Leeds
CITY COUNCIL

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Report of the Chief Officer – Financial Services
Report to Executive Board
Date: 19th December 2018

Subject: Initial Budget Proposals for 2019/20

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☒ Yes	☐ No
Is the decision eligible for Call-In? Recommendations 15.3 and 15.4 are eligible for call in; 15.1 and 15.2 are not eligible.	☒ Yes	☐ No
Does the report contain confidential or exempt information?	☐ Yes	☒ No

Summary of main issues

1. The purpose of this report is to set out the initial budget proposals for 2019/20.

2. These budget proposals support the Council's Best City/Best Council ambitions, policies and priorities aimed at tackling inequalities (please refer to the Best Council Plan 2018/19 refresh report which is on today's agenda).

3. These budget proposals are set within the context of the 2019/20 – 2021/22 Medium Term Financial Strategy which was approved by the Executive Board on the 25th July 2018 and the implications of the Chancellor's Autumn budget statement on 29th October 2018.

4. Whilst the Government's multi-year funding settlement 2016/17 to 2019/20 provides some certainty, there are still a number of assumptions within the budget proposals that will not be known until the provisional Local Government Finance Settlement is announced, which will now take place in Parliament after the meaningful vote on December 11th in respect of Brexit.

5. The current financial climate for local government continues to present significant risks to the Council's priorities and ambitions. The Council continues to make every effort possible to protect the front line delivery of services and to avoid large scale compulsory redundancies. It is clear that the position is becoming increasingly challenging to manage and over the medium term it will be increasingly difficult to maintain current levels of service provision without significant changes in the way the Council operates.

6. The headlines from the 2019/20 initial budget proposals, when compared to the 2018/19 budget, are as follows:

- A reduction in the Settlement Funding Assessment of £15.3m (7.7%)

- An increase in council tax of 2.99% together with a further 1% in respect of the Adult Social Care precept and an increase in the council tax base, generating an additional £16.4m of local funding

- A combination of reduced core funding and cost pressures means that the Council will need to deliver £24.4m of savings by March 2020

- An increase in the Council's net revenue budget of £6.0m to £516.9m

7. In respect of the Housing Revenue Account, whilst there are proposals to increase service charges, the continued implementation of the Government's rent cap, introduced from April 2016, will mean that the majority of tenants, excluding those properties that have benefited through PFI investment, will again see reductions of 1% from April 2019.

8. The Leeds City Region 100% Business Rates Retention pilot, of which Leeds City Council is a member, concludes on the 31st March 2019. All local authorities were invited to submit applications to pilot 75% Business Rates Retention in 2019/20 and a North Yorkshire West Yorkshire bid, which includes the five West Yorkshire districts, North Yorkshire County Council, York City Council and the seven shire districts in North Yorkshire, has been submitted in accordance with the Government's timetable. However, funding for pilot schemes is limited and it is anticipated that not all applications will be successful. Successful applications will be announced alongside the publication of the Provisional Local Government Finance Settlement which will be announced in Parliament by way of an oral statement after the meaningful vote in respect of Brexit on December 11th. These initial budget proposals assume that the application to pilot 75% retention is successful.

9. Since 1st April 2013 Leeds City Council has charged a 50% council tax premium on empty dwellings unoccupied for more than two years. The Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 permits councils to increase this premium to 100% from 1st April 2019. A final decision on whether to implement this additional premium will be made by Full Council in January 2019. The estimated Council Tax base used for these initial budget proposals assumes that this additional premium will be implemented.

10. At the Autumn Budget 2018 the Chancellor announced new business rates reliefs for small retail businesses with a rateable value of less than £51,000, who will receive a one third reduction in their business rates liability for the next two years, local newspaper offices will continue to receive a £1,500 reduction for a further year and public lavatories are to receive 100%

business rates relief. Local authorities will be compensated in full by Government for any resultant loss of income.

Recommendations

11. Executive Board is asked to agree the initial budget proposals and for them to be submitted to Scrutiny and also for the proposals to be used as a basis for wider consultation with stakeholders.

12. Executive Board is asked to note the assumptions contained in these proposals regarding the Council Tax base and the Authority's application to pilot 75% Retention.

13. Should the bid to pilot 75% Business Rate Retention be successful then Executive Board is asked to agree that Leeds becomes a member of the new North and West Yorkshire Business Rates Pool and acts as lead authority for it. Notwithstanding this decision, the establishment of this new Pool will be dependent upon none of the other member authorities choosing to withdraw within the statutory period after designation. Should the bid not succeed, all members of the existing Leeds City Region Pool have agreed to its continuation in 2019/20.

14. Further, Executive Board is asked to agree that the Authority will implement the new business rate reliefs announced at the Autumn Budget. Leeds will be compensated in full by Government for any resultant loss of income.

1. Purpose of report

1.1 In line with the Council's constitution, the Executive Board is required to publish initial budget proposals two months before approval of the budget by Full Council, scheduled for the 27th February 2019. This report sets out the initial budget proposals for 2019/20, set within the context of the Medium Term Financial Strategy approved by Executive Board in July 2018, the implications of the Chancellor's Autumn Budget statement in October 2018 and further savings proposals to bridge the revised estimated budget gap.

1.2 Subject to the approval of the Executive Board, these initial budget proposals will be submitted to Scrutiny for their consideration and review, with the outcome of their deliberations to be reported to the planned meeting of this board on the 13th February 2019. These budget proposals will also be made available to other stakeholders as part of a wider and continuing process of engagement and consultation. Further, at the meeting of this Board in February 2019, it is proposed to provide an update of the Medium Term Financial Strategy approved by the Board at its July 2018 meeting.

1.3 In accordance with the Council's budget and policy framework, decisions as to the Council's budget are reserved to Full Council. As such, the recommendations in paragraphs 15.1 and 15.2 are not subject to call in as the budget is a matter that will ultimately be determined by Full Council.

1.4 However the recommendations in paragraphs 15.3 and 15.4, regarding the Council's participation in the 2019/20 75% Business Rates Retention pilot scheme and the implementation of business rate reliefs announced at the Autumn Budget, are decisions of the Executive Board and as such are subject to call-in.

2. The national context and Autumn budget

2.1. The economic context in which public spending must be considered continues to be very much dominated by the debate concerning the impact of the EU referendum and the strength and resilience of the national economy. Whilst Public Sector Current Expenditure (PSCE) is forecast to be higher in 2019/20 than was forecast in the Spring Statement in March 2018, this is mainly due to the additional £20bn of expenditure already announced for the NHS. The Office for Budget Responsibility (OBR) points out that although NHS spending will rise steadily over the forecast period, expenditure in other departments will remain broadly flat.

2.2. The OBR has revised its forecast for GDP growth in 2019 upwards from 1.3% to 1.6% due to, in the OBR's own words, the Autumn Budget "giveaway". Forecast growth in 2020 has also risen slightly from 1.3% in the Spring Statement to 1.4%, after which it returns to the levels forecast in March. This rate of growth remains historically low, with most observers before the financial crisis believing the UK economy could sustainably grow by 2.5% per year. There has been comment that this continues to be the result of low productivity growth, however the OBR has lowered its forecast on unemployment in 2019 from 4.5% in the Spring Statement to 3.7%, mainly because of its decision that the level of sustainable unemployment in the economy should be lowered from 4.5% to 4%.

2.3. Average earnings are expected to grow by 2.6% in 2018 as a whole, falling slightly to 2.5% in 2019 and rising to 2.8% in 2020. The forecast fall in 2019 reflects the impact of Government policy in the main, including the Apprentice Levy and continued pension auto-enrolment.

2.4. Having averaged 2.4% in the second quarter of 2018, CPI inflation is forecast to fall to 2.0% and 2.0% respectively in 2019 and 2020, higher than the 1.8% and 1.9% forecast at the Spring Budget. The forecast fall in 2019 is due to the anticipated fading of the effect of higher oil prices and the anticipated result of policy measures.

2.5. All of these forecasts are based on there being a Brexit deal, and "a disorderly [Brexit] could have severe short-term implications for the economy, the exchange rate, asset prices and the public finances"[1]. It is

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[1] OBR, Economic and Fiscal Outlook – October 2018, p7, para 1.12

within this economic context that the initial budget proposals for 2019/20 need to be considered.

2.6. **Autumn Budget 2018**

2.6.1. On the 29th October 2018, the Chancellor delivered his second Autumn Budget.

2.6.2. The key announcements in the 2018 Autumn Budget were:

- A one third cut in business rates for eligible retail businesses with rateable value under £51,000 for the next two years and a continuation of the £1,500 business rates discount for office space occupied by local newspapers in 2019/20. Public lavatories will receive 100% business rates relief. Local authorities will be fully compensated for the loss of business rates income as a result of each of these measures;

- A range of measures to increase housing supply, including abolishing the cap on borrowing through the Housing Revenue Account (HRA) in England, lifting stamp duty for first time buyers of shared ownership properties worth less than £500,000, and increasing the Housing Infrastructure Fund, funded by the National Productivity Investment Fund (NPIF), by £500m to a total £5.5bn, unlocking up to 650,000 new homes. In addition, a simpler system of developer contributions will be introduced and a review into relaxing town planning rules to ease the conversion of under-used retail units will be held;
- £675m Future High Streets Fund will be made available between 2019/20 and 2023/24 to transform and redevelop high streets, including heritage-based regeneration, restoring historic high streets, reinstating shops and bringing buildings back into use;

- An additional £650m in 2019/20, £240m of this as a continuation of 2018/19 funding for adult social care winter pressures and the remaining £410m for adults and children's social care;
- £20m of additional funding will be allocated to support more local authorities to meet their air quality obligations and £10m has been made available between 2019/20 and 2022/23 for local community street trees and urban trees;

- An extra £3.5bn will be allocated to major local routes, which fall under the remit of local councils. Government will also make £150m of the NPIF available to local authorities for small improvement projects such as junctions and roundabouts to support projects across England that ease congestion on local routes;

- The National Living Wage will rise to £8.21 in April 2019, an increase of 4.9%, the rate for 21 to 24 year olds will be £7.70 per hour, 18 to 20 year olds £6.15 per hour, 16 to 17 year olds £4.35 per hour and apprentices £3.90 per hour.

3. **Developing the 2019/20 budget and Medium Term Financial Strategy with the refreshed 2018/19 Best Council Plan.**

3.1. Between the 2010/11 and 2018/19 budgets, the Council's core funding from Government has reduced by around £251m. Additionally the Council has faced significant demand-led cost pressures, especially within Adult Social Care and Children's Services. To date, the Council has responded successfully to the challenge since 2010 through a combination of stimulating good economic growth, creatively managing demand for services, increasing traded and commercial income, growing council tax from new properties and a significant programme of organisational efficiencies, including reducing staffing levels by over 3,200 FTEs.

