

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

**Report to Executive Board**

**Date: 24<sup>th</sup> June 2020**

**Subject: Impact of Coronavirus COVID-19 upon Leeds City Council's 2020/21 Financial position and update on the forecast budget position for 2021/22.**

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

**Summary**

**1. Main issues**

- As a result of the COVID-19 pandemic the Council has incurred additional expenditure, whilst at the same time seeing reductions in the level of resources available through a combination of lower forecast income levels for both Business Rates and Council Tax and a reduction in the level of income receivable from sales, fees and charges. A report received at this Board in May noted a projected overspend of £164.7m in respect of COVID 19 incurred in 2020/21 before any funding from Government. It was also noted that the financial implications from COVID-19 will have ongoing funding consequences for the financial projections for future years which are contained in the current Medium Term Financial Strategy (MTFS).
- The financial implications of COVID-19 incurred during 2020/21 have been updated and are now showing that the level of projected overspend reported to the Ministry of Housing and Local Government (MHLG) has increased by £36.3m to £201m. However this position contains a pre-COVID pressure of £2.524m within the Children and Families Directorate and £0.845m which relates to timing differences between the production of the MHCLG return and the Financial Health reports. As a result of these adjustments the overall level of COVID-19 overspend reduces to £197.6m. This report only deals with the overspend relating to COVID 19, the overall Financial Position of the Council for 2020/21 is considered in the Financial Health Report elsewhere on this agenda.

- In which year the financial implications of COVID 19 will impact on the revenue budget needs to be considered. The loss of income received by the Council due to the collection of Business Rates and Council Tax will not impact on the revenue budget until 2021/22. This will be considered in more detail in section 3.5. The Council has written to the Government, requesting additional support and flexibilities which would allow the Council to respond to the impact of the pandemic on its financial position. If further support from the Government is not forthcoming or is insufficient to address the forecast financial position then a number of measures have been identified which will contribute towards addressing the level of overspend. These measures will require an emergency budget to be agreed by Full Council in the summer.
- However if the Chief Officer – Financial Services in their professional opinion considers that the actions proposed are insufficient to reduce the Council's cost base to enable there to be sufficient resources to fund services then a Section 114 report would be issued.
- The 2020/21 Revenue Budget and Council Tax report received at February's Executive Board and Full Council contained details of the estimated budget gap of £52.2m for 2021/22. Expenditure, income and savings assumptions have been reviewed and revised and when combined with the projected variation in income receivable from the Council Tax Base and Business Rates Base, the estimated budget gap for 2021/22 has increased to £117.8m. This does not take into consideration the loss of income incurred in 2020/21 due to COVID 19 which impacts on the General Fund in 2021/22 as this is considered in section 3.5. To address this gap the Council is undertaking a series of cross cutting and service reviews with the outcome of these reviews being incorporated into an updated Medium Term Financial Strategy (MTFS) which is timetabled to be received by this Board in September.

## **2. Best Council Plan Implications** (see the [latest version of the Best Council Plan](#))

- The Best Council Plan can only be delivered through a sound understanding of the Council's longer-term financial sustainability, which enables decisions to be made that balance the resource implications of the Council's policies against financial constraints. Since the impact of COVID-19 challenges the financial sustainability of the Council, it is imperative that the financial options contained in this report are supported in order that Best Council priorities can be delivered within a robust financial framework.

## **3. Resource Implications**

- The financial position as set out in the report details how the projected overspend for 2020/21 has increased from the previously reported figure of £164.7m to a figure of £201m – an increase of £36.3m which has been reported to MHCLG. However this position contains a pre-COVID pressure of £2.524m within the Children and Families Directorate and £0.845m which relates to timing differences between the production of the MHCLG return and the Financial Health reports. As a result of these adjustments the overall level of COVID-19 overspend reduces to £197.6m.
- In the context of this projected financial position for 2020/21, a number of asks have been made of Government which, if received, will contribute towards the Council delivering a balanced budget position in 2020/21. If additional support is not forthcoming, or is insufficient to address the projected deficit in 2020/21, then a

number of further measures have been identified which will require an Emergency Budget to be considered by Full Council in the summer. However if in the professional opinion of the Chief Officer – Financial Services these options are not sufficient to reduce the Council’s cost base to enable there to be sufficient resources to fund services then a Section 114 report would be issued.

- The estimated budget gap for 2021/2 has been revised upwards from £52.2m to £117.8m. In order to address this financial projection the Council has embarked on a series of cross cutting and targeted service reviews which are aimed at reducing the estimated budget gap. An updated MTFs has been timetabled to be received at September’s Executive Board.

