Leeds
CITY COUNCIL

The Medium Term Financial Strategy 2021/22 – 2025/26

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Introduction

The Medium Term Financial Strategy (MTFS) is one of the key strategies of the Council and is a five year strategy which sets out the Council's commitment to provide services that meet the needs of people locally and that represent good value for money.

The Medium Term Financial Strategy links the Council's vision and priorities with its financial budgets and details how the Council's finances will be structured and managed to ensure that this fits with, and supports, the priorities of the Council and its partners.

The MTFS is aligned to the Council's Best Council Plan and other key Council strategies to ensure that our resources are directed to delivering the priorities for the City.

Medium term financial planning is critical to ensuring that the Council has a clear understanding of the level of available resources, the costs of delivering existing services and plans for new services. Financial planning facilitates strategic choices around service delivery, efficiency and service reductions.

This Strategy considers:

- The influences affecting our Council
- Local factors which affect the Councils aims and priorities
- The resources available to the Council
- The requirements to deliver value for money services to the residents of Leeds
- How we safeguard public money

The MTFS brings together the key areas which affect our Revenue and Capital budgets and plans for these over the medium term.

Part 1: Executive Summary – Leeds City Council's Medium Term Financial Strategy

1.1 Introduction - The Purpose and Key Objectives of the MTFS

1.1.1 The Medium Term Financial Strategy (MTFS) covers a five year period to ensure that the available resources and requirements of Leeds City Council are forecast over this period, identifying the influences which impact on the availability and use of these resources. The priorities of the Council are detailed in the Best Council Plan and provide the direction as to how the resources of the Council are utilised.

1.1.2 There are a number of strategies which underpin the aims of the Best Council Plan and these strategies are referenced in this Medium Term Financial Strategy.

1.1.3 This Medium Term Financial Strategy continues the journey that commenced in 2019, and which was detailed in the Revenue Budget Update report to October's Executive Board in 2019, whereby the Council's revenue budget becomes more financially robust, resilient and sustainable by moving away from the use of one off sources of funding such as capital receipts and reserves to fund recurring expenditure. This Strategy also reflects the requirement to make the Council's financial position more resilient with the inclusion of planned budgeted contributions to the General Reserve.

1.1.4 The Medium Term Financial Strategy is a five year rolling strategy which informs the annual budget process. The Council has a legal requirement to set a balanced budget each year.

1.1.5 The key objectives of the MTFS are as follows:

- To ensure that effective financial planning and management contributes to the Council achieving the priorities in the Best Council Plan
- To ensure that the Council is financially resilient, stable and sustainable for the future
- To maximise the income from Council Tax and Business Rates revenue to support the priorities of the Council
- To forecast the influences on the resources available to the Council and to plan for the reduction in these resources over the life of the Strategy
- To estimate the expenditure requirements over the life of the Strategy to ensure value for money is achieved and resources are utilised where outcomes are measurable and have real impact.

- To continue to improve value for money – managing our people and money more efficiently and effectively to continue to improve value for money, standardise, streamline and share best practice, getting better value from commissioning and procurement, whilst seeking to minimise the impact of budget savings on priority services.

1.2 The Best Council Plan

1.2.1 The Best Council Plan is the Council's strategic plan which sets out its ambitions, outcomes and priorities for the City of Leeds and for the Local Authority. The "Best City" and "Best Council" ambitions set the strategic context for the Medium Term Financial Strategy. The Best Council Plan can only be delivered through a sound understanding of the organisation's longer term financial sustainability, which enables decisions to be made that balance the resource implications of the Council's policies against financial constraints. This is the primary purpose of the Medium Term Financial Strategy which also provides the financial framework for the annual budget.

1.2.2 To enable the achievement of this ambition the Council has developed a Medium Term Financial Strategy covering 5 years to direct the resources of the Council to the priorities identified in the Best Council Plan.

1.3 The Influences affecting the MTFS

International, national and regional influences

1.3.1 The funding available to local authorities, and the way this is used, can be affected by factors at a regional, national and international level. Our Medium Term Financial Strategy has been produced at a time when Leeds is facing significant change and challenges, some of which come as a result of developments far beyond the city's borders.

COVID-19 and a new operating context

1.3.2 COVID-19 has fundamentally affected the way in which the Council works. Elements of this change which relate directly to crisis response will, in time, revert largely back to normal. However, an event of this magnitude undoubtedly means the Council will need to consider closely how its business and services should operate in the future.

National policy direction and international relationships

1.3.3 On January 31st 2020 the UK left the EU, and at the end of December 2020 the transition period will come to an end. While Leeds has been preparing to take advantage of the opportunities the EU exit presents, it is important to recognise the potential impact of the loss of European Structural and Investment Funds (ESIF). A consultation on replacement funding has not yet been published. On trade, we await the outcome of ongoing negotiations about the future UK / EU relationship.