3.2. Through targeting resources into preventative services the Council has ensured that the implications of demand and demographic pressures that have resulted in significant cost pressures in other local authorities have been contained within Leeds. Specifically within Housing Services Leeds had just 61 households registered in temporary accommodation in 2017/18 and this compares favourably with Birmingham and Manchester who had 15,481 and 3,948 respectively. This is reflected in comparative levels of spend whereby Leeds spent £700k on temporary accommodation in 2017/18 whilst Birmingham and Manchester spent £23m and £21m respectively. Similarly since 2010 the rate per 10,000 of Children Looked After has reduced by 18.3% whilst the national average has increased by 12.7%.

3.3. In February 2018, Council approved the 2018/19 Best Council Plan and the supporting budget. The Best Council Plan is the Council's strategic planning document and sets the context and policy direction against which the budget and Medium Term Financial Strategy are developed. The policy direction is clearly explained in the 2018/19 Best Council Plan: that the Council's 'Best City' and 'Best Council' ambitions remain - articulated around Leeds having a strong economy and being a compassionate city and the Council being an efficient and enterprising organisation – with a focus on reducing poverty and tackling the range of interlinked inequalities that persist across the city**.**

3.4. Inevitably, managing the large reduction in Government funding and increasing cost pressures has meant that the Council has had to make some difficult decisions around the level and quality of services. However, as signposted in the 2018/19 Best Council Plan and 2018/19 budget reports to Council in February 2018, it will become increasingly difficult over the coming years to identify further financial savings without significant changes in what the Council does and how it does it. This will have significant implications for directly provided services and those commissioned by the Local Authority, impacting upon staff, partners and service users. In order to deliver the Council's ambitions of tackling poverty and reducing inequalities, consideration may have to be given to stopping, delivering differently or charging for those services that are no longer affordable and are a lesser priority than others. This will be achieved through a continuing process of policy and service reviews across the Council's functions and ongoing consultation and engagement.

4. Estimating the net revenue budget for 2019/20

4.1. Settlement Funding Assessment – reduction of £15.3m

4.1.1. Settlement Funding Assessment is essentially the aggregate of government grant and business rate baseline funding for a local authority. As part of the 2016/17 financial settlement, Government offered councils a 4-year funding settlement for the period 2016/17 to 2019/20, which Executive Board agreed to accept in September 2016.

4.1.2. 2019/20 represents the final year of this 4-year funding offer, approved by Executive Board in September 2016 and confirmed by DCLG in November 2016. The Council continues to expect to receive the amounts published as part of that offer, barring any exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement.

4.1.3. Table 1 below sets out the Council's Settlement Funding Assessment for 2019/20, which is in line with the multi-year settlement. This represents a reduction of £15.3m compared to 2018/19 which is equivalent to a 7.7% reduction. Nationally, the reduction in SFA between 2018/19 and 2019/20 totals £1.2bn and is a 7.6% decrease.

Table 1 – Settlement Funding Assessment

	2018/19	2019/20	Change	
	£m	£m	£m	%
Revenue Support Grant	0.0	0.0	0.0	0.0
Business Rates Baseline Funding	198.9	183.5	(15.3)	-7.7
Settlement Funding Assessment	**198.9**	**183.5**	**(15.3)**	**-7.7**

4.1.4. The business rates element of the Settlement Funding Assessment is determined by taking the 2018/19 baseline business rates amount and uplifting it by inflation, this has then been adjusted to allow for the assumed move from 100% retention to 75% retention and the associated tariff payment due to Government. The business rates baseline continues to be uplifted by CPI, rather than RPI, for which Local Authorities receive full compensation.

4.1.5. In addition to Formula Grant, there are a number of other funding streams that notionally comprise the settlement funding assessment. These are outlined in Table 2 below and include early intervention, homelessness prevention, lead local flood authorities and learning disability & health reform funding.

Table 2 - Breakdown of the Settlement Funding Assessment

	2018/19 £m	2019/20 £m	Change £m
Formula Grant	154.49	138.60	(15.89)
Council tax freeze grant 2011/12	6.64	6.64	0.00
Council tax freeze grant 2013/14	2.77	2.77	0.00
Early intervention grant	15.03	13.73	(1.30)
Preventing homelessness	0.86	0.86	(0.00)
Lead local flood authority grant	0.24	0.24	0.00
Learning disability & health reform grant	11.26	11.46	0.21
Local welfare provision	2.59	2.59	0.00
Care act funding	4.98	6.62	1.65
Sustainable drainage systems	0.02	0.02	0.00
Carbon monoxide & fire alarm grant	0.00	0.00	0.00
Settlement Funding Assessment	**198.88**	**183.54**	(15.33)

4.2. **Business Rate Retention**

4.2.1. Leeds has the most diverse economy of all the UK's main employment centres and has seen the fastest rate of private sector jobs growth of any UK city in recent years. Yet this apparent growth in the economy has not translated into business rate growth; in fact the income from business rates available to the Council declined from 2014/15 to 2016/17, only returning to 2014/15 levels in 2018/19.

4.2.2. The total projected rateable value of businesses in Leeds is £928.7m which would generate gross business rates income of £456m. Further business rates growth anticipated in 2019/20 increases gross business rates collected to £461m. However, as shown in Table 3, the impact of a range of business rate reliefs (see paragraph 4.3 below) and statutory adjustments reduces this to a net income figure of £371.2m.

4.2.3. Under the projected 75% Business Rates Retention (BRR) scheme, Leeds City Council's share of this income is £274.66 (74%). The Authority then pays a tariff of £73.01m to Government because Leeds is assessed to generate more business rates income than it needs and must also meet its share of the business rates deficit created in 2018/19, a further £1.8m. This leaves net income of £199.86m which contributes to the Council's net revenue budget.

Table 3 – Rateable Value in Leeds and Business Rates Income Generated

	£m
Rateable Value in Leeds projected to 31 December 2018	**928.70**
multiplied by business rates multiplier	0.491
Gross business rates based on projected rateable value	**455.99**
Estimated Growth	5.10
equals gross business rates to be collected in Leeds	**461.10**
less: -	
Uprated Mandatory Reliefs	-67.72
Uprated Discretionary Reliefs	-2.45
Transitional Adjustments (year 3)	5.81
equals net business rates paid by ratepayers	**396.74**
less adjustments for: -	
Bad debts and appeals	-17.24
Cost of collection	-1.23
Projected Enterprise Zone and renewable energy projects yield	-1.28
Transitional Adjustments repaid to Government	-5.81
equals non-domestic rating income in Leeds	**371.17**
Split into shares: -	
Leeds City Council (74%)	**274.66**
West Yorkshire Fire Authority (1%)	*3.71*
Central Government (25%)	*92.79*
less deductions from operation of business rates retention scheme: -	
Leeds City Council's tariff from Local Government Finance Settlement	-73.01
Leeds City Council's share of deficit from 2018-19	-1.80
Leeds City Council 's 2019-20 income from business rates	**199.86**

4.2.4. As shown above, business rates income is shared between local and central government. Under the 75% Business Rates Retention scheme local authorities experiencing business rates growth are able to retain 74% of that growth locally, but also bear 74% of the risk if business rates fall or fail to keep pace with inflation, although a safety-net mechanism is in place to limit losses in year.

4.2.5. In particular, BRR exposes local authorities to risk from reductions in rateable values. The system allows appeals if ratepayers think rateable values have been wrongly assessed or that local circumstances have changed. One major issue is that successful appeals are usually backdated to the start of the relevant valuation list, which means that for every £1 of rateable value lost on the 2010 list growth of £6 would be necessary to fund the cost. At the end of October 2018 there were around 1,700 outstanding appeals against the 2010 ratings list in Leeds.

4.2.6. A new rating list, primarily based on rental values in 2015, was introduced on 1st April 2017. This ratings list should be more accurate than the previous 2010 list which was based on rental values in 2008, just before the 'financial & economic crisis'. Further, appeals submitted against this new list can only be backdated to 1st April 2017. This, together with the impact of the new 'check, challenge, appeal' appeals process also introduced on 1st April 2017, should reduce business rate appeals and volatility going forward. At the end of October 2018, the Council has received 905 checks and challenges against the 2017 ratings list, with 189 of these remaining outstanding. No appeals have been received as yet.

4.2.7. Since 2013/14 the total amount repaid by way of business rate appeals is £141.9m, at a cost to the Council's general fund of £77.9m. The provision for business rate appeals within the collection fund has been reviewed and recalculated to recognise new appeals and the settlement of existing appeals, and the 2019/20 initial budget proposals provide for an additional £1.8m contribution from the general fund to fund this provision.

4.3. Small Business Rates Relief and other mandatory reliefs

4.3.1. From April 2017, Government increased the rateable value threshold for small businesses from £6,000 to £12,000 and the threshold above which businesses pay the higher national business rates multiplier from £18,000 to £51,000. As a result an additional 3,300 small businesses in Leeds now pay no business rates at all and in total almost 12,000, about 40%, of business properties in Leeds will pay no business rates in 2019/20. Whilst Small Business Rates Relief and other threshold changes reduce the business rates income available to Leeds, the Authority recovers 71.1% of this lost income through Government grant and a further proportion through ratepayers who pay rates based on the higher business rates multiplier. The overall proportion any individual authority recovers depends on the mix of large and small businesses in that area.

4.3.2. Unlike Small Business Rates Relief, in 2019/20 Leeds will bear 74% of the cost of other mandatory business rate reliefs such as mandatory charity relief and empty rate relief, but has no control over entitlement and no powers to deal with their use in business rates avoidance. Costs of mandatory reliefs have increased significantly since the introduction of BRR, further reducing Leeds's retained business rates income: in real terms mandatory charity relief alone has increased by almost 30%, from approximately £21.7m in 2012/13 to £28.0m in 2018/19, costing the Council an estimated £6.3m more in lost income under 100% retention in 2018/19.

4.3.3. At the Autumn Budget 2018 the Chancellor announced new business rates reliefs for small retail businesses, particularly focussing on the High Street. Eligible businesses with a rateable value of less than £51,000 are to receive a reduction in their liability for business rates of a third for the next two years, local newspaper offices will continue to receive a £1,500 reduction for a further year and those maintaining public lavatories are to receive 100% relief against any business rates. Local authorities will receive a government grant to compensate them for any resultant loss of income.

4.3.4. At the Spring Budget 2017 the Chancellor announced funding for billing authorities to offer discretionary relief to businesses most impacted by the 2017 Revaluation. Billing authorities were obliged to design their own local discount schemes in order to receive this funding over four years. In June 2017 Executive Board approved the proposed four year scheme in Leeds and in 2019/20 the Council will be able to distribute £0.3m in reliefs to businesses in the city. The full cost to the Council of awarding these reliefs will be met by Government grant.

