strategy assumes that £3m from the General Reserve is used to support both the 2019/20 and 2020/21 budgets (£6m in total). In addition the 2019/20 budget doesn't assume a budgeted contribution of £1m to the General Reserve.
- 3.12.2 In February 2017, Council approved the Flexible Use of Capital Receipts Strategy which agreed the use of capital receipts to fund severance/redundancy costs. Consequently the £2m set aside in an earmarked reserve to fund ELI (Early Leaver's Initiative Costs) can be used to support the Medium Term Financial Strategy. The other movements in earmarked reserves are to recognize that the use of Section 106 deposits was for 2018/19 only and that £0.5m is required to fund unitary charge payments on PFI contracts.

## **4. Changes in Costs**

### **4.1 Inflation**

4.1.1 The Financial Strategy makes allowance for £19.7m of net inflation from 2019/20 to 2021/22. 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 most recent Actuarial Valuation of the West Yorkshire Pension Fund took place in December 2016 and the Authority has been notified that the employer's contribution will rise from the 15.9% contribution in 2018/19 to 16.2% in 2019/20. Overall this creates a pressure of £0.9m. It should be noted that as part of the recent Actuarial Valuation of the Fund, given the volatility of equity markets and the valuation of sterling, it was agreed that the contributions of the West Yorkshire authorities would be subject to an annual mini review of contribution rates which could result in further increases in April 2019, although to date these actuarial reviews have not resulted in any increased costs.

### **4.3 Pay Award and Leeds Living Wage**

4.3.1 Provision of £38.2m 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 the Council's minimum pay rate which is assumed to rise from the current £8.75 per hour.

### **4.4 Fall out of capitalised pension costs**

4.4.1 The fallout of capitalised pension costs associated with staff who have left the Council under the Early Leavers Initiative (ELI) will save an estimated £4m.

### **4.5 Demand and Demography**

4.5.1 The forecast recognises the increasing demography and consequential demand pressures for services in Adult Social Care, Children and Family Services and the Waste Management function with provision of £9.8m included in the Financial Strategy.

4.5.2 Within Adults and Health the population growth forecast assumes a steady increase from 2018 in the number of people aged 85-89 during 2019, 2020 and 2021 (0.9%, 3.6% and 2.6% respectively) resulting in additional costs for domiciliary care and placements (£5.9m). In addition, the strategy reflects the anticipated impact of increasing cash personal budgets through to 2020. The Learning Disability demography is expected to grow by 0.3% (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.

4.5.3 Children’s Services continues to face significant demographic and demand pressures as a result of high birth rates (particularly within the most deprived clusters within the city), increasing inward migration into the city (particularly from BME groups from outside the UK), the increasing population of children & young people with special and very complex needs, greater awareness of the risks of child sexual exploitation, growing expectations of families and carers in terms of services offered and changes in government legislation, including “staying put”, arrangements that enable young people to remain with their carers up to the age of 21. Consequently the Medium Term Financial Strategy provides £3.3m for the projected growth in the 0-19 year old population.

4.5.4 Based on assumed housing growth provision of £0.6m has been made for an additional refuse collection round and the increased disposal costs of waste to the RERF.

#### 4.6 Adult Social Care

4.6.1 The financial strategy reflects the grant monies made available by Government and a proposed precept of 1% in 2019/20. The additional 1% precept is the final increase permitted by the Government. Together the precept and the grant will be utilized to fund a range of adult social care pressures and priorities including demand, demography, inflation increases on commissioned services and the Ethical Care Charter.

4.6.2 Table 2 below outlines how the additional funding provided by the improved Better Care Fund, the ‘Spring Budget’ grant, the Social Care grant and the precept all combine to increase the spending power with adult social care.