1.3.4 In July the Chancellor launched the 2020 Comprehensive Spending Review (CSR) which will report in the Autumn on the Government's spending plans for this parliament. We expect there to be significant focus on the financial challenge for local government services, with much focus on finding a sustainable model for social care. The CSR will likely embed many of the policy announcements made by the new Government since its election.

West Yorkshire Devolution

1.3.5 Following the agreement of a devolution deal for West Yorkshire in March 2020, the region is expected to hold its first mayoral election in May 2021. Devolution will result in a new working relationship between the Council, the West Yorkshire Combined Authority (WYCA) and a new elected mayor, alongside significant levels of additional funding for the region to match its ambition.

1.4 Background to Leeds

1.4.1 The Leeds City Council was established in 1974, with the first elections being held in advance in 1973. Under the Local Government Act 1972, the area of the County Borough of Leeds was combined with those of the Municipal Borough of Morley, the Municipal Borough of Pudsey, Aireborough Urban District, Horsforth Urban District, Otley Urban District, Garforth Urban District, Rothwell Urban District and parts of Tadcaster Rural District, Wetherby Rural District and Wharfedale Rural District from the West Riding. The new Leeds district was one of five metropolitan districts in West Yorkshire and was granted a borough and city status to become the City of Leeds.

1.4.2 Leeds City Council is responsible for providing all statutory local authority services in Leeds, except for those it provides in conjunction with other West Yorkshire Authorities. This includes education, housing, planning, transport and highways, social services, libraries, leisure and recreation, waste collection, waste disposal, environmental health and revenue collection.

1.5 The Demography of Leeds

1.5.1 Leeds is a growing city with a diverse population estimated at 793,000 (ONS Mid-Year Estimate 2019), an increase of about 42,000 since the 2011 Census. Intelligence regarding the demand for services confirms sometimes very rapid demographic changes, particularly in our most deprived communities.

1.5.2 The backdrop to these localised pressures is the wider trend of the city's ageing population, reflecting the UK picture. There are a range of implications for service provision – in particular for health and social care. International evidence shows a strong association between deprivation, income inequality and a variety of health problems.

1.5.3 Leeds has the youngest age profile of the Core Cities (the largest cities outside London). Although the increase in the birth rate from the early 2000s appears to have plateaued at around 10,000 per annum over the last six

years, the child population is still growing at a faster rate than the population of Leeds as a whole. Where Leeds most notably stands out is for the rate of growth in the child population living in areas considered in the 3% most deprived in England.

Deprivation

1.5.4 Leeds' diversity is reflected across all its communities and neighbourhoods, both in the physical identity of our neighbourhoods and in the variety of cultures and ethnic identities of our residents. However, it is the divergence in economic characteristics that is most prominent, and perhaps more so than most other Core Cities. The Index of Multiple Deprivation 2019 shows that almost a quarter of Leeds' Lower Layer Super Output Areas (areas with populations of around 1,500 people) fall within the most deprived 10% nationally, but also shows that significant areas of the city are relatively affluent.

1.6 Economy and Business Make up

Economy

1.6.1 Leeds has been the main driver of economic growth for the wider city region, with key strengths in financial and business services, advanced manufacturing, health and creative and digital industries. Almost 470,000 people work in the city, in over 32,000 businesses, with three quarters of the workforce employed by the private sector, putting Leeds in the top five nationally for private sector employment, maintaining the city's employment rate above regional and core-city averages.