4.4. Business Rate Retention and the Initial Budget Proposals

4.4.1. In terms of the initial budget proposals, it is estimated that the local share of business rates funding in 2019/20 will be £274.7m, as set out in Table 3 above. As per Table 4 below, the initial budget proposals recognise business rate growth above the baseline of £18.08m, a decrease of £5.48m from the 2018/19 budget. Whilst this is a significant decrease (23.3%), this is due to the assumed move from 100% Business Rates Retention in 2018/19 to 75% Business Rates Retention in 2019/20.

Table 4 – Business Rates, Estimated Growth above the Baseline

	2018/19 £m	**2019/20 £m**	**Change £m**
Business rates local share	359.38	274.66	(84.71)
Less: business rates baseline	335.82	256.58	(79.24)
Growth above baseline	23.56	18.08	(5.48)

4.4.2. The £274.7m local share of business rates funding is then reduced by a £73.0m tariff payment and £1.8m deficit on the collection fund to give the £199.8m estimated business rates funding shown in Table 5 below.

Table 5 – Business Rates Retention 2018/19 & 2019/20

	2018/19 £m	**2019/20 £m**
Business rates baseline (including tariff)	**198.9**	**183.5**
Projected growth above the baseline to March	18.7	14.3
Estimated growth in the year	4.8	3.8
Total estimated growth	**23.6**	**18.1**
Estimated provision for appeals	(13.6)	(1.8)
Additional cost of transitional arrangements and provision for bad debts	0.3	0.1
Estimated year-end Collection Fund deficit (Leeds Share)	**(13.3)**	**(1.8)**
Estimated Business Rates Funding	**209.1**	**199.8**
Increase/(reduction) against the Business Rates baseline	**10.2**	**16.3**
Business Rates Retention - Additional General Fund Income		**6.1**

4.4.3. Comparing the £199.8m of business rates funding against the £183.5m business rates baseline produces a surplus of £16.3m which is a £6.1m net improvement against the budgeted surplus in the 2018/19 financial year.

Contained within this £6.1m net improvement is an £11.5m improvement in the budgeted deficit (£1.8m in 2019/20 and £13.3m in 2018/19), releasing additional funding for frontline services.

4.4.4. The Council, as a member of the Leeds City Region Business Rates Pool, is piloting 100% Business Rates Retention in 2018/19. The Council has submitted a bid on behalf of North and West Yorkshire Authorities to pilot 75% Business Rates Retention in 2019/20 and the initial budget proposals assume that this bid will be successful. Further detail on this application and potential outcomes of piloting 75% Retention are provided in Section 4.5 below.

4.5. Application to Pilot 75% Business Rate Retention

4.5.1. In July 2018, Government invited applications from local authorities to pilot 75% Business Rates Retention in 2019/20. The pilot is intended to help Government and the local government sector to explore options for the design of future increased business rate retention.

4.5.2. These pilot schemes are for one year only and would allow participating authorities to retain 75% of additional growth in business rates above the business rate baseline determined by Government. Government wants to see this additional growth income being used to promote financial stability and sustainability in pooled areas and being invested to encourage further growth.

4.5.3. Following discussion with members of the existing Leeds City Region Business Rates Pool and with North Yorkshire County and Districts, a joint 2019/20 pilot has been submitted. The proposed North and West Yorkshire Business Rates Pool offers the opportunity to test 75% retention in a region made up of both unitary and two tier authorities, a total of 14 organisations. It is hoped that a successful bid will demonstrate to Government that local government can work together to share the risks and rewards of increased Business Rates Retention across such a diverse region.

4.5.4. However, funding for pilot schemes is limited and it is anticipated that not all applications will be successful. Successful applications are expected to be announced alongside the publication of the Provisional Local Government Finance Settlement, expected after the meaningful vote in Parliament in respect of Brexit on December 11th 2018. These initial budget proposals assume that the North and West Yorkshire bid will be successful.

4.5.5. The application itself is not binding. Should the application be successful, any member of the proposed pilot Pool will still be able to withdraw during the statutory 28 day window after Government designates the new pilot Pool, as set out in the Local Government Finance Act. It must be noted however that, should any member withdraw, not only would the pilot Pool be revoked but there would be no opportunity to fall back on existing pooling arrangements.

4.5.6. This report asks Executive Board to agree that, should the application to pilot 75% retention succeed, Leeds should become a member of this new Business Rates Pool and should act as lead authority for it. Notwithstanding this decision, the continuation of the Pool will be dependent upon none of the other member authorities choosing to withdraw within the statutory period after designation. It should be noted that, should the bid not be successful, all members of the existing Leeds City Region Pool have agreed to its continuation in 2019/20. In these circumstances the Leeds City Region Pool would revert to the 50% Business Rates Retention scheme.

4.5.7. The financial benefit to the Council assumed in these budget proposals is estimated to be £7.97m. If the bid to pilot 75% business rate retention is unsuccessful then the Council will revert back to the 50% Retention scheme for the Leeds City Region and this will require the identification of a further £7.97m of savings.

4.6. **Council Tax**

4.6.1. The 2018/19 budget was supported by a 4.99% increase in the level of council tax, 2% of which was attributable to the adult social care precept. Leeds council tax remains the 2nd lowest of the English core cities and mid-point of the West Yorkshire districts, as detailed in Table 6 below.

Table 6 – 2018/19 Council Tax Levels (Figures include Police and Fire Precepts)

Core Cities	**Band D £:p**	**West Yorkshire Districts**	**Band D £:p**
Nottingham	1,961.35	Kirklees	1,691.44
Bristol	1,891.10	Calderdale	1,671.41
Liverpool	1,856.69	**Leeds**	**1,565.56**
Newcastle	1,771.21	Wakefield	1,558.88
Sheffield	1,755.09	Bradford	1,556.98
Manchester	1,566.79		
Leeds	**1,565.56**		
Birmingham	1,502.61		

4.6.2. Government provided funding for the on-going effect of previous council tax freezes up to 2015/16. The council accepted council tax freeze grant for the years 2011/12 to 2013/14. As a result government funding of £9.4m was built into the council's 2015/16 settlement (the grant for freezing council tax in 2012/13 was for one year only).

4.6.3. The 2019/20 initial budget proposals recognise £4.4m of additional income from increases to the Council Tax base (3,161 band D equivalent properties) but also a decrease in the contribution from the collection fund of £1.2m (a budgeted £0.23m collection fund surplus in 2018/19 decreasing to an estimated deficit on the collection fund of £0.96m in 2019/20).

4.6.4. Under section 11B of the Local Government Finance Act 1992, since 1st April 2013 Leeds City Council has charged a 50% council tax premium on empty dwellings that have been unoccupied for more than two years. The Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018, which received Royal Assent on 1st November 2018, permits councils to increase this premium on dwellings unoccupied for more than two years to 100% from 1st April 2019. Additionally the Act provides that from 2020 the maximum premium is 200% in respect of any dwelling where the empty period is at least 5 years and from 2021 300% in respect of any dwelling where the empty period is at least 10 years. A final decision on whether to implement this additional premium for dwellings unoccupied for more than two years will be made by Full Council as part of their decision on the Council Tax base in January 2019. The estimated change in the Council Tax base for these initial budget proposals assumes that this additional premium will be implemented.

4.6.5. In 2018/19 Government increased the limit of council tax increases to up to but not including 3%, above which a Local Authority must seek approval through a local referendum. Whilst the referendum ceiling for 2019/20 has yet to be announced, the Technical Consultation on the 2019/20 Local Government Finance Settlement indicates that the same principle is likely to apply in 2019/20, and as such it is reflected in these initial budget proposals. Subject to this confirmation, it is proposed that core council tax is increased by 2.99%, although a final decision on this matter will be taken by Full Council.

4.6.6. In the 2017/18 Provisional Local Government Finance Settlement, the Secretary of State announced additional flexibility, permitting local authorities to increase council tax by up to an additional 3% each year between 2017/18 and 2019/20 specifically to fund adult social care services, with the maximum total increase in these three years not exceeding 6%. This flexibility recognised demographic changes leading to growing demand for adult social care, and increased pressure on council budgets. The initial budget proposals for 2019/20 include an increase of 1% in this regard, which would take our cumulative increase over the three year period to 6%.

4.6.7. Table 7 below sets out the estimated total council tax income in 2019/20, recognising the estimated increase in the council tax base and the £1.0m estimated deficit on the collection fund together with £3.1m of additional income generated from the Adult Social Care precept and the general increase in the council tax rate. In total the level of Council Tax receivable by the Council in 2019/20 will increase by £15.2m when compared to that receivable in 2018/19.

Table 7 – Estimated Council Tax Income in 2019/20

	2018/19 Baseline £m	2019/20 Forecast £m
Previous year council tax funding	284.7	301.7
Change in tax base - increase / (decrease)	4.0	4.4
Increase in council tax level	8.6	9.0
Adult Social Care precept	5.7	3.1
Council Tax Funding before surplus/(deficit)	**303.0**	**318.2**
Surplus/(Deficit) 2017/18	1.5	
Surplus/(Deficit) 2018/19	0.2	0.2
Surplus/(Deficit) 2019/20		(1.0)
Change in collection fund contribution - increase/(decrease)	**(1.3)**	**(1.2)**
Total - Council Tax Funding	**301.7**	**317.0**
Increase from previous year		**15.2**

4.6.8. The Settlement Funding Assessment includes an element to compensate parish and town councils for losses to their council tax bases arising as a result of local council tax support (LCTS). As this amount is not separately identifiable it is proposed, as in previous years, that LCTS grant should be reduced in line with the assumptions for Leeds's overall reduction in the Settlement Funding Assessment, a reduction of 7.7% for 2019/20 from £70k to £65k.

4.7. Adult Social Care Precept and Grant Income

4.7.1. The initial budget proposals for 2019/20 also reflect additional grant monies made available by Government specifically for adult social care. Together the precept and both the Improved Better Care Fund grant and the "Autumn Budget" grant will be utilised to fund a range of adult social care pressures and priorities.

4.7.2. As discussed above in paragraph 4.6.6, it is proposed that the Leeds element of the council tax is increased by a 1% adult social care precept in 2019/20.

4.7.3. In applying the precept, Government requires Councils to demonstrate that adult social care budgets, (when compared to changes in other non-ring fenced services), are not reduced by a greater proportion than those non-ring fenced services. Based on the format of the return made to Government in 2017, the 2019/20 initial budget proposals for Adults and Health are consistent with this requirement.