Table 2 Adult Social Care “Spending Power”

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Base Budget (restated)	207.5	217.8	224.2	224.2
Spring Grant 17/18	(14.7)			
Spring Grant 18/19	9.4	(9.4)		
Spring Grant 19/20		4.7	(4.7)	
Spring Grant 20/21 (assumed)			4.7	(4.7)
Spring Grant 21/22 (assumed)				4.7
Improved Better Care Fund	11.1	10.1		
ASC Support Grant 17/18	(3.3)			
ASC Support Grant 18/19	2.1	(2.1)		
ASC Precept	5.7	3.1	0.0	0.0
	<b>217.8</b>	<b>224.2</b>	<b>224.2</b>	<b>224.2</b>
<b>Movement in Adult Social Care "Spending Power"</b>		<b>6.4</b>	<b>0.0</b>	<b>0.0</b>

4.6.3 It should be noted that the increased “spending power” figures above do not simply translate into how the Council’s Adults and Health managed budget for 2019/20 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 £6.4m in 2019/20 with no further increases assumed in the later years of the Strategy. It should be noted that the Adult Social Care expenditure simply to meet demand and demography costs in the region of £14m each year.
- 4.6.5 The iBCF annual growth is only known until 2019/20 with no announcement as to whether additional sums will be receivable. The reduced and final year of the Spring Budget is known for 2019/20 and the Medium Term Financial Strategy assumes that the amounts receivable for the final year of the Spring Budget will continue into 2020/21 with a similar sum in 2021/22. If the amount receivable is 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 and Leeds Living Wage– Commissioned Services**

- 4.7.1 In respect of services commissioned from external providers by Children and Families, £1.8m has been included to reflect National Living Wage increases. Similarly Adults and Health has provided £15.0m for similar National Living wage increases in commissioned services. In respect of externally commissioned home care and extra care services provision of £4.3m has been included to ensure that rates of pay are consistent with both Leeds Living Wage and the Ethical Charter assumptions. For the staff in a pension scheme with automatic enrolment, and their employer is providing a commissioned service to Adults and Health, the employer’s contribution will increase from 2% to 3%. Leeds City Council’s contribution to this increase is £0.6m.

#### 4.8 **Leeds City of Culture 2023**

- 4.8.1 A report received at June’s Executive Board set out details of Leeds Cultural Strategy with the creation of a Trust being identified as the most appropriate model for the delivery of this strategy. In accordance with the required resource contribution from the Council, as identified in the report to June’s Executive Board, the financial strategy assumes a £2.5m increase in the contribution by 2021/22.

#### 4.9 **Other pressures and savings**

- 4.9.1 Over the life of the Medium Term Financial Strategy 2019/2019- 2021/22 other cost pressures amount to £8.7m.
- 4.9.2 In recognition of the level of backlog maintenance associated with the Council’s assets an additional £0.8m will be provided by 2021/22. In addition the Strategy also provides £0.8m for the increased cost of Microsoft Licences, £0.4m provides for an increase in the levy to the West Yorkshire Combined Authority in respect of the Transport Fund over the planning period and £0.5m is required annually to meet the costs of contract payments for PFI schools.
- 4.9.3 The net impact of the switch to Universal credit is forecast at around £1m over the next 3 years, mainly from reduced receipt of housing benefit overpayment income.
- 4.9.4 Other pressures across all Directorates amount to around £5.2m. These include £0.2m for the increased cost of Community hubs, £0.2m for the shortfall in Court Fee

income, £0.2m for costs associated with the Sustainability Energy and Low Carbon team and £0.2m for service charges at Merrion House.

#### **4.10 Capital Financing Costs**

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

4.10.2 The Council forecasts an additional borrowing requirement of £124m to support the 2019/20 capital programme spend of £289m. The additional revenue cost of this borrowing is forecast at £8.8m over the life of the Strategy, £7.8m of which relates to funding new capital programme spend. The remaining increase is largely due to a combination of restructuring debt, increases in interest rates assumptions and other costs associated with the delivery of the capital programme.

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

#### **4.11 Minimum Revenue Provision**

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

4.11.2 The 2017/18 Revenue Budget and Council Tax budget report, received at Executive Board in February 2017, identified that the Council had overprovided for MRP by £92.3m on its debt set aside since 2008/2009. This historical overprovision has been applied over a four year period (2016/17 to 2019/20) and has the effect of reducing the rate of repayments of borrowing over the period to which the overprovision is being applied, which is partly offset by additional interest costs in the meantime. However in the current climate of low interest rates Council agreed that this would be an acceptable cost given the benefits to be gained from the change. Moreover, it was recognised that this strategy provided an opportunity for the Council to transform its operations over a longer time period than otherwise, it would be necessary by 2020/21 to reinstate the budget for a "normal" level of MRP.