## **Recommendations**

- a) Executive Board are recommended to note the position outlined in this paper by the Chief Officer - Financial Services concerning Leeds City Council’s financial position as a consequence of the COVID-19 pandemic.
- b) Executive Board are requested to note that the Government have been written to asking for further financial assistance.
- c) Executive Board are asked to note that if further assistance from the Government is not forthcoming or is insufficient to address the scale of financial overspend detailed in this report, an Emergency Budget would be considered by Full Council in the Summer.
- d) Executive Board are asked to note that if the actions that the Council can take are in the professional opinion of the Chief Officer - Financial Services insufficient to reduce the Council’s cost base to enable there to be sufficient resources to fund services, then a Section 114 notice would be issued
- e) Executive Board are asked to note the revised estimated budget gap for 2021/22 and the actions being taken to address this position.
- f) Executive Board are asked to note that an updated Medium Term Financial Strategy is to be brought to Executive Board in September which will provide an update on the financial position, covering the period 2021/22 – 2025/26.

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

- 1.1 At its meeting on the 26th February 2020 Full Council set a balanced budget for 2020/21 and provisional budgets for 2021/22 and 2022/23.
- 1.2 Given the scale of the financial challenge the Council is now facing for 2020/21 and future years due to the COVID-19 pandemic, it is appropriate to provide an update on the financial position for 2020/21 and the actions being taken to manage the situation. The financial health of the Council will continue to be reviewed and updated to Executive Board on a monthly basis and builds on the position reported to Executive Board in May 2020.
- 1.3 This report also provides an update on the 2021/22 financial projection that was reported to this Board in February. This update of the 2021/22 position includes:
  - the original assumptions behind the reported financial projection for 2021/22 and how these have changed;
  - an estimate of the ongoing impact of COVID-19 on the 2021/22 financial projection and;

- the approach that the Council is taking to identify budget savings options that will start to address the revised estimated budget gap for 2021/22.

## **2. Background information**

- 2.1 A report received at this Board's meeting on May 19<sup>th</sup> provided an update on the impact of the current global Coronavirus outbreak which was declared a pandemic by the World Health Organisation on the 11<sup>th</sup> March. The report referenced the range of national developments and announcements made by the Government, outlined the local approach to planning, governance and delivery in this unprecedented period, detailed the Council's Response and Recovery Plan and outlined the approach to easing restrictions in the city.
- 2.2 In recognition of the impact of Coronavirus on the economy the Government have responded by announcing a range of measures to help businesses and residents which include furloughing staff, the provision of targeted business rate reliefs, business grants and loans, deferral of VAT and self-assessment payments, and a Hardship Fund which is a grant payable to local authorities to provide council tax relief alongside existing council tax support schemes.
- 2.3 The Government also recognise that Coronavirus COVID-19 has had a direct financial impact on local authorities. To date £3.2bn has been provided nationally to compensate local authorities for additional expenditure incurred and loss of income resulting from the current Coronavirus pandemic. Of this £3.2bn Leeds has been awarded £43.7m.
- 2.3.1 In May the Executive Board received a report which provided an update of the impact of COVID-19 on the Council's 2020/21 approved revenue budget. The report detailed a projected overspend of £164.7m offset by the application of the balance (£41.3m) of this £43.7m of grant funding receivable from Government. This position has been reviewed as more information and data has become available. An updated position is provided in section 3.1 and will be reviewed on a monthly basis and reported to this Board.

## **3. Main issues**

### **3.1 Revenue Budget 2020/21**

- 3.1.1 In recognition of the financial impact of COVID-19 upon the Council's financial position in 2020/21, Executive Board agreed at its 19<sup>th</sup> May meeting that the Council should write to Government to ask for financial assistance to enable the Council to fulfil its requirements to deliver services to the residents of Leeds, namely that the Government:
- underwrite all of the shortfall in Business Rates resulting from COVID-19 to bring the Council back to its level of baseline funding;
  - compensate the Council for any shortfall against budgeted assumptions with regard to the level of Council Tax collected as a result of COVID-19;
  - fund 100% of the Local Council Tax Support (LCTS) scheme to protect authorities against loss of council tax income due to an increase in claimants;
  - write off PWLB debt held by local authorities or, failing this, reduce the interest rates for PWLB debt to the cost to Government. This would save the Council £9m in 2020/21;

- underwrite any variation in the level of income receivable from fees and charges that have been impacted by COVID-19. This would require a contribution of £33.3m in 2020/21.