4.7.4. The Chancellor of the Exchequer announced in his Autumn budget that an additional £650m would be made available for Adults and Children's Social Care in 2019/20. Of this £240m provides for the continuation of an additional resource to address adult social care winter pressures, a similar sum has been provided in 2018/19, and the amount receivable by Leeds is £3.3m. This additional resource has to be accounted for within the Better Care Fund with spending priorities to be agreed with Health partners.

4.7.5. Offsetting these additional resources is a reduction in both the Spring Budget monies, announced in the March 2017 budget, and the Adult Social Care Support Grant. The 'Spring Budget' monies targeted three areas: sustaining the care market, provision of social care and easing the pressures on local health services**.**

4.7.6. Table 8 below outlines how the additional funding provided by the Better Care Fund, the " Autumn Budget" grant announcement and the proposed adult social care council tax precept all combine to increase the spending power within adult social care.

4.7.7. ***Table 8 Adult Social Care "Spending Power"***

	2018/19 £m	2019/20 £m
Base Budget (restated)	207.5	221.1
Spring Grant 17/18	(14.7)	
Spring Grant 18/19	9.4	(9.4)
Spring Grant 19/20		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)
Autumn Budget 2018 2018/19	3.3	(3.3)
Autumn Budget 2018 2019/20		3.3
ASC Precept	5.7	3.1
	221.1	**227.5**
Movement in Adult Social Care "Spending Power"		**6.4**

4.7.8. Members should note that the increased "spending power" figures reflected in the table above will not necessarily translate into how the Council's Adults and Health managed budget for 2019/20 will look. This is because the grant income and associated expenditure will net each other off in budget terms in each year that the grant is received.

4.8. The Net Revenue Budget 2019/20

4.8.1. After taking into account the anticipated changes to the Settlement Funding Assessment, business rates and council tax, the Council's overall net revenue budget is anticipated to increase by £6.0m or 1.17% from £510.9m to £516.9m, as detailed in Table 9 below and at Appendix 1.

Table 9 – Estimated Net Revenue Budget 2019/20 Compared to the 2018/19 Net Revenue Budget

	2018/19 £m	2019/20 £m	Change £m
Revenue Support Grant	0.0	0.0	0.0
Business Rates Baseline	198.9	183.5	(15.3)
Settlement Funding Assessment	**198.9**	**183.5**	(15.3)
Business Rates Growth	23.6	18.1	(5.5)
Business Rates Deficit	(13.3)	(1.8)	11.5
Council Tax (incl. Adult Social Care Precept)	301.5	318.0	16.4
Council Tax surplus/(deficit)	0.2	(1.0)	(1.2)
Net Revenue Budget	**510.9**	**516.9**	**6.0**

4.8.2. Table 10 below analyses this £6.0m estimated increase in the net revenue budget between the Settlement Funding Assessment and locally determined funding sources.

Table 10 – Increase in the Funding Envelope

Funding Envelope	**2019/20 £m**
Government Funding	
Settlement Funding Assessment	(15.3)
Sub-total Government Funding	**(15.3)**
Locally Determined Funding	
Council Tax (incl tax base growth)	15.2
Business Rates	6.1
Sub-total Locally Determined Funding	**21.3**
Increase/(decrease) in the Net Revenue Budget	**6.0**

5. Initial budget proposals 2019/20

5.1. This section provides an overview of the changes in funding, primarily specific grants (paragraphs 5.3 to 5.4), and cost increases (paragraphs 6.1 to 6.23) which the Council is facing in 2019/20 and concludes with the savings proposals (paragraphs 7.1 to 7.11) to balance the 2019/20 budget to the estimated available resources.

5.2. Table 11 provides a high level of summary of these changes:

Table 11 Summary of Changes in Funding, Cost Increases and Savings Proposals

	£m
Funding	
Additional Net Revenue Charge	(6.0)
Other Non-Collection Fund Business Rates Movements	(1.0)
Increases in Specific Grant	(18.8)
Fall Out of Specific Grant	13.9
Contribution to/from General Reserve	(4.0)
Contribution to/from Earmarked Reserves	(3.4)
	(19.3)
Pressures	
Pressures - Pay Inflation	11.9
Pressures - General Inflation	16.8
Pressures - Other	15.0
	43.7
Funding and Cost Pressures	**24.4**
Solutions	**£m**
Efficiencies	(16.0)
Changes to services	(0.1)
Income - fees & charges	(2.4)
Income - traded services, partner & other income	(3.5)
Other Income including Capital Receipts Flexibilities	(1.9)
Use of Section 106 balances	(0.5)
	(24.4)

5.3. **Decreases/(Increases) in Funding**

5.3.1. Changes in both the Settlement Funding Assessment (SFA) of £15.3m and local funding (£21.3m), a net increase of £6.0m, are detailed in sections 4.1.3, 4.4.2 and 4.6.7 respectively.

5.3.2. **Specific Grant Funding Changes- Adults and Health (£6.6m).** The 2015 Spending Review made available additional social care funds for local government for the period 2017 to 2020 to be included in an improved Better Care Fund. The forthcoming financial year, 2019/20, represents the final year for the receipt of this money, with Leeds receiving £10.1m. In February 2017 the Government announced a total of £2.021bn as supplementary funding to the improved Better Care Fund (Spring Budget money) which is required to be spent on social care. Of the £329m to be distributed in 2019/20 Leeds will receive £4.7m and this represents the final year of the additional funding announced.

5.3.3. The one off Adult Social Care Support Grant of £2.1m, partly funded by changes in New Homes Bonus, and the 2018/19 Spring Budget Grant money of £9.4m will fall out of the base budget in 2019/20.

5.3.4. On 2nd October 2018 the Secretary of State for Health and Social Care announced £240m of additional funding for councils to spend on adult social care services to help councils alleviate winter pressures on the NHS in 2018/19. The amount allocated to Leeds is £3.3m. Subsequently, as referenced in paragraph 4.7.4, as part of the Chancellor's Autumn Budget a further allocation of £240m was announced for 2019/20 to enable councils to plan the winter funding over this two year period. This latter allocation, of which the Leeds share will again amount to £3.3m, is required to be pooled into the Better Care Fund and reported on through the BCF. The Adult Social Care financial projections in 2018/19 already reflect a significant increase in the provision of and expenditure on Home Care services, over and above those planned in the Original Budget for 2018/19, reflecting the local focus on the 'Home First' policy in relation to transfer of care from hospital, and the Initial Budget Proposals for 2019/20 include provision for this trend in increased Home Care to continue. In addition to this, additional spending plans are being finalised in 2018/19 for Adult Social Care Services to support the NHS this winter, including extra measures to support people in their own homes and avoid admissions to hospital. These plans are in the process of being finalised with our NHS partners, including the Acute Trust, in accordance with the grant determination requirements. As some provision had already been made within the overall projections of Adult Social Care Expenditure in 2018/19 for additional home care expenditure, this additional funding is likely to enable slippage in the budget to be carried forward into 2019/20, which will enable not only the additional Home Care requirements to be met in 2019/20, but also for the additional spending plans, currently being finalised, to be maintained for winter 2019/20, in accordance with the Government's requirements.

5.3.5. In the 2015 spending review the Government indicated its intention to make savings on local authority public health spending and a further £1.2m reduction in the **Public Health Grant** has been included in these initial budget proposals for 2019/20.

5.3.6. **Specific Grant Funding Changes – Children and Families Directorate (£1.7m).** The residual sum of the Partners in Practice grant will cease in 2019/20. This resource had been used to both trial new approaches to working with children and families and investing in and reforming preventative services in order to manage demand. The initial budget proposals provide for funding of £3.1m to enable these important services to continue. In addition the School Improvement Monitoring and Brokerage Grant (£0.4m) is expected to cease after August 2019 and DfE SEN funding of £0.5m is also expected to fall out next year. The Chancellor's Autumn Budget in October 2018 announced £410m nationally which could be used for supporting either adult or children's social care (or both), as referenced in paragraph 4.7.4. These initial budget proposals assume that Leeds's share of this £410m, £5.6m, is used to support Children's Services.

5.3.7. **Specific Grant Funding Changes – Communities and Environment £0.1m.** The Housing Benefits and Local Council Tax Support administration grants are expected to reduce by £0.4m reflecting the continuing reductions in the national quantum of funding allocated to local authorities. This reduction is 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. 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.

5.3.8. **Specific Grant Funding Changes – Flexible Homelessness Support Grant £0.7m.** The Government have announced that the level of Flexible Homelessness Support 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 the level of allocation is based on homelessness prevention outcomes.

5.3.9. **Specific Grant Funding Changes – New Homes Bonus.** Government introduced the New Homes Bonus in 2011 to encourage housing growth: initially councils received grant for six years for each net additional property added to the tax base each year. This grant is funded by top slicing Revenue Support Grant. In 2016/17 Government made some changes, including gradually reducing the number of years 'legacy payments' are receivable from six to four years and imposing a 0.4% growth baseline on new allocations before any Bonus is paid. The £1.4m budget pressure in 2019/20 reflects the impact of these changes, particularly as payments relating to all of the last four years are now subject to this growth baseline. The budget in 2019/20 in respect of NHB reduces to £9.8m, based on a 0.4% growth baseline. However, Government stated in a recent consultation that this growth baseline may be increased further in the 2019/20 Local Government Finance Settlement: every 0.1% increase would reduce Leeds's allocation of funds by approximately £0.5m. The Government has also indicated that NHB may be more fundamentally reformed beyond 2019/20.

5.3.10. **Other Non-Collection Fund Business Rates Movements -** Section 31 grants are allocated to local authorities to compensate them for changes made by Government to the business rates system. An authority's allocation depends on the level of business rates yield in that authority's area, the extent to which it awards certain reliefs and its share of any losses resulting from these. These initial budget proposals assume that the bid to pilot 75% retention will be successful, and will result in a reduction in business rates income as Leeds moves from 100% Retention in 2018/19 to 75% Retention in 2019/20. Consequently section 31 grant compensation is estimated to reduce by £4.6m in 2019/20. The historic capping of business rates multipliers will continue to be compensated, although this will reduce because of lower retention, and Government will continue to compensate authorities for capping the multiplier at CPI in 2019/20 instead of RPI. The net result is that compensation for under-indexing the multiplier is estimated to increase by £0.4m in 2019/20. In November 2018 the Government informed local authorities that they had been undercompensated for changes to multiplier thresholds in 2017/18 and would receive further funding. The estimated impact of this in 2019/20 is an additional £0.5m.

5.3.11. In addition to these movements in section 31 grant, there are two further impacts of a successful bid to pilot 75% retention. Firstly Leeds will be required to contribute £1.6m to the levy/safety net mechanism within the new North and West Yorkshire Pool. Secondly the Authority will make payments to and receive payments from the new Pool, a net gain of £6.3m to Leeds.