4.11.3 In 2020/21 it is therefore necessary to increase the MRP to meet the calculated level required. The calculated £30.4m increase can be partially offset by the identification of additional capital receipts (£3.6m) which are over and above the amount required to support the revenue budget. In 2021/22 no additional capital receipts are currently being assumed to offset the calculated £11.2m increase in MRP. Consideration will

have to be as to what options are available to smooth these known increases over a longer period.

#### 4.12 Impact of Academisation

4.12.1 Although an increasing number of schools within Leeds have become academies, Leeds City Council has continued to provide a number of services to these schools and has charged accordingly. In an increasingly competitive market these services are now being sourced from other providers, specifically in respect of the Human Resources function, and this has resulted in a reduction in the level of income receivable (£1.2m).

### 5. Estimated Budget Gap

#### 5.1 Table 3 Estimated Budget Gap

<b>2019/20 TO 2021/22 PROJECTIONS</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>Total £m</b>
Settlement Funding Assessment	15.3	6.6	6.4	28.3
Changes in Local Funding	(23.9)	(14.2)	(15.5)	(53.6)
Contribution to/(from) General Reserve	(4.0)	0.0	3.0	(1.0)
Contribution to/(from) Earmarked Reserves	(0.6)	2.5	0.0	1.9
Changes in Specific Grant	(0.1)	3.1	(4.7)	(1.7)
Changes in S31 grants	1.0	0.0	0.0	1.0
Other Funding Changes	(0.1)	0.0	0.0	(0.1)
<b>Decrease/(Increase) in Funding</b>	<b>(12.4)</b>	<b>(1.9)</b>	<b>(10.9)</b>	<b>(25.1)</b>
Inflation	8.2	8.2	8.2	24.5
Employer's LGPS contribution	0.9	0.0	0.0	0.9
Pay Award including Living Wage	12.7	12.7	12.7	38.2
National Living Wage - commissioned services	5.5	5.6	5.6	16.8
Fall-out of capitalised pension costs	(1.1)	(1.5)	(1.4)	(4.0)
Demand and Demography	3.4	3.3	3.1	9.8
2023 City of Culture	1.5	0.5	0.5	2.5
Impact of Academisation	1.0	0.2	0.0	1.2
Other pressures/savings	6.5	2.3	0.0	8.8
Debt - external interest/Minimum Revenue Provision	1.9	30.6	15.2	47.6
<b>Projected Cost Increases</b>	<b>40.5</b>	<b>61.9</b>	<b>43.9</b>	<b>146.3</b>
<b>Total Cost and Funding Changes</b>	<b>28.1</b>	<b>60.0</b>	<b>33.1</b>	<b>121.1</b>

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 £121.1m of savings over the period covered by the Medium Term Financial Strategy. This savings requirement is detailed above.

#### 5.3 Proposals/Approach to meet the gap

5.3.1 In order to both manage the reductions required for the period 2019/20 to 2021/22, and protect front line services, the Council has embarked on an ongoing process of

review across a range of services and policy areas which commenced in April 2016. The outcome of these reviews was incorporated into both the Council's 2017/2018 and 2018/2019 budgets. These service and policy reviews continue as part of an iterative approach to the Council's Best Council Plan and the aligned Medium Term Financial Strategy. The table below presents a summary of the identified savings arising, presented thematically.

### 5.3.2 Table 4 Estimated Budget Gap less Savings Options

2019/20 TO 2021/22 PROJECTIONS	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
<b>Estimated Budget Gap</b>	<b>28.1</b>	<b>60.0</b>	<b>33.1</b>	<b>121.1</b>
<b>Directorate Budget Savings Proposals</b>				
Changes to Service	(1.2)	(2.4)	(0.9)	(4.6)
Efficiencies	(11.0)	(4.7)	(0.3)	(16.1)
Income - Fees & Charges	(0.6)	(0.5)	0.0	(1.1)
Income - Traded Services, Partner and Other Income	(1.4)	(0.3)	(0.8)	(2.5)
<b>Total Budget Savings Proposals</b>	<b>(14.3)</b>	<b>(7.9)</b>	<b>(2.0)</b>	<b>(24.3)</b>
<b>Gap</b>	<b>13.8</b>	<b>52.0</b>	<b>31.0</b>	<b>96.8</b>

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

## 5.4 **Changes to Service**

5.4.1 Within Children's and Families services, the plan assumes that from 2019/20 the costs of Children Looked After will reduce by around £2.6m as a result of the impact of spending the DfE Innovations fund grant on preventative measures

5.4.2 City Development are targeting the development of a new car parking facility which will deliver a net contribution of £1.1m over the life of the strategy. In addition it is anticipated that increased income of £500k will be realised through investment properties.