- 3.1.2 Subsequent to May's Executive Board the Leader of the Council has written to the Government on behalf of the Council asking for financial assistance to enable the Council to fulfil its requirements to deliver services to the residents of Leeds. The letter written to the Government asking for financial assistance, referred to in 3.1.1, also incorporates a request that additional funding (£59.9m) be provided which would result in the Council being able to deliver a balanced budget position in 2020/21.
- 3.1.3 Since Executive Board received the financial update report in May, the projected financial impact of COVID-19 upon the Council's financial position has been updated. This updated financial position was included in a second return to the Ministry of Housing, Communities and Local Government (MHCLG), submitted on the 15<sup>th</sup> May. This return, which all local authorities were required to complete, details the actual and projected impact of COVID-19 which was incurred by the Council in 2020/21. This revised estimate of the financial impact of COVID-19 has been incorporated into the 2020/21 Period 1 Financial Health monitoring report that can be found elsewhere on this agenda.
- 3.1.4 After reviewing the expenditure, income, Business Rates and Council Tax collection assumptions due to more information and data being available, the impact of COVID-19 which was incurred by the Council in 2020/21 increased from £164.7m to £201m.
- 3.1.5 Of this £201m forecast impact in 2020/21, £107.6m relates to income variations and £93.4m relates to expenditure variations. Details of these variations are detailed in the Directorate dashboards which can be found within the Period 1 Financial Health monitoring report elsewhere on this agenda. As well as incorporating additional expenditure incurred by the Authority, and a projected reduction in fees and charges and commercial income, this forecast position also incorporates the shortfall in capital receipts receivable, non-achievement of budget action plans and a variations resulting from an assumed reduction in the level of Business Rates and Council Tax collected in 2020/21.
- 3.1.6 However the position reported to MHCLG contains a pre-COVID pressure of £2.524m within the Children and Families Directorate and £0.845m which relates to timing differences between the production of the MHCLG return and the Financial Health reports. As a result of these adjustments the overall level of COVID-19 overspend reduces to £197.6m.

The amount incurred by the Council due to COVID 19 in 2020/21 will impact on the Council's Financial Position in 2020/21 and 2021/22. This is due to the timing of when the loss of income from the Collection of Council Tax and Business Rates will hit the General Fund. Therefore by excluding the impact on collection rates in respect of Business Rates and Council Tax, (which will impact on the General Fund in 2021/22), and after taking account of the COVID-19 grant funding receivable from Government which hasn't been applied in 2019/20, the impact of COVID-19 on the Council's approved budget in 2020/21 is to increase the projected level of overspend from £60.6m to £95.6m – an increase of £35.0m. This revised financial forecast will continue to be refined as more information and data becomes available as the financial year progresses. The movement between the position forecast in May and the current forecast is detailed in Table 1 below.

Table 1

	May Exec Board		May MHCLG		June Exec Board		Movement May EB to June EB	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
Additional Expenditure	62.948		93.426		90.004		27.056	
Income Losses	101.738		107.576		107.629		5.891	
Total COVID-19 Pressure	<b>164.686</b>		<b>201.002</b>		<b>197.633</b>		<b>32.947</b>	
Collection Fund Impact 2021/22	(62.800)	62.800	(60.935)	60.935	(60.935)	60.935	1.865	(1.865)
Government Grant Receivable	(41.308)		(41.109)		(41.109)		0.199	
	<b>60.578</b>	<b>62.800</b>	<b>98.958</b>	<b>60.935</b>	<b>95.589</b>	<b>60.935</b>	<b>35.011</b>	<b>(1.865)</b>
Non-COVID Pressures - June*					(4.139)			
Total Overspend Reported June 2020					<b>193.494</b>			

\* The Month 1 Financial Health Monitoring report received at June's Executive Board reports a total projected overspend of £193.494m. Whilst £197.633m is COVID-19 related, this position also includes a net £4.139m of non-COVID savings.

3.1.7 The £27.1m increase in projected expenditure includes an additional £11m of costs relating to Leeds Building Services in regard to under-recovery of income against the 2020/21 budget and a further £5m of spend on PPE equipment.

Income projections have increased by £5.9m. Government guidance accompanying the May return to MHCLG required local authorities to assume that lockdown would end by the end of July 2020 to ensure consistency of treatment across authorities. By comparison the figures in the May report to this Board had assumed that lockdown would end in June 2020, so the July assumption has increased both projected expenditure and income. The value of Government grant applied in 2020/21 has fallen by £0.2m, reflecting this increase in COVID-19 costs at outturn 2019/20 requiring additional use of grant. Collection Fund assumptions have been amended slightly to reflect actual Council Tax collection in April, reducing the impact on 2021/22 by £1.9m.