5.4. **Contributions from Reserves** – the increase of £7.4m in the use of reserves to support the base budget reflects the application of £3m and £2m from the Council's General Reserve and ELI Reserve respectively. It is also proposed that £1.0m is used from Adult Social Care earmarked reserves to support specific costs associated with Post 16 provision. In addition, the budget submission reflects the deletion of the budgeted contributions of £1.0m and £0.75m respectively to the General and Invest to Save Reserves. The budgeted contribution of £0.4m from the Wellbeing Reserve ceases in 2019/20.

6. Projected Cost Increases

6.1. Table 12 below summarises the projected cost increases in the 2019/20 initial budget proposals.

6.2. ***Table 12 Cost Increases***

	£m
Pay - Leeds City Council	12.0
Pay costs - commissioned services	7.1
Employer's LGPS contribution	0.9
Fall-out of capitalised pension costs	(1.1)
Inflation: General	6.8
Inflation: Electricity and Gas Tariffs	2.9
Demand and demography - Adult Social Care	1.9
Demand and demography - Children Looked After	1.5
Demand and demography - Other	0.4
Transforming Care Programme	2.0
Income pressures (including academisation)	1.6
Leeds 2023	1.5
Migration to Microsoft Cloud	0.8
Housing Benefit Overpayment income	0.4
West Yorkshire Regional Adoption	0.4
Managed Approach	0.2
Hostile Vehicle Mitigation Scheme	0.1
Other Pressures	2.0
Debt - external interest / Minimum Revenue Provision	2.2
Cost Increases	**43.7**

6.3. **Inflation -** the initial budget proposals include allowance for £28.7m of net inflation in 2019/20. This includes provision of £12m for a 2% pay award and for the costs of the Council's minimum pay rate (see paragraph 6.5 below). The initial budget proposals allow for inflation where there is a contractual commitment, but anticipate that the majority of other spending budgets are cash-limited. Specific energy increases for gas and electricity have been incorporated into these initial budget proposals and this additional provision is consistent with projected price increases for both metered and unmetered usage. An anticipated 3% general rise in fees and charges has also been built into the budget proposals where they can be borne by the market, although there are instances where individual fees and charges will increase more than this.

6.4. **Local government pensions** - the most recent actuarial valuation took place in December 2016 and, in line with the agreed phased increase, the employer's contribution will rise from the 15.9% contribution in 2018/19 to 16.2% in 2019/20. This increase creates a pressure of £0.9m which has been incorporated into these initial budget proposals for 2019/20.

6.5. **Leeds City Council minimum pay rate**– at its September 2015 meeting Executive Board agreed that the Council would move towards becoming a Real Living Wage employer. In November 2015 the Living Wage Foundation announced a living wage of £8.25 per hour (outside London) and this was implemented by the Council in January 2017. The initial budget submission provides for further increases in the Leeds City Council minimum wage, which will now rise to £9.18 per hour for employees which is 18p above the Real Living wage rate of £9 per hour. Apprentices and new starters on the A1 spinal point will paid £9 per hour for the first year only.

6.6. **National Living Wage for commissioned services and the Ethical Care Charter -** in respect of services commissioned from external providers by both Adults and Health and Children and Families directorates, provision of £7.1m has been included and this is consistent with the national minimum wage assumptions for 2019/20. Elements of the Ethical Care Charter, particularly in respect of better terms and conditions including improved rates of pay for care staff, have already been implemented. These initial budget proposals for 2019/20 will permit further developments in this area.

6.7. The increased costs associated both with paying our staff the Real Living Wage and ensuring that the services we commission pay their staff the national minimum wage have been resourced by the Council without the receipt of any additional funding from the Government.

6.8. The fall out of capitalised pension costs associated with staff who have left the Council under the Early Leaver's Initiative (ELI) will save an estimated £1.1m.

6.9. The initial budget proposals recognise the increasing **demography** and consequential **demand pressures** for services in Adults and Health and Children and Families. 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 (2.9%, 3.6% and 2.6% respectively) resulting in additional costs for domiciliary care and placements. In addition, the Strategy reflects demographic growth for working age adults. In particular 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 in this area of service 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. A sum of £1.9m has been built in to deal with this demand and demographic growth.

6.10. Children and Families directorate continues to face **demographic and demand pressures** reflecting relatively 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. The initial budgets proposals provide £1.5m for the projected growth in the 0-19 population to increase the Children Looked After budget (£1.2m) and the transport budget (£0.3m).

6.11. Based on assumed housing growth, provision of £0.4m has been made for an additional refuse collection round and the increased disposal costs of waste to the RERF.

6.12. **Transforming Care** is a national NHS England programme designed to place people with learning difficulties and autism, currently based in a hospital setting, into the community with the right support and close to home. The net impact of this programme is anticipated to be £2m in 2019/20.

6.13. The Initial Budget Proposals include £1.6m for a number of income variations. Specifically £0.8m provides for a reduction in the level of income receivable as a result of schools no longer buying in services at the level or of the type previously received and increasingly more of them buying back a pay as you go service. Whilst costs have reduced in the provision of these services there is still a need to provide statutory functions to protect the interests of the Council and its employees. Similarly a £0.1m reduction in income for the schools catering function reflects a reduction in activity levels. Other income variations include a reduction of £0.4m in partnership income within Children and Families which is receivable from other local authorities. Court fee income is projected to fall by £0.2m as a result of fewer prosecutions for non-payment of Council tax whilst income within DIS will reduce by £0.2m largely as result of reduced external income.

6.14. A report received at Executive Board in June 2018 set out the 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 decision of Executive Board an additional £1.5m is provided for Leeds 2023.

6.15. The Microsoft Enterprise Agreement is renewed every 3 years. It was last signed in September 2016 and this fixed all Microsoft product license prices for 3 years – over this period Microsoft have been applying annual price increases ranging from 15% to 22% to their license price list which Leeds has been exempt from, however these price increases all impact on the 2019/20 budget as Leeds will have to renegotiate renewal pricing effective from September 2019. Microsoft are encouraging organisations to move to cloud based services and this is reflected in the price model as they increase the cost of on premise services. In addition, LCC took a payment holiday on M/S Office which removed the costs of Office product software maintenance. Whilst this has delivered revenue savings in excess of £1m, the next renewal will require LCC to upgrade Office software versions thus re-introducing this cost into the revenue base. Cloud based services are on a subscription (pay as you go service) and Leeds will be looking to transfer services to the cloud (Microsoft Azure & Office 365) commencing in 2019/20. One of the first items that will be moved to the cloud is Microsoft Exchange Online (email) and it is intended that this will be transitioned during 2019/20 – moving this service to the cloud will prevent the requirement for significant further capital investment before the move to Office 365 in 2021/22. A staged approach will be taken in moving services in an attempt to minimise the impact on the revenue budget but due to compliance issues there is an immediate requirement to move Exchange. The Initial Budget Proposals include £0.8m to meet this cost pressure in 2019/20.

6.16. In recent years there has been a decline in the average value of Housing Benefit overpayments which the Council can recover and this is expected to be further impacted upon by the introduction of Universal Credit which is now live in Leeds. The net impact on the 2019/20 budget is estimated to be £0.4m.

6.17. One Adoption West Yorkshire was formed in response to the DfE's White Paper "Regionalising Adoption." As a result of fee increases for inter-agency placement rates Leeds City Council's contribution is required to increase by an additional £0.4m.

6.18. An additional £0.2m is required for the managed approach area in Holbeck. These additional resources will fund both additional resources from West Yorkshire Police and additional street cleansing.

6.19. An additional £0.1m is required for the new city centre Hostile Vehicle Mitigation Scheme which requires additional staffing resources to ensure that the CCTV will be manned for access 24 hours a day.

6.20. Debt – The Council forecasts an additional cost of £2.2m to fund the existing and new borrowing requirements of the capital programme. The additional costs reflects the full year effects of the 2018/19 capital programme, new 2019/20 capital programme borrowing requirement, increased forecast interest rate assumptions and a provision to secure fixed rate long term borrowing. The Council will continue to challenge scheme proposals to ensure that they are robust and deliver the Council's priorities. It will also continue to monitor the markets to ensure that the exposure to interest rate risk is managed.

6.21. Clean Air Zone (CAZ) – The Council are under instruction from Government to formulate a plan to achieve compliance with air quality standards within the shortest possible timescales. Following a public consultation process, proposals for implementing a charging CAZ were approved at the Council's Executive Board in October 2018. The commencement date of the CAZ go-live is the 6th January 2020. From this date the Council will be able to introduce a charge for any buses, coaches, HGVs and taxi and private hire vehicles that operate within the CAZ boundary and which do not meet pre-determined emission standards. Any year-end surplus (or deficit) which arises as a result of the CAZ will be transferred to an earmarked reserve. Balances held in this reserve are to be used to improve air quality and support the delivery and ambitions of the zone. As such there is not expected to be any impact on the 2019/20 budget.

6.22. The draft 2019/20 budget for the West Yorkshire Combined Authority (WYCA) assumes no increase in the levy when compared to 2018/19. In respect of the West Yorkshire Joint Services Committee (WYJSC) the contribution from Leeds will be consistent with contribution in 2018/19. The final determination as to how much Leeds will contribute to both WYCA and the WYJSC is subject to a separate approval process.

6.23. **Other Pressures -** other budget pressures of £2.0m have been identified for 2019/20. These pressures include:

- Additional provision for property maintenance costs in Corporate Property Management £0.2m;
- Increased security costs of £0.1m at Community hubs across the city;
- An additional £0.3m for the West Indian Carnival ensure that there is an appropriate level of budget provision for this event and that project support and event management is strengthened;
- Service charges and insurance costs for Merrion House requires an additional £0.2m;
- Establishment of a team (£0.1m) to monitor compliance with the requirement for providers commissioned by Adult Social Care to pay their staff a wage that is consistent with either the Real Living Wage or the elements of the Ethical Care Charter that have been implemented.
- The continuation of level 2 and level 3 immigration advice for more complex cases requires a contribution of £0.1m;
- Other pressures of £1.1m: £0.4m in Children & Families directorate, £0.1m in Communities & Environment, £0.4m in Resources & Housing directorate and £0.2m in Strategic & Central Accounts.

7. The Budget Gap – Savings Options - £24.4m

7.1. After taking into account the impact of the anticipated changes in funding of £19.3m and cost pressures of £43.7m outlined above, it is forecast that the council will need to generate savings, efficiencies and additional income to the order of £24.4m in 2019/20 to balance to the anticipated level of resources available.

7.2. Table 13 below summarises the proposed savings to balance the 2019/20 budget with additional detail in the sections below and in Appendix 2.