5.4.3 As a registered training provider costs being incurred by the Council can be now be funded through the apprenticeship levy.

## 5.5 **Efficiencies**

5.5.1 Savings within Adults and Health reflect the need to address the fall out of short term grant funding through the life of the plan, including the Adult Social Care support grant (£2.1m) and the Spring Budget grant (£9.4m). To meet this requirement savings on demand based services and reductions in one-off spend associated with

the Social Care grants mentioned in 5.5.1 and other efficiencies over the period are projected at over £13.5m.

- 5.5.2 Within Children and Families, targeted transport efficiencies are expected to realise savings of £0.5m in 2019/20.
- 5.5.3 Within Sports Centres further operating cost reductions of £0.2m are being targeted. Reductions in the Flexible Homelessness Grant and the Housing Benefit and Local Council Tax Admin Subsidy Grant will require corresponding savings of £0.3m and £0.7m respectively over the period. This will largely be realised through vacant posts and staff turnover.
- 5.5.4 Within Support Services further savings of £1.0m are targeted largely within business administration, finance, HR and programme / project management. These savings will be achieved through a combination of deleting budgeted vacant post, staff turnover, staff exiting the Authority through the Early Leavers Initiative and reviewing processes and, where business cases exist to make processes more efficient or embrace new technology, resources will be identified to progress these initiatives and realise the savings.

## 5.6 **Income - Fees & Charges**

- 5.6.1 An estimated additional £1.1m is forecast from fees and charges by 2020/21. This will be largely be generated through the generation of additional income at Parks and Attractions (£0.4m), increased income at Sports Centres (£0.2m), additional fee income generated within City Development (£0.2m) and additional income (£0.4m) from Adel Beck.

## 5.7 **Income – Traded Services / Other**

- 5.7.1 Leeds Building Services will target an additional contribution over three years through ongoing efficiencies and additional turnover. This additional turnover will result from work that previously would have been tendered to private sector contractors which will instead be delivered through the internal service provider.

## 5.8 **Revised Gap**

- 5.8.1 The total estimated savings from service reviews, efficiencies and additional income from the fees and charges that the Council is seeking to generate over the three year plan total approximately £24.3m. This is not sufficient to deal with changes to the settlement funding assessment, changes in local funding plus other cost and funding changes. Even after account is taken of the identified savings options there is still an estimated savings requirement of £96.8m for the three year period covered by the Medium Term Financial Strategy.
- 5.8.2 Recognising the financial challenges outlined in this report, work has commenced on progressing seven key budget workstreams which, when successfully implemented, are anticipated to contribute significantly in the achievement of a balanced budget position in each of the years covered by the Medium Term Financial Strategy. Details of these workstreams are contained in Table 5 below.

### 5.8.3 Table 5 Budget Workstreams

<b>Budget Workstreams</b>	
<b>1</b>	<b>Benchmarking/VfM</b> Using a more systematic approach to identify areas of activity within the council that are high cost and/or low performing to inform reviews to help determine how and where savings could come from.
<b>2</b>	<b>Digital</b> Further use of technology to reduce costs and improve customer experience
<b>3</b>	<b>External Funding</b> Maximise opportunities by having a more consistent, proactive and systematic approach to grants and other bids.
<b>4</b>	<b>Advertising</b> Maximise advertising income, building in greater use of technology (e.g. digital advertising)
<b>5</b>	<b>Assets</b> More efficient and effective use of the council's buildings aiming for fewer, better looked after assets
<b>6</b>	<b>Capital Review</b> Consider different approaches to risk share, prioritise investment and reduce debt. [Links to 'Assets' workstream above]
<b>7</b>	<b>Invest to save pot</b> Maximise opportunities by having a coherent approach to 'bidding' for investment with the key driver being to deliver savings (i.e. do more or the same but with less £).