After taking account of non COVID-19 savings the overall level of forecast overspend in 2020/21 is £193.49m. This position is detailed in the 2020/21 Period 1 Financial Health report which is elsewhere on this agenda.

3.1.8 The scale of the financial pressure being faced by the Council is unprecedented and requires immediate action to be taken to minimise spend and to enable the Council's financial position to remain within the available resources. The report to May's Executive Board recognised that support received to date from the Government is insufficient to deal with the identified projected overspend and, that if further Government support is not forthcoming, the Council would need to implement a number of measures including an emergency budget in the Summer. The Council has implemented a number of management measures to start to mitigate this position and these are as follows.

### 3.2 Short Term Immediate Management Measures

3.2.1 **Implementation of a recruitment freeze** for all services except those in accordance with the HR guidance which includes statutory services (essential), health and safety obligations, cost prevention and income generating posts. Releases will be approved by the relevant Director / Chief Officer and opportunities to redeploy staff into vacant roles must be considered.

- 3.2.2 **Implement restrictions on the utilisation of agency and overtime** and will only be permitted in line with the principles of the recruitment freeze.
- 3.2.3 **Implementation** of an immediate freeze on non-essential spend with the exception of spend needed to keep a service running and for health and safety purposes.
- 3.2.4 **Review the current procurement strategy** to see whether the commissioning of contracts can be stopped, slipped into future years or re-specified at a lower value to achieve savings.
- 3.2.5 **Identify and capture any savings resulting from the current lockdown**, e.g. expenditure savings resulting from a building being closed, a service not being delivered or associated with travel or training.
- 3.2.6 With regard to **savings** that have been identified for 2021/22, determine whether any of these can be **brought forward** into 2020/21.
- 3.2.7 Actively **promote the Council's ELI scheme** across all services and, where a business cases exists, allow staff to exit the Authority.
- 3.2.8 A number of **service review** areas across all Directorates have been identified and, whilst these reviews are focused on the identification of budget savings options that will contribute towards addressing the reported estimated budget gap for 2021/22, any part year effect of these will contribute towards reducing the forecast projected variation in 2020/21.
- 3.2.9 Similarly there are a number of **cross cutting initiatives**, such as the administration review, digital and automation, which are anticipated to contribute towards reducing the budget gap in 2021/22. Each of these areas are at different stages of review but, where proposals exist that will realise savings, resources should be focused upon delivering these in 2020/21.
- 3.2.10 **At the 31<sup>st</sup> March** 2020 the Council had £30.1m in earmarked reserves and £31.5m in General Balances. Leeds City Council has had a strategy of keeping reserves at a low level to protect front line services and therefore the Council is not in a position to mitigate the impact of COVID 19 by using these reserves Given that there are insufficient reserves to deal with the in-year financial pressures resulting from the COVID-19 and, if in the professional opinion of the Chief Officer - Financial Services the actions proposed in this report are insufficient to reduce the Council's cost base to enable there to be sufficient resources to fund services following the Emergency Budget in the summer, then a Section 114 report would be issued.

### **3.3 Section 151 Responsibilities**

- 3.3.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and the Chief Officer - Financial Services has responsibility for these arrangements.
- 3.3.2 If in undertaking this statutory role it is clear that the Council cannot deliver a balanced budget position in 2020/21 then it is incumbent on the Section 151 Officer under the Local Government Finance Act 1988, Section 114 (3) to "make a report under this section if it appears....that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure".
- 3.3.3 A Section 114 report would be issued after consultation with the Senior Management Team, this Executive Board and External Audit. The timing of the announcement would be such that it would allow for the implementation of specific actions, e.g. no new expenditure that is not of a statutory minimum requirement, which would contribute towards improving the Council's financial position.

3.3.4 Before the Section 114 report was issued the Section 151 Officer would also ensure that all Scrutiny Chairs, the Chair of Corporate Governance and Audit, and the opposition Leaders were informed and kept updated on the position.

3.3.5 Under S115 of the Local Government Finance Act 1988 Councillors have 21 days from the issue of a Section 114 report to discuss the implications at a Full Council meeting and before the consideration of an emergency budget.