7.3. *Table 13 Proposals to Balance*

Solutions	**£m**
Efficiencies	(16.0)
Changes to services	(0.1)
Income - fees & charges	(2.4)
Income - traded services, partner & other income	(3.5)
Other Income including Capital Receipts Flexibilities	(1.9)
Use of Section 106 balances	(0.5)
	(24.4)

7.4. Recognising the financial challenge detailed in the Medium Term Financial Strategy 2019/20 – 2021/22 received at Executive Board in July 2018, and in order to protect front line services as far as possible, especially those that provide support to the most vulnerable, the Council has embarked upon a number of cross cutting budget workstreams that will contribute towards bridging the estimated budget gaps. With regard to 2019/20, savings of £3.2m will be realised, largely through both the application of benchmarking to inform where cost efficiencies/additional income can be realised in Adults and Health and efficiencies realised through the digitalisation of processes across a number of different services. These budget workstream savings are included within Table 13 above.

7.5. **Efficiencies – savings of £16.0m**

7.5.1. In terms of efficiencies, the Council has taken quite a distinctive approach. The focus has been on efficiencies realised through stimulating good economic growth and creatively managing demand for services. This ‘whole city’ approach drives ambitious plans despite austerity. It is born from our vision for Leeds to be the best city in the UK: one that is compassionate with a strong economy that can tackle poverty and reduce inequalities. This approach, coupled with a significant programme of more traditional efficiencies, has enabled the Council to make the level of savings required since 2010 whilst simultaneously creating the conditions for a thriving and sustainable city where people’s lives are better.

7.5.2. Efficiency of the Council’s own operations remains important and we have reduced budgets in all areas of the Council and will continue to do so, whilst protecting frontline services and those for the most vulnerable. At the centre of this work is a ‘whole organisation’ cultural change programme coupled with modernisation of the work environment creating the necessary conditions for fundamental organisational change and efficiency improvements.

7.5.3. Appendix 2 provides the detail of a range of proposed efficiency savings across all directorates which total some £16.0m in 2019/20. These savings are across a number of initiatives around:

- Organisational design;
- Continuing demand management through investment in prevention and early intervention, particularly in Adult Social Care and Children’s Services;
- Savings across the range of support service functions;
- Ongoing recruitment and retention management;
- Closer working between services and across Directorates;
- Realising savings by cash-limiting and reducing non-essential budgets;
- Ongoing procurement and purchasing savings.

7.6. **Changes to Services – savings of £0.1m**

7.6.1. Appendix 2 sets out the detail of these service change proposals, which together target savings of £0.1m by March 2020.

7.7. **Fees & Charges – additional income of £2.4m**

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

7.7.2. The initial budget proposals continue to reflect these principles and assume a general increase in fees and charges of 3%, and Appendix 2 sets out detailed proposals around a number of fees, charges and subsidised services. Contained within these increases in charges is an inflationary uplift within bereavement services to cover an increase in costs associated with providing the service. If approved, in totality these proposed increases will generate an additional net £2.4m of income in 2019/20.

7.8. **Traded Services, partner income & other income – additional income of £3.5m**

7.8.1. Appendix 2 provides details across directorates of a number of proposals that together would generate additional net income of £3.5m.

7.9. **Other Income – £1.4m**

7.9.1. It is proposed to capitalise a further £1m of revenue expenditure that should more appropriately be charged to the Capital Programme. In addition the City Development Directorate have reviewed the level of resources that support their capital programmes and the £0.4m increase in charges from the revenue budget now more accurately reflects the costs associated with supporting these programmes.

7.10. **Flexible use of Capital Receipts - £0.5m**

7.10.1. In March 2016 the Secretary of State for Communities and Local Government issued guidance which allowed Local Authorities to use capital receipts to support the delivery of more efficient and sustainable services, by extending the use of capital receipts to finance costs of efficiency initiatives that deliver significant savings. This guidance requires the Council to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy. The Strategy, received at Council on February 22nd 2017, agreed the use of capital receipts to fund the severance/redundancy costs associated with the transformation of the council implemented through the policy and service programme and with members of staff seeking to exit the Authority through the Early Leaver's Initiative. These initial budget proposals assume that capital receipts are set aside to resource similar transformational expenditure in 2019/20.

7.10.2. In addition it is proposed to extend the use of capital receipts flexibilities through funding £0.5m of activities that are driving a digital approach to the delivery of more efficient public services. In accordance with the statutory guidance on the flexible use of capital receipts, full details of this expenditure will be incorporated into the 2019/20 Revenue Budget report which is to be received at Executive Board and subsequently Full Council in February 2019.

7.10.3. Using capital receipts in the manner described above will increase the estimated budget gap for 2020/21, since the pressure identified in the Medium Term Financial Strategy received at July’s Executive Board assumed the full use of capital receipts to contribute towards offsetting the pressure associated with the required increase in the Council’s Minimum Revenue Provision (MRP).

7.11. **Use of Section 106 balances**

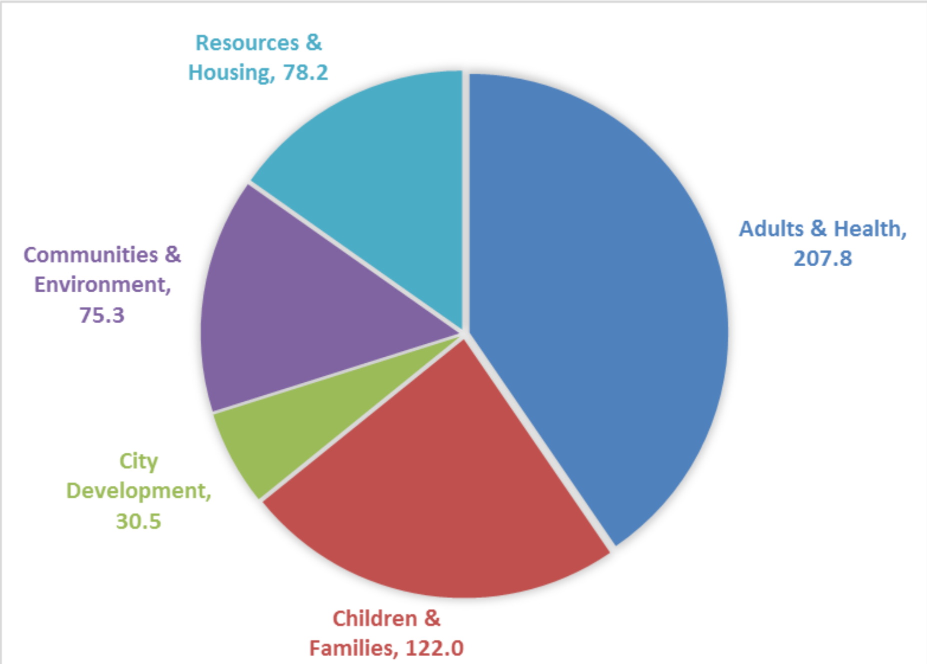
7.11.1. Planning obligations, also known as Section 106 agreements (based on that section of the 1990 Town & Country Planning Act) are private agreements made between local authorities and developers and can be attached to a planning permission. Through this mechanism contributions can be sought for the costs associated with providing community and social infrastructure the need for which has arisen as a consequence of a new development taking place.

7.11.2. At 31st March 2017 the Council had £32.1m of Section 106 earmarked reserves on its balance sheet. Subject to satisfying any legal requirements contained in the Section 106 agreement, e.g. clawback, it is proposed that a further £0.5m of these balances held are used to support the 2019/20 revenue budget. If the balances are used in this way it needs to be recognised that this creates an obligation in future years, as the Council will be required to identify the resources to meet expenditure commitments that would previously have been funded through Section 106 balances.

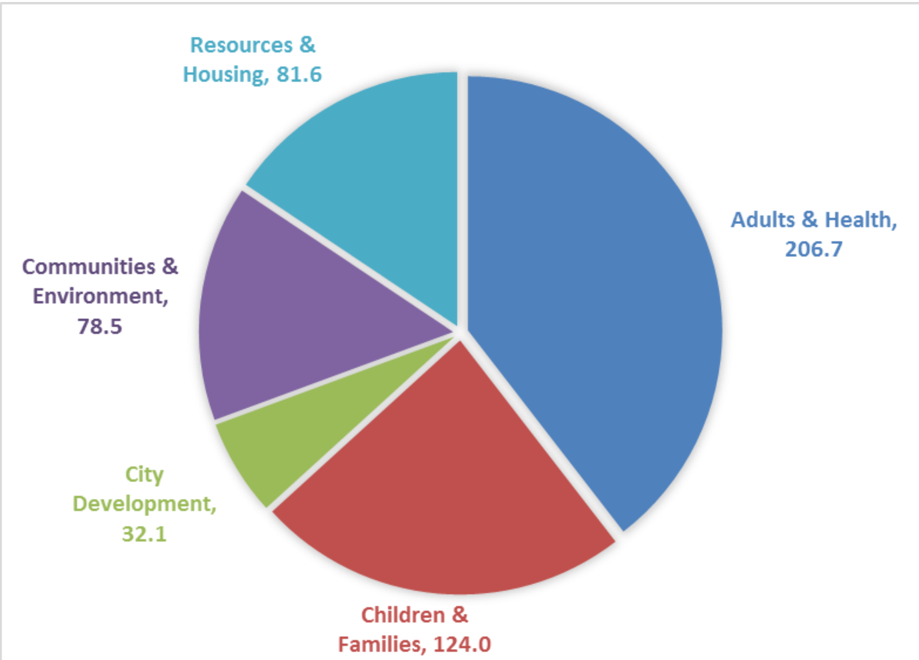
7.12. **Summary Budget By Directorate**

7.12.1. The pie charts below show the share of the council’s net managed expenditure between directorates for 2018/19 and the proposed allocations for 2019/20 based on these initial budget proposals.

7.12.2. **Net Managed Expenditure 18/19 OE £m (restated)**



7.12.3. **Net Managed Expenditure 19/20 OE £m (Proposed)**



7.12.4. It should be noted that these resource allocations may be subject to amendment as we move through the budget setting process. Net managed expenditure represents the budgets under the control of individual directorates and excludes items such as capital charges, pensions adjustments and allocation of support costs in directorate budgets.

7.12.5. The initial budget proposals would mean that whilst the Council's spend on Children and Families and Adult Social Care will decrease slightly from 64.2% of service budgets in 2018/19 to 63.2% in 2019/20, the spending power within Adult Social Care will increase as a result of targeted Government funding. The size of this overall share of the Council's resources continues to reflect the Council's priorities around supporting the most vulnerable across the city and therefore to prioritise spending in these areas.

8. Impact of proposals on employees

8.1. The Council has operated a voluntary retirement and severance scheme since 2010/11 which has already contributed significantly to the reduction in the workforce of around 3,200 ftes to March 2018.

8.2. The Council re-issued a S188 notice on the 3rd August 2017 which indicated, based on the estimated budget gaps identified in the Medium Term Financial Strategy, that an estimated reduction of a further 415 FTEs would be required by 2020.