## 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 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.
- 6.1.3 The general reserve policy encompasses an assessment of financial risks both within the Medium Term Financial Strategy and also in the annual budget. These risks should include corporate/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.

6.1.4 The Financial Strategy assumes the use of £3.0m of general reserves in both 2019/20 and 2020/21. The table below sets out the indicative general reserve level from 2018/19 to 2021/22.

6.1.5 By the end of the plan, the level of General Reserve is forecast to be £20.6m, £6m less than at April 2018.

6.1.6 Table 6 Forecast Level of General Reserve

<b>General Reserve</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Brought Forward 1st April	20.1	25.6	26.6	23.6	20.6
Release to Children Looked After Budget	(1.4)				
Contribution in Year (including Sport VAT reimbursement)	7.0				
Budgeted Contribution In Year		1.0			
Budgeted Use in Year (Use of Sport VAT in Strategy)			(3.0)	(3.0)	
Carried Forward 31st March	<b>25.6</b>	<b>26.6</b>	<b>23.6</b>	<b>20.6</b>	<b>20.6</b>

6.1.7 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. 2019/20 is therefore the final year of the policy requiring this reduction. The government has confirmed that there will be a return to CPI+1% for 5 years from 2020/2021, therefore the 2020/21 and 2021/22 rental figures are based on this assumed increase. Whilst the 2016 Act requires that social rents have to reduce by 1% per annum until 2019/20, properties funded through PFI can be exempt from this requirement. An increase in accordance with the government's rent formula of CPI + 1% is therefore assumed over the medium term for PFI dwellings.

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 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 Since 2012 a reduction in the qualifying period after which tenants are able to submit an application to purchase a council house through the Government's Right to Buy legislation continues to sustain increases in the number of sales with a subsequent reduction in the amount of rent receivable.
- 7.7 Further consideration will be given to increasing service charges to reflect more closely the costs associated with providing services.
- 7.8 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.
- 7.9 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. The Council aims to maintain a consistent level of capital expenditure with a view to improving the condition of the stock.

## 7.10 Table 7 Housing Revenue Account

<b>Income and Expenditure Pressures</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Income</b>			
Reduction in rental income due to stock reduction and 1% rent reduction	2,569	(4,187)	(4,423)
End of Rent Reduction period			
Increase Service Charges	(813)	(37)	(26)
Increase in Other Income	215	(175)	(178)
<b>Total</b>	<b>1,971</b>	<b>(4,398)</b>	<b>(4,627)</b>
<b>Expenditure</b>			
Pay and Price pressures	1,619	1,618	1,691
Supplies and Services	(380)	(380)	(380)
Premises	(56)	(56)	(56)
Review of provisions	(411)	(442)	(71)
Private Finance Initiative adjustment as per model	620	821	1,272
Use of additional Right to Buy Receipts to fund capital	(1,944)	1,941	732
Concierge Service	400	408	416
Disrepair	(700)	0	0
Repairs to Dwellings	0	435	880
Other (Including accounting/recharge adjustments)	(1,119)	53	143
<b>Total</b>	<b>(1,971)</b>	<b>4,398</b>	<b>4,627</b>
<b>Overall Balance</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>

## 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 2018-21 that was approved by Council in February 2018. 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 exercise carried out between December 2017 and January 2018 on the Council's 2018/19 budget proposals. Whilst the consultation covered the key 2018/19 proposals, it also incorporated questions around the ongoing principles that underlie both the Best Council plan and the Authority's financial plans. Therefore the results of that consultation are therefore relevant to the Medium Term Financial Strategy. The full results of the consultation are publicly available in the '2018/19 Revenue Budget and Council Tax' report considered by Council on 21st February 2018 with a summary of the key points below:

- The consultation received nearly 2,000 responses across a range of respondents from different age groups, ethnicities and genders, broadly representing the demographic breakdown of the population of Leeds.
- In response to questions on the challenges that the council faces from reducing funding and increasing demand on services, respondents were asked how much they agree or disagree with certain statements:
  - a) Over 3 quarters of respondents (77%) agreed the council should raise money through increasing council tax and charges.
  - b) Around half (48%) of all respondents agreed that this should be balanced with cuts and reduction of services.
- With regards to additional funding:
  - c) In total, 60% of all responses said this should be raised through introducing new charges for some services.
  - d) Over half of respondents agreed with increasing the rate of council tax (56%).
  - e) 50% favoured increasing existing charges.
- Almost a quarter of respondents (23%) said the council should not raise council tax or charges, even if this has a large impact on services provided.
- Thinking about how the council can deliver services more efficiently, respondents were asked how much they agree or disagree with certain statements:
  - f) Most agreed the council should deliver more services in partnership with other public organisations (96%).
  - g) Slightly fewer agreed the council should work with local community and voluntary groups to deliver more of its services (88%).
  - h) Three quarters agreed that the council should encourage local people to voluntarily provide certain services within their communities (74%).
  - i) Almost half agreed that services should mostly be delivered by the council, on its own (48%).
  - j) Less than a third agreed that more services should be delivered by the private sector (31%).

8.1.3 When considering any workforce change the trade unions should be meaningfully engaged at the earliest opportunity. In August 2017 the Council re-issued the Section 188 notice and this triggered the consultation process around the mitigation of redundancies and there have been regular meetings with trade union colleagues about how we can work together to meet our financial challenges. Further consultation will need to take place once the proposals regarding workforce changes become clearer and more defined. The Council's Early Leaver Initiative, effective vacancy controls and other measures to save employment costs have significantly reduced the requirement to reduce FTEs still further.

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 Engaging all teams, staff and partners is a key part of our Medium Term Financial Strategy. We will do this through a Team Leeds Can Do Challenge, a collective team effort during Autumn 2018 in the following areas:

- Working smarter and saving money
- Constantly improving customer service, experience and outcomes
- Making the most of digital
- Making Leeds a great place to work.

8.1.6 From September to November, the Corporate Leadership Team will lead a series of locally driven activities, with the prime purposes of:

- 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.

8.1.7 The annual Leeds City Council Leadership Conference in October, will be used as a focal point and showcase for the Team Leeds Can Do Challenge.

## 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 required 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 continue to be carried out on specific proposals in relation to implementing the Best Council Plan and the annual budgets for each of the years covered by this Medium Term Financial Strategy. Therefore as a part of this the proposed revenue budget for 2019/20 will be subject to Equality Impact Assessments where appropriate with details included in the 2019/20 budget proposal reports to Scrutiny, to this Board and subsequently Full Council.

## 8.3 **Council Policies and Best Council Plan**

8.3.1 The refreshed Best Council Plan 2018/19 – 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.

#### **8.4 Resources and Value for Money**

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

#### **8.5 Legal Implications, Access to Information and Call In**

8.5.1 There are no legal implications arising from this report. The report recommends the approval of the Financial Strategy itself and any proposals resulting from ongoing service / policy reviews will be subject to specific decision-making processes in which the legal implications, access to information and call-in will be considered in accordance with the Council's decision-making framework. This includes compliance with the legal requirements around managing staffing reductions.

#### **8.6 Risk Management**

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

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

8.6.3 In addition, risks identified in relation to specific proposals and their management will be reported to relevant members and officers as required. Specific risks relating to some of the assumptions contained within this Medium Term Financial Strategy are identified below.

#### **8.7 Risks to Funding**

8.7.1 The level of resources available to the Council is estimated to increase from £510.9m to £519.5m in 2019/20, an £8.6m increase. Over the period to 2021/22 the total increase is estimated to be £25.3m. The key assumptions and risks underpinning this increase in resources are discussed below.

8.7.2 The £28.3m reduction in the Settlement Funding Assessment between 2019/20 and 2021/22 assumes that beyond 2019/20, the final year of the Government's 4 year funding settlement, the pace of austerity will ease with a 3.6% reduction in Settlement Funding Assessment assumed in these years compared with 6.6% in 2018/19 and 7.7% in 2019/20. Whilst Government has indicated possible easing, this is unlikely to become clearer until the next Spending Review in 2019, and this assumption remains a risk.