### **3.4 Revenue Budget 2021/22**

3.4.1 The 2020/21 Revenue Budget and Council Tax report that was received at both Executive Board and Full Council in February included an update in respect of the Revenue Budget for 2021/22 and 2022/23. The position reported detailed estimated budget gaps of £52.2m and £31.7m in 2021/22 and 2022/23 respectively.

3.4.2 In the determination of the respective budget positions for 2021/22 and 2022/23 the February report highlighted a number of uncertainties with regard to the;

- Government's spending review in 2020,
- future levels of Council tax increases,
- impact of the Government's proposed move to 75% Business Rate retention,
- impact of the any Business Rates reset and
- outcome of the Government's Fair Funding Review.

3.4.3 In addition it was outlined that the Government's intentions regarding the future funding of Social Care remained unclear. Since the February Revenue Budget and Council Tax report was produced the Government have subsequently announced, as a result of COVID-19 pandemic, that 75% Business Rate retention, a Business Rates reset and the implementation of the Fair Funding review have been delayed until 2022.

3.4.4 The impact of the COVID-19 pandemic upon the UK economy is still emerging but the Office of Budget Responsibility (OBR) has projected that there will be a £298.4bn budget deficit for 2020/21, which is a significant increase from the £55bn forecast in the Chancellor's budget speech in March. In addition the OBR has forecast that GDP will reduce by 12.8% during 2020 and that the unemployment rate will rise to 7.3% during the same period. The economic impact of COVID-19 will not be confined to 2020/21 alone and its ongoing economic impact, combined with Government's response to it, will influence future public spending reviews and the level of resources available for local authorities.

3.4.5 As identified in 3.4.1 above a £52.2m estimated budget gap for 2021/22 was reported to February's Executive Board and Full Council. As referenced in 3.1.7 above the shortfall in the Collection Fund caused by a projected variation in the level of Business Rates and Council Tax collected in 2020/21 will reduce the level of resources available to the Authority in 2021/22. Since this shortfall in the Collection Fund is as a result of reductions in Business Rates and Council Tax collection that are projected to occur in 2020/21, it is assumed that this variation will be addressed through the receipt of additional Government assistance as detailed in paragraphs 3.1.1 and 3.2 above and therefore will not impact upon the level of resources available to support the 2021/22 revenue budget.

3.4.6 However with regard to the 2021/22 budget, consideration does still need to be given to the impact of COVID-19 upon the respective bases for both Business Rates and Council Tax. In respect of Business Rates the Council will need to reflect any reduction in the Rateable Value of business properties in the city in its



budget calculations for 2021/22, with a consequent reduction in budgeted business rates income receivable. This is expected to impact on the cumulative growth assumptions in the current Medium Term Financial Strategy (£10.9m in 2020/21) but could also result in the Council having to budget at a level below the baseline funding level Government currently assumes – the level of business rates income Government has assessed the Council to need to provide its services. Here Government would be expected to meet any shortfall in income below the safety net of 92.5% of baseline funding but under existing arrangements the Council would have to manage any shortfall in Business Rates receivable up to the safety net (£11.9m in 2020/21). As a result of the above the 2021/22 projection assumes a shortfall of £22.8m in the level of Business Rates receivable.

Annual growth in the Council Tax base has been assumed in the current Medium Term Financial Strategy. However it is assumed that increased unemployment will lead to increased numbers of CTS (Council Tax support) claimants which has the effect of reducing the base for Council Tax and consequentially the budgeted level of income receivable. As the economy settles, collection rates are likely to recover to some extent but an increase in CTS claimants may impact on overall collection as collection rates are generally lower for these tax payers. Initial estimates indicate that the number of CTS claimants will increase by 5,000 by 2021/22 and this reduces by £4m the level of collectible income from Council Tax.

Whilst we do not yet know the extent to which the Council's income from business rates and council tax will reduce, these are important sources of income for the Authority making up 95% of the Net Revenue Budget in 2020/21. Government currently takes account of levels of business rates and council tax income when calculating how much Revenue Support Grant an authority will require to provide services. Given the potential scale of losses nationally it is certainly possible that Government will have to take some action to provide additional financial support to authorities in this respect, but it is not yet known whether this will be the case or what form such measures might take.