8.3. The initial budget proposals outlined in this report provide for an estimated net reduction of circa 74 full time equivalents by 31st March 2020. Again, in the context of these staffing reductions required in 2019/20 and further reductions that will required to meet the estimated budget gap of £83m for 2020/21 and 2021/22 as detailed in the Medium Term Financial Strategy received at Executive Board in July 2018, it is the Council's intention to issue an updated S188 notice on 19th December 2018.

8.4. The Council remains committed to doing everything it can to try to avoid compulsory redundancies through natural turnover, continuing the voluntary early leaver scheme, staff flexibility, reviewing and reducing both agency and overtime spend and continuing the positive consultation and joint working with the trade unions.

9. General Reserve

9.1. 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 a 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 to ensure that it is monitored and maintained.

9.2. The purposes of the general reserve policy are to help longer-term financial stability and identify any future events or developments which may cause financial difficulty by allowing time to mitigate these.

9.3. 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.

9.4. The initial budget proposals for 2019/20 assume a contribution of £3m from the general reserve and the level of general reserves at 31st March 2020, as set out in Table 14 below, is projected to be £23.7m. Due to the incidence of the receipt of the final payment of the Partners in Practice grant, which has been delayed until 2019/20 at the DfE’s request, Executive Board in October 2018 agreed the release of £1.7m from the general reserve to support the revenue budget. Table 14 below reflects the release of this amount in 2018/19 with the subsequent re-imbursement in 2019/20.

Table 14 - General Reserve

General Reserve	**2018/19** **£m**	**2019/20** **£m**
Brought Forward 1st April	25.7	25.0
Change in Incidence of Receipt of Innovation Grant	(1.7)	1.7
Budgeted Contribution/(Use) in-year	1.0	(3.0)
Carried Forward 31st March	**25.0**	**23.7**

9.5. 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 other local authorities of a similar size. KPMG’s Annual Audit letter for 2017/18 concluded that the “Authority had adequate arrangements in place regarding the management of its financial risks and potential impact on resource deployment.”

9.6. 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.

10. **Schools Budget**

10.1. The Dedicated Schools Grant (DSG) for 2019/20 is funded in four separate blocks for early years, high needs, schools and central schools services.

10.2. A new National Funding Formula (NFF) was implemented from April 2018 for high needs, schools and central schools services. The schools formula was initially a “soft” formula to allow local authorities some limited flexibility in 2018/19 and 2019/20 and it has now been confirmed that local authorities will continue to set local formulae for schools until at least 2020/21.

10.3. The early years block will fund 15 hours per week of free early education for 3 and 4 year olds and the early education of eligible vulnerable 2 year olds. From September 2017, there is an additional 15 hours per week provision for working families of 3 and 4 year old children. The per pupil units of funding will be confirmed later in 2018/19 and the grant received will continue to be based on participation. The actual grant received during 2019/20 depends on pupil numbers in the 2019 and 2020 January censuses. The early year’s pupil premium is now included in this calculation and is payable to providers for eligible 3 and 4 year olds. The hourly rates for 2019/20 have not yet been confirmed though it is assumed that they will remain the same. The grant value shown below is based on the projected pupil numbers in January 2019.

10.4. The high needs block will support places and top-up funding in special schools, resourced provision in mainstream schools and alternative provision; top-up funding for early years, primary, secondary, post-16 and out of authority provision; central SEN support and hospital & home education. A draft allocation under the NFF calculation has been published, though the final allocation will not be issued until December 2018. The value in the table below is before any deductions are made by the Education and Skills Funding agency (ESFA) in respect of funding for academies, free schools and post 16 places. The high needs block is facing a number of financial pressures and although Leeds is a net gainer under the national funding formula the full benefit of the increase in funding will not be felt for a number of years as there is an annual cap on gains within the national funding formula. Children and Families directorate led a review during 2017 of the high needs block which has included consultation with partners on options to bring spend back in line with the available funding. A range of savings proposals were agreed and implemented along with a transfer of funding from other blocks.

10.5. The schools block funds the delegated budgets of primary and secondary schools for pupils in reception to year 11. The grant for 2019/20 will be based on pupil numbers (including those in academies and free schools) as at October 2018. The pupil numbers from this census are not yet available, but it is expected that there will be an increase. Schools have been consulted on options for the local formula in 2019/20. The results of the consultation have been presented to Schools Forum to enable further discussion with a final decision being made by the Director of Children and Families in early 2019. At the Schools Forum meeting in November, it was also agreed to transfer £2.5m from the Schools Block to the High Needs Block and to contribute funding of £200k towards severance costs.

10.6. As part of the NFF, the central school services block (CSSB) was created from the DSG funding that is held centrally by the local authority for central services. This includes the funding which was previously delivered through the retained duties element of the ESG along with ongoing responsibilities and historic commitments. A draft allocation under the NFF calculation has been published, though the final allocation will not be issued until December 2018. It is anticipated that there will be funding available of up to £800k to transfer to the High Needs Block and a final decision on the amount to transfer will be made by the Director of Children and Families in early 2019.

10.7. Funding for post-16 provision is allocated by the ESFA. From the start of the 2019/20 academic year, funding for high need post-16 pupils will no longer be part of this grant and is now included in the DSG High Needs Block totals. Funding for 2019/20 will be based on 2018/19 lagged student numbers.

10.8. Pupil Premium grant is paid to schools and academies based on the number of eligible Reception to year 11 pupils on the schools roll in January each year. The rates for 2019/20 are expected to remain at: primary £1,320, secondary £935, for each pupil registered as eligible for free school meals (FSM) at any point in the last 6 years and £300 for children of service families. The pupil premium plus rate for children looked after and children who have ceased to be looked after by a local authority because of adoption, a special guardianship order, a child arrangements order or a residence order is also expected to remain the same at £2,300.

10.9. The Primary PE grant will be paid in the 2018/19 academic year to all primary schools at a rate of £16,000 plus £10 per pupil.

10.10. For the Year 7 catch up grant in 2018/19, funding is allocated to schools on the basis that they receive the same overall amount of year 7 catch-up premium funding received in 2017/18. It will be adjusted to reflect the percentage change in the size of their year 7 cohort, based on the October 2018 census. It is assumed that 2019/20 will be on the same basis and so dependent on the October 2019 census information.

10.11. A grant for the universal provision of free school meals for all pupils in reception, year 1 and year 2 was introduced in September 2014. Funding for the 2018/19 academic year is based on a rate of £2.30 per meal taken by eligible pupils, giving an annual value of £437. Data from the October and January censuses will be used to calculate the allocations for the academic year.

10.12. A further grant has been announced in relation to additional teacher's pay costs from 1st September 2018. The values below are a part year impact on

2018/19 and the estimated full year grant in 2019/20.

10.13. **Schools funding summary**

All the grant values are before ESFA deductions (e.g. for payments to academies) for 2018/19 (latest estimate) and 2019/20 estimates are shown in table 15 below. The amounts for 2019/20 are subject to final confirmation in December 2018 and will be based on pupil numbers as at October 2018.

Table 15 – The Estimated Schools Budget

	2018/19 Current £m	2019/20 Estimate £m	Change £m
DSG - Schools Block	498.97	507.10	8.13
DSG - Central Schools Services Block	5.17	5.25	0.08
DSG - High Needs Block	66.97	69.83	2.86
DSG - Early Years Block	57.15	59.07	1.92
ESFA Post 16 Funding	29.63	27.35	-2.28
Pupil Premium Grant	42.89	42.89	0.00
PE & Sports Grant	4.14	4.06	-0.08
Year 7 Catch-up Grant	0.91	0.91	0.00
Universal Infant Free School Meals Grant	10.01	9.97	-0.04
Teachers Pay Grant	2.69	4.61	1.92
	718.53	731.04	12.51

11. Housing Revenue Account

11.1. 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. The key movements in 2019/20 are detailed in Table 16 below.

11.2. 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. This reduction was implemented by the Council in 2016/17 with a subsequent loss of £2.1m in rental income in that year. Reducing rents by a further 1% in each of the three years from 2017/18 to 2019/20 equates to an additional estimated loss of £18.5m in rental income over this period.

11.3. When compared to the level of resources assumed in the financial plan (and assuming that from 2020/21 rent increases will revert back to the previous policy of CPI+1%) this equates to a loss of £283m of rental income over the 10 year period (2016/17 to 2024/25). The Government has confirmed a return to allowing up to a CPI+1% rent increase for five years beyond 2021/22.

11.4. 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 (2.4% as at September 2018) +1% is therefore proposed. This overall 3.4% rise equates to approximately £0.4m in additional rental income.

11.5. It is proposed to increase garage rental rates by RPI (3.3%).

11.6. 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 (RTB) legislation continues to sustain an increase in the number of sales with a subsequent reduction in the amount of rent receivable. Based on latest sales, a further 530 sales are forecast in 2019/20. Collectively the impact of these RTB sales and the 1% reduction in social housing rents will cost the HRA around £3m in lost income in 2019/20.

11.7. Tenants in multi storey flats (MSFs) and in low/medium rise flats receive additional services such as cleaning of communal areas, staircase lighting and lifts and only pay a partial contribution towards the cost of these services, meaning other tenants are in effect subsidising the additional services received. It is proposed to increase these charges by £0.75 per week on multi storey flats with an inflationary increase of RPI (3.3%) on low/medium rise flats. In 2019/20 this would generate an additional £341k compared to 2018/19.

11.8. Currently tenants in sheltered accommodation receiving a warden service are charged £13 per week for this service. This charge is eligible for Housing Benefit. In 2016/17 a nominal charge of £2 per week was introduced for those tenants who benefited from the service but did not pay. This was increased to £4 a week in 2017/18, £6 in 2018/19 and it is proposed to increase this charge by a further £2 per week in 2019/20.

11.9. An analysis of the impact on individual tenants of reducing rents by 1% for non-PFI tenants, increasing rents by 3.4% for PFI tenants, and implementing the proposed charges above has been undertaken. These figures are based on average rents for various categories of tenants as individual levels will vary.

11.10. The analysis shows that 80.5% of tenants will pay less overall than in 2018/19. 12.1% of tenants will pay the same amount as an overall freeze has been applied to any tenant who would have seen a weekly overall increase of less than £1 per week. 2.9% of tenants will pay £2.90 per week more. The remaining 4.5% will pay additional amounts ranging between

£1.29 and £3.50. It is proposed to cap the increases any individual tenant will be charged at £3.50 per week.

11.11. These increases will be funded through Housing Benefit for eligible tenants. Approximately 59% of tenants are in receipt of Housing Benefit.

11.12. 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 21,000 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 amount of rental income receivable since the level of arrears is anticipated to increase.