8.7.3 Business Rates figures to 2021/22 are based on the 100% Business Rates Retention scheme currently in place recurring in 2019/20. Whilst the Government have signaled their intention to introduce 75% Business Rate Retention from 2020/21, and this Medium Term Financial Strategy assumes this, the position around the continuation of the 100% Business Rates Retention Pilot in 2019/20 remains

uncertain. To date the Council has been notified that the Pilot is for 2018/19 only. Further information is awaited in respect of the arrangements for 2019/20 and whether a further bid from the Leeds City Region Business Rates Pool is required. If a further bid is required then the Council may not be notified whether it has been successful in its application until December 2018 when the draft Local Government Finance Settlement is published. Therefore to manage the risk of the 100% Business Rate Retention Pilot not continuing in 2019/20 consideration will be given to the identification of additional budget savings options.

- 8.7.4 Annual increases in Business Rates Baseline funding and business rates growth are currently indexed to the Retail Price Index. Government plans to switch the indexation of Business Rates to the lower Consumer Price Index in 2020/21. Changes to forecast inflation rates can impact on levels of funding.
- 8.7.5 The level of business rates appeals continues to be a risk. Whilst there is very limited scope for new appeals against the 2010 list and the Council has an appropriate provision for these, there is very little information available on which to assess appeals against the new 2017 list. Therefore 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.
- 8.7.6 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, won't be known until the autumn of 2019 which is around the time this Authority will be preparing its Initial Budget proposals for 2020/21. Whilst the Strategy assumes that any such changes will be revenue neutral at the point of introduction as transitional arrangements are expected, there remains a risk of reductions in government funding to the sector as a whole. The level of resources available to Local Government will be communicated through the 2019 Spending Review proposals.

## **8.8 Key Risks to Cost Assumptions**

- 8.8.1 The Council will be applying a 2 year NJC pay offer, which will move staff onto a new pay spine in 2019. The implementation of this will need to be considered in terms of how the Authority's existing pay structure operates as some lower paid grades will be affected by transferring onto a new and shorter pay spine. In assessing this we need to be sure we have a sustainable structure that is equal pay compliant. This Medium Term Financial Strategy does not reflect any implications of this ongoing assessment although it is recognised that it may be necessary to make further provision.
- 8.8.2 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.
- 8.8.3 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.
- 8.8.4 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 The Medium-Term Financial Strategy reflects Government's planned reductions in public sector funding as set out in the Comprehensive Spending Review, assumptions around the level of resources available through Council Tax and Business Rates and also takes account of increasing costs from rising demands for services, inflation and other cost pressures.
- 9.2 This strategy needs to be seen in the context of a challenging economic outlook combined with a number of significant risks and uncertainties that have the potential to significantly impact upon both the Council's resources and levels of demand for its services. Where it is possible to determine the financial implications of these then they have been accommodated within the strategy. It is acknowledged that the assumptions contained in the strategy are under constant review to reflect any changes in circumstances or if further information emerges in respect of known risks.
- 9.3 In response, a planned and iterative approach continues to be taken to review a range of service and policy areas to identify additional potential savings and income generation opportunities. However, at this stage it has not been possible to identify sufficient savings or income generation opportunities with which to entirely close the gap in the Council's finances over the next three years. The extent of savings identified to date at £24.3m represents around a fifth of those required to meet the forecast funding gap of £121.1m. In order to reduce the estimated budget gaps detailed in 5.3.2, further work will be required to both review the cost and income assumptions contained in this position and progress the identification of savings resulting from the 7 key budget workstreams identified in 5.8.3. Additionally consideration will be given as to what options are available to smooth the known increases in MRP over a longer period.
- 9.4 The Council is required to present a balanced budget to Council for approval in advance of the financial year. Before final proposals being considered for approval in February 2019, the Council's Initial Budget proposals are considered at Executive Board in December prior to a period of consultation. Further work is required to close the budget gap, and officers will continue working on proposals for members' consideration.

## 10. **Recommendations**

- 10.1 Executive Board is recommended to:

- i) Approve the 2019/20 – 2021/22 Medium-Term Financial Strategy for both General Fund services and the Housing Revenue Account;
- ii) Note that further proposals will be brought forward to address the current identified shortfall as part of the Council's budget process;
- iii) Note that the Chief Officer – Financial Services will be responsible for implementing these recommendations.

## 11. **Background Documents<sup>1</sup>**

11.1 There are no background documents relating to this report.

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<sup>1</sup> 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.