- 3.4.7 The financial assumptions with regard to the expenditure, income and savings options which resulted in the reported budget gap of £52.2m for 2021/22 has been reviewed. As a result of this review the forecast gap has increased by £7.5m to £59.7m.
- 3.4.8 This variation is largely due to a combination of revised assumptions in respect of demographic pressures within social care (£0.7m); income variations of £0.5m largely relating to local land charges and apprentice levy income; revised assumptions (£3m) in respect of savings proposals; revised grant assumptions of £0.3m; updated assumptions about the use of earmarked reserves and: £1.5m of other variations that includes additional building maintenance expenditure and flood alleviation costs.
- 3.4.9 In respect of the ongoing financial impact of COVID-19 upon both expenditure and income receivable it is assumed that there will continue to be a scarring effect and this will impact upon the Council's 2021/22 budget as the UK economy starts its recovery from the impact of the COVID-19 pandemic. Therefore projecting the impact of COVID-19 upon expenditure and income in 2021/22 will result in a variation from current budgeted assumptions of £31.1m.
- 3.4.10 As a result of the revisions to financial assumptions which are detailed in the paragraphs above the estimated budget gap for 2021/22 has increased from £52.2m to £178.8m including the Collection Fund Deficit brought forward. Assuming

this deficit will be offset by options identified in this report the funding gap reduces to £117.8m. This movement is summarised in Table 2.

<b>Table 2</b>	<b>£m</b>
<b>Budget Report 2020/21</b>	<b>52.2</b>
<b>Revised Pressures: Review May 2020</b>	
Commissioned Services	(0.2)
Demand and Demography	0.7
Income Pressures	0.5
Other	1.5
	<b>2.5</b>
<b>Revised Savings</b>	<b>3.0</b>
<b>Changes to Funding</b>	
Grants	0.3
Reserves	1.7
<b>Revised Gap before COVID Impact</b>	<b>59.7</b>
Increased Expenditure 21/22 - COVID	6.9
Loss of Income 21/22 - COVID	24.3
Collection Fund Deficit Brought Forward from 20/21	60.9
Estimated Budgeted Loss of Council Tax Income 21/22	4.1
Estimated Budgeted Loss of Business Rates Income 21/22	22.8
	<b>178.8</b>
<b>Collection Fund Deficit Offset By Options Identified in Report</b>	<b>(60.9)</b>
<b>Revised Gap 2021/22 with COVID Impact</b>	<b>117.8</b>

- 3.4.11 A Medium Term Financial Strategy report covering the period 2021/22 – 2025/26 is timetabled to be received at this Board in September. This report will incorporate updated assumptions with regard to the impact of COVID-19 on expenditure and income as well as an updated estimate on Business Rates and Council Tax collection in 2021/22.
- 3.4.12 Work is being undertaken on a series of cross cutting initiatives which will contribute towards reducing this estimated budget gap. Specifically these review areas include a review of mail and print Council wide, further reductions in the cost associated with the Council's property portfolio though additional Changing the Workplace initiatives, reducing the wage bill through reviewing our practices and more informed workforce planning and resourcing, and further digitalisation, automation and transformation of some of our core business processes.
- 3.4.13 In addition the Council has embarked on a series of service reviews which will contribute significantly towards closing the estimated budget gap in 2021/22. For a number of years there have been exercises to highlight areas for service reviews which have provided data and information for consideration. To ensure we do not lose this good work and to build on the intelligence gained a number of service reviews are proposed to be undertaken by Directorate.
- 3.4.14 An initial list of service review areas has been developed from previous work undertaken and a 'Rapid Support Review Team' will be formed to undertake the

review around each service area. This will include the area expert from the service under review, external supplier support and Council support functions (Finance, HR, IT Performance etc.).

3.4.15 Starting from mid-June the reviews will take place over a four week period and the outcomes from these will be incorporated into the updated Medium Term Financial Strategy Report timetabled to be considered by this Board in September.

### **3.5 Impact of the financial projections for 2020/21 and 2021/22 upon employees**

3.5.1 Staffing is the most significant cost to the Council. In addition to the measures already in place around restrictions on recruitment and the use of agency and overtime, further reductions in workforce related costs is an area that can be considered to further contribute to the mitigation of the current financial deficit. It is anticipated that there will be a variety of workforce implications resulting from the agreed service reviews that may contribute to the reduction of staffing costs. All proposals will need to be fully explored, risk assessed and considered in line with our statutory duties to ensure full and transparent consultation with Trade Unions is undertaken. There is an established framework in place led by HR that can be used to support this process.

3.5.2 In the context of potential future staffing reductions that will be required to meet the identified budget gaps in both 2020/21 and 2021/22 it is the Council's intention to issue an updated S188 notice in June 2020. The notice sets out our intention to collectively consult with the Trade Unions to seek to avoid, reduce or mitigate the potential impact on the workforce as a consequences of the current funding gap.