11.13. This net reduction in rental income will need to be managed in addition to other pay, price and service pressures, such as the agreed pay award and rising utility costs. A combination of staffing efficiencies and a review of the level of revenue expenditure that can be more appropriately charged to capital (shown as Internal Income on the table below) are proposed to be used to balance the 2019/20 budget.

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

11.15. 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.

11.16. 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. The Council aims to maintain a consistent level of capital expenditure with a view to improving the condition of the housing stock including fire safety work. The proposals include budget for three new fire safety officers to increase the frequency of Fire Risk Assessments Inspections within High Rise blocks. The capital programme includes the costs for sprinkler works to eight high rise blocks, to be delivered from September 2018 until November 2020. The total draft capital programme for the HRA remains at around £80m in 2019/20.

Table 16 – Housing Revenue Account Pressures and Savings

	£m
Income	
Reduction in rental income due to stock reduction and 1% rent reduction	3.07
Apply CPI+1 % rent increase to PFI funded areas	(0.39)
Internal Income – review of charge to capital.	(2.23)
Increase Service Charges	(0.34)
Increase in Other Income	(0.24)
Total	**(0.14)**
Expenditure	
Pay and Price pressures	1.06
Supplies and Services	0.08
Concierge Service	0.40
Increased Utility Costs	0.26
Provision for Bad Debts	(0.59)
Private Finance Initiative –payments to contractor	0.39
Use of additional Right to Buy Receipts to fund capital	(1.94)
Capital Charges	0.14
Other	0.34
Total	**0.14**

12. Capital Programme

12.1. Over the period 2018/19 to 2021/22 the existing capital programme includes investment plans which total £1.2bn. The programme is funded by external sources in the form of grants and contributions and also by the Council through borrowing and reserves. Where borrowing is used to fund the programme, the revenue costs of the borrowing will be included within the revenue budget. Our asset portfolio is valued in the Council's published accounts at £5.3bn, and the Council's net debt, including PFI liabilities stands at £2.59bn. It is also noted that removal of the HRA housing debt cap will impact upon the investment and borrowing plans as additional investment is agreed.

12.2. The initial budget proposals provide for a £2.8m increase in the cost of debt and capital financing. This assumes that all borrowing is taken short term at 0.85% interest for the remainder of 2018/19 and at an average of 1.25% in 2019/20. This includes the provision to acquire further long term borrowing of £25m in 2018/19 and £100m in 2019/20 at an average of 3.0%.

12.3. The strategy allows for capital investment in key annual programmes, major schemes that contribute to the Best Council Plan objectives and schemes that generate income or reduce costs. Capital investment will continue to be subject to robust business cases being reviewed and approved prior to schemes approval. Whilst the capital programme remains affordable, its continued affordability will be monitored as part of the treasury management and financial health reporting.

12.4. A capital programme update report will be presented to the Executive Board in February 2019.

13. Corporate Considerations

13.1. Consultation and Engagement

13.1.1. The Authority's financial strategy is driven by its ambitions and priorities as set out in the Best Council Plan 2018-21, 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.

13.1.2. The Council's Medium Term Financial Strategy 2019/20 – 2021/22, received at Executive Board in July 2018, was 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 2018/2019 proposals it also incorporated questions around the ongoing principles that underlie both the Best Council Plan and the Authority's financial plans and was therefore relevant to the Medium Term Financial Strategy.

13.1.3. Consultation is an ongoing process and residents are consulted on many issues during the year. It is also proposed that this report is used for wider consultation with the public through the Leeds internet and with other stakeholders. Consultation is on-going with representatives from the Third Sector and plans are in place to consult with the Business sector prior to finalisation of the budget.

13.1.4. Subject to the approval of Executive Board, this report will be submitted to Scrutiny for their consideration and review with the outcome of their deliberations to be reported to the planned meeting of this Board on the 13th February 2019.

13.2. Equality and Diversity / Cohesion and Integration

13.2.1. 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".

13.2.2. 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.

13.2.3. The proposals within this report have been screened for relevance to equality, diversity, cohesion and integration (Appendix 3) and a full strategic analysis and assessment will be undertaken on the 2019/20 Revenue Budget and Council Tax report which will be considered by Executive Board and subsequently by Full Council in February 2019. Specific equality impact assessments will also be undertaken on all budget decisions identified as relevant to equality as they are considered during the decision-making process in 2019/20.

13.3. **Council Policies and Best Council Plan**

13.3.1. The refreshed Best Council Plan 2019/20, which is elsewhere on this agenda, will set out the Council's priorities aligned with the Medium Term Financial Strategy and annual budget. Developing and then implementing the Best Council Plan will continue to inform, and be informed by, the Council's funding envelope and by staffing and other resources.

13.4. **Resources and Value for Money**

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

13.5. **Legal Implications, Access to Information and Call In**

13.5.1. This report has been produced in compliance with the Council's Budget and Policy Framework. In accordance with this framework, the initial budget proposals, once approved by the Board, will be submitted to Scrutiny for their review and consideration. The outcome of their review will be reported to the February 2019 meeting of this Board at which proposals for the 2019/20 budget will be considered prior to submission to Full Council on the 27th February 2019.

13.5.2. The initial budget proposals will, if implemented, have implications for Council policy and governance and these are explained within the report. The budget is a key element of the Council's budget and policy framework, but many of the proposals will also be subject to separate consultation and decision making processes, which will operate within their own defined timetables and be managed by individual directorates.

13.5.3. In accordance with the Council's budget and policy framework, decisions as to the Council's budget are reserved to Full Council. As such, the recommendations at paragraphs 15.1 and 15.2 are not subject to call in, as the budget is a matter that will ultimately be determined by Full Council, and this report is in compliance with the Council's constitution requiring publication of initial budget proposals two months prior to adoption.

13.5.4. However the recommendations in paragraphs 15.3 and 15.4, regarding the Council's participation in the 2019/20 75% Business Rates Retention pilot scheme and the implementation of business rate reliefs announced at the Autumn Budget, are decisions of the Executive Board and as such are subject to call-in.

13.6. **Risk Management**

13.6.1. 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 the current year resulting in reserves (actual or projected) being less than the minimum specified by the Council's risk-based reserves policy. Both these risks are subject to regular review.

13.6.2. 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 thus on our Best Council Plan ambition to tackle poverty and reduce inequalities.

13.6.3. 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, for example the implementation of budget action plans, those budgets which are subject to fluctuating demand, key income budgets, etc. This risk-based approach will continue to be included in the in-year financial reports brought to Executive Board.

13.6.4. 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 these initial budget proposals are identified below.

Risks to Funding

13.6.5. The 2019/20 Initial Budget Proposals assume that the North and West Yorkshire bid to pilot 75% Business Rate Retention is successful. The announcement as to whether the bid has been successful will coincide with the announcement of the provisional Local Government Finance Settlement after the meaningful vote on Brexit on December 11th. If the bid to pilot 75% Retention is unsuccessful then the Council will revert back to the 50% Retention scheme for the Leeds City Region and this will require the identification of a further £7.97m of savings.

13.6.6. 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 appropriate provision for these, there is very little information available on which to assess appeals against the 2017 list. Therefore income could be adversely affected both by appeals against the 2017 list and by business rate growth being less than assumed. This in turn would reduce the overall level of resources available to fund the services that the Council provides.

13.6.7. The level of council tax collected could be affected by either the increase in the Council tax base being less than assumed and/or collection rates being below budgeted assumptions.

Key risks to cost and income assumptions

13.6.8. Demographic and demand pressures, particularly in Adult Social Care and Children's Services, could be greater than anticipated.

13.6.9. The implementation of proposed savings and additional income realisation could be delayed. Equally, the level of savings generated and/or the level of additional income realised could be less than that assumed in this Initial Budget Proposals report.

13.6.10. Inflation could be higher than that assumed in this report. In addition these initial budget proposals make a number of assumptions about the costs associated with managing the Council's debt. Currently the Council benefits from low interest rates but there is an anticipated upward movement in rates which, if greater than assumed in the budget proposals, will lead to a further increase in the costs associated with financing the Council's debt portfolio.

13.6.11. The Council's and City's economic and fiscal position is clearly impacted upon by the wider national economic context. The UK's withdrawal from the EU could potentially weaken the pound, increase inflation, reduce domestic and foreign direct investment and impact upon borrowing costs. Conversely the UK's exit from the EU could have the opposite effect upon the economy. What is also unclear is to what extent the UK's exit from the EU will impact upon the level of resources available to the Council and the level of demand for the services that it provides.

13.6.12. A full analysis of all budget risks will continue to be maintained and will be subject to monthly review as part of the in-year monitoring and management of the budget. Any significant and new risks and budget variations are contained in the in-year financial health reports submitted to the Executive Board.

14. Conclusions

14.1. The Initial Budget Proposals for 2019/20 reflect the Government's planned reductions in public sector funding as set out in the current Comprehensive Spending Review and assumptions around the level of resources available through Council Tax and Business Rates. They also take account of increasing costs from rising demands for services, inflation and cost pressures.

14.2. Based on the Government's multi-year settlement there will be a further reduction in the Settlement Funding Assessment for 2019/20 of £15.3m. This is offset by additional funding from business rates and council tax of £21.3m to give an increased net revenue budget of £516.9m in 2019/20. However, the initial budget proposals for 2019/20 set out in this report, subject to the finalisation of the detailed proposals in February 2019, will still require savings and additional income of £24.4m to produce a balanced budget.

14.3. These budget proposals need to be seen in the context of a challenging economic outlook which, combined with the uncertainty around the implications of the UK's exit from the EU, could have the potential to impact on both the Council's resources and levels of demand for its services. Where it is possible to determine the financial implications of these they have been accommodated within the 2019/20 Initial Budget Proposals.

15. Recommendations

15.1. Executive Board is asked to agree the initial budget proposals and for them to be submitted to Scrutiny and also for the proposals to be used as a basis for wider consultation with stakeholders.

15.2. Executive Board is asked to note the assumptions contained in these proposals regarding the Council Tax base and the Authority's application to pilot 75% retention.

15.3. Should the bid to pilot 75% Business Rate Retention be successful then Executive Board is asked to agree that Leeds becomes a member of the new North and West Yorkshire Business Rates Pool and acts as lead authority for it. Notwithstanding this decision, the establishment of this new Pool will be dependent upon none of the other member authorities choosing to withdraw within the statutory period after designation. Should the bid not succeed, all members of the existing Leeds City Region Pool have agreed to its continuation in 2019/20.

15.4. Further, Executive Board is asked to agree that the Authority will implement the new business rates reliefs announced at the Autumn Budget. Leeds will be compensated in full by Government for any resultant loss of income.

16. **Background documents**[2]

None.

[2] 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.