### **3.6 Housing Revenue Account**

3.6.1 As with General Fund services the HRA has been impacted upon by COVID-19 in 2020/21. In respect of the return that was made to MHCLG an initial rent income shortfall of £2m was projected although as the financial year progresses this projection will be revised to reflect actual collection rates.

3.6.2 There will also be an ongoing impact of COVID-19 in 2020/21. Specifically income collected will reduce with increasing numbers of people cancelling direct debits. This will be reflected as an increase in tenant arrears as the rent is still owed to the Council. The likely impact on the HRA will be a requirement to provide for an increase in the provision for doubtful debts to provide for any debts that may ultimately be irrecoverable.

3.6.3 In addition with regard to 2021/22 and future years it is assumed that that rent levels will increase by CPI+1% which is consistent with the Government's current rent formula. Since CPI is likely to be below these budgeted assumptions this will mean that future rent increases will be less than assumed with the resultant reduction in resources available within the HRA.

3.6.4 In respect of fee income receivable from Right to Buy (RtB) sales this is anticipated to reduce. Sales in 20/21 are already lower and there is the likelihood that potential sales will be lower in 2021/22 if the economy doesn't pick up. In addition to the loss of fee income, a reduction in the level of retained capital receipts resulting from a reduction in RtBs will have implications for the level of resources available to fund the current HRA capital programme.

3.6.5 An updated Housing Revenue Account Medium Term Financial Strategy will be reported to this Board in September.

### **3.7 Capital Programme update**

- 3.7.1 Work is underway to review the capital programme to understand whether the priorities agreed in February are still appropriate given the impact of Covid-19. The process needs to be considered in the context of the Council's financial position, therefore whilst the review of the capital programmes takes place all non-essential capital spend will be placed on hold with the exception for essential health and safety works, Covid-19 related spend and Externally/Part (where funding agreements are in place) funded schemes.
- 3.7.2 All schemes are currently being assessed to establish whether they are progressing as normal or the extent to which they have been affected by COVID-19, i.e. have they stalled or are they continuing with delays anticipated. It will also assess the acceleration of some programmes. Once this base line information has been gathered directorates will be asked to review scheme priorities and also to consider whether there are any additional COVID-19 related capital requirements.
- 3.7.3 These priorities are likely to focus upon Health and Safety, Statutory Requirements which will be developed at minimum cost to meet this requirement, Fully/part (where funding agreements are in place) funded from external sources, income protection and future cost savings.
- 3.7.4 An assessment of the impact of the Council's priorities climate change, health and wellbeing and inclusive growth will also form part of the review.
- 3.7.5 Re-prioritise Directorate capital programmes will be subject to a peer challenge, which was integral to setting the current capital programme, with outcomes reported to the Council's Strategic Investment Board for discussion and agreement. This process will consider whether re-prioritised schemes are affordable within the current year and MTFS. The results of the review will be taken to July's Executive board as part of the Capital Programme Quarter 1 update report and will incorporate further discussion and member engagement.

## **4. Corporate considerations**

### **4.1 Consultation and engagement**

- 4.1.1 Following Executive Board's approval of the Initial Budget Proposals for 2020/21 in January a public budget consultation exercise ran between 7th and 28th January 2020. The outcome of this exercise was incorporated into the 2020/21 Revenue Budget and Council Tax report approved at Council in February 2020.
- 4.1.2 Where appropriate, implementation of any decision in respect of the financial options either contained in or resulting from this report will be subject to a separate consultation and engagement exercise.

### **4.2 Equality and diversity / cohesion and integration**

- 4.2.1 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.

- 4.2.2 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.
- 4.2.3 Where appropriate, equality impact assessments will be carried out prior to the implementation of any of the financial options either contained in or resulting from this report.

### **4.3 Council policies and the Best Council Plan**

- 4.3.1 The Best Council Plan sets out the Council's ambitions and priorities. The current plan is therefore aligned with both the Council's Medium Term Financial Strategy and its annual budget.
- 4.3.2 Since the impact of COVID-19 challenges the financial sustainability of the Council it is imperative that the financial options contained in this report are considered in order that Best Council priorities can be delivered within a robust financial framework.

#### Climate Emergency

- 4.3.3 There are no specific implications for the climate emergency resulting from this report.

### **4.4 Resources, procurement and value for money**

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

### **4.5 Legal implications, access to information, and call-in**

- 4.5.1 Where appropriate any decisions with regard to the implementation of the financial options contained in this report or resulting from the subsequent identification of savings options will be subject to specific decision-making processes in which the legal implications, access to information and call-in will be considered in accordance with the Council's decision making framework. This includes compliance with the legal requirements around managing staffing reductions.

### **4.6 Risk management**

- 4.6.1 Even without the identified impact of COVID-19, the approved 2020/21 revenue budget contains a number of inherent risks which include the requirement to implement budget action plans, budgets which are subject to fluctuating demand and demographic pressures and key income budgets that rely upon the number of users of a service. In addition the approved budget makes assumptions in respect of the level of resources that are receivable through council tax, business rates and government grants. Any variations from these budgeted assumptions has implications for the level of resources available to the Council.
- 4.6.2 The financial position detailed in Table 1 makes a number of assumptions in respect of the impact of COVID-19 upon both income, expenditure and collection

rates in respect of both Business Rates and Council Tax. Any variation in these assumptions impacts upon the level of resources available in 2021/22. These assumptions will be subject to review through the financial management, monitoring and reporting processes that the Council has in place.

- 4.6.3 In respect of 2021/22 there remain uncertainties with regard to the impact of the postponed Government spending review, business rates reform and Fair Funding and also the Government's intentions for the future funding of Social Care which still remain unclear.
- 4.6.4 In addition in 2021/22 COVID-19 will continue to have an impact upon both income and expenditure assumptions as well as the levels of Business Rates and Council Tax that can be collected. Whilst assumptions have been made in the determination of the projected position for 2021/22 provided in this report, these will change as more information becomes available and this will have implications for the level of resources available to fund the services that the Council provides.

## **5. Conclusions**

- 5.1 The impact of Coronavirus COVID-19 upon the Council's 2020/21 revenue budget is currently projected to result in an overspend of £201m. However this position contains a pre-COVID pressure of £2.524m within the Children and Families Directorate and £0.845m which relates to timing differences between the production of the MHCLG return and the Financial Health reports. As a result of these adjustments the overall level of COVID-19 overspend reduces to £197.6m. This position is partially offset by the receipt of two tranches of grant support from Government (£41.109m) which reduces the deficit to £156.521m. Of this variation £60.9m related to the impact of a projected reduction in Council Tax (£38.1m) and Business Rates (£22.8m) and this will impact upon the Collection Fund in 2021/22. As a result of this the in-year deficit for 2020/21 is £95.589m.
- 5.2 Since further financial support to local authorities has yet to be announced a number of asks will be made of Government which, if agreed, would address the projected overspend for 2020/21 detailed in this report. If further support is not forthcoming from the Government and in the professional opinion of the Chief Officer-Financial Services they consider that the further proposed actions that can be taken by the Council are insufficient to reduce the Council's cost base to enable there to be sufficient resources available to fund services, then a Section 114 report would need to be issued.
- 5.3 There remains a risk that the projected overspend could increase as the financial implications of COVID-19 are revised as more information becomes available. An updated financial position will continue to be reported to this Board through the Financial Health reports and in the returns to MHCLG. Any increase in the financial impact of COVID-19 on the Council's financial position increases the requirement for both further Government financial support and the implementation of the financial options available to the Council to reduce the financial deficit.
- 5.4 Largely as a result of the impact of COVID-19 upon taxation and income sources the estimated budget gap for 2021/22 has increased to £117.8m. To address this financial position work has commenced on a series of cross cutting and service reviews, the outcome of which will be incorporated into an updated Medium Term Financial Strategy report which is timetabled to be received at this Board in September.

## **6. Recommendations**

- 6.1 Executive Board are recommended to note the position outlined in this paper by the Chief Officer - Financial Services concerning Leeds City Council's financial position as a consequence of the COVID-19 pandemic.
- 6.2 Executive Board are requested to note that the Government have been written to asking for further financial assistance.
- 6.3 Executive Board are asked to note that if further assistance from the Government is not forthcoming or is insufficient to address the scale of financial overspend detailed in this report, an Emergency Budget would be considered by Full Council in the Summer.
- 6.4 Executive Board are asked to note that if the actions that the Council can take are in the professional opinion of the Chief Officer - Financial Services insufficient to reduce the Council's cost base to enable there to be sufficient resources to fund services, then a Section 114 report would be issued
- 6.5 Executive Board are asked to note the revised estimated budget gap for 2021/22 and the actions being taken to address this position.
- 6.6 Executive Board are asked to note that an updated Medium Term Financial Strategy is to be brought to Executive Board in September which will provide an update on financial position covering the period 2021/22 – 2025/26.

## **7. Background documents<sup>1</sup>**

None.

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<sup>1</sup> The background documents listed in this section are available to download from the council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.