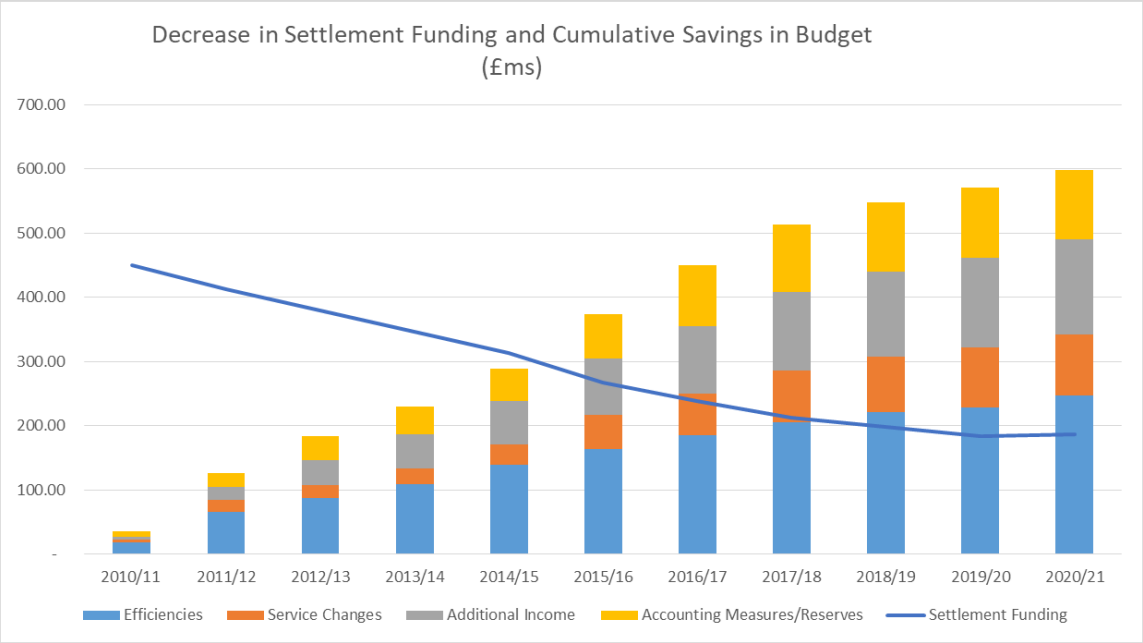
Labour Market

1.6.2 In common with other Core Cities, our economic output growth has only been mid-table in recent years. In March 2020, unemployment in Leeds stood at 17,600 (4%), a decline of 44% over the previous five years. However, the proportion of people claiming unemployment-related benefits has risen considerably since the Coronavirus crisis and the city has over 105,000 employees on furlough as at June 2020.

1.7 The Financial Challenge

1.7.1 Between the 2010/11 and 2020/21 budgets, the Council's core settlement funding from Government has reduced by around £263m, or nearly 60%. 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 since 2010/11 by over 2,300 FTEs.

Table 1.1 Decrease in settlement funding 2010/11 to 2020/21



1.7.2 Inevitably, managing the large reduction in Government funding combined with increasing cost pressures has meant that the Council has had to make some difficult decisions around the level and quality of services that it delivers and 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.

1.7.3 The financial challenge now facing the Council is to manage these pressures alongside the significant impact brought by the current COVID-19 situation. The needs of the communities served by Leeds City Council have already increased and will continue to do so, and the various funding streams that support local government will undoubtedly be effected by the longer term economic scarring as a result of the virus.

1.7.4 While this Financial Strategy provides a financial planning framework through to 2025/26, it does not represent the proposed budget for the next five years. It should be stressed that, under the Council's constitution, decisions to set the annual budget, the Council Tax base and the rate of Council Tax can only be taken by Full Council and therefore these decisions will continue to be made as part of the Council's annual budget-setting process.

1.8 The Financial Challenge Programme

1.8.1 Given the challenge of bridging the estimated budget gap of £166.3m for 2021/22 to 2025/26, of which £118.76m relates to 2021/22, whilst seeking to ensure the Council's revenue budget is robust, resilient and sustainable, a 'Financial Challenge' programme has been established to identify significant savings options. Following Member consideration and appropriate consultation as required, those savings options taken forward will contribute towards the Authority being able to deliver a balanced budget in each of the years covered by the Medium Term Financial Strategy.

1.8.2 The Financial Challenge programme comprises two key areas: a review of the capital programme and reviews of council services.

Capital Programme Review

1.8.3 In recognition of the financial challenges being faced the Council has sought to restrict further capital spending whilst the capital programme has been reviewed. The exceptions to these restrictions include essential health and safety work, COVID-19 related spend and schemes where the Council has received external income/grants. The capital programme review has been undertaken by senior officers across the Council under the direction of the Council's Strategic Investment Board. The process involved peer review and challenge, with each directorate discussing the proposals in their respective management teams. The approach to reducing borrowing has sought to reprioritise existing schemes, slip schemes and replace borrowing with external funding sources where possible. The outcome of the review is to propose a reduction of £112m of capital spend. This reduction is forecast to save £8.6m in revenue borrowing costs against the current assumptions in the MTFS by 2024/25.

Service Reviews

1.8.4 Reviews are underway across all council services, some cross-cutting whilst others are focused on specific services or activities.

- The cross-cutting reviews include areas in which the Council has been pursuing savings for some time – for example, a reduction in mail and print expenditure; others are newer and include reviews of the Authority's buildings, business administration and wage bill.

- Directorates are also undertaking a review of all services, identifying options for savings of 10% of Gross Expenditure or 20% of Net Expenditure. These reviews are a joint undertaking by all services within the Council with a cross-council review group established to help co-ordinate the work. Support Services have provided robust advice and challenge to support the reviews with additional peer reviews carried out by directors. In addition, a small number of more complex reviews have received independent support.

1.9 Risks

1.9.1 The Medium Term Financial Strategy makes assumptions in respect of the level of resources that are receivable through Council Tax, Business Rates and Government Grant. Any variations from these assumptions has implications for the level of resources available to the Council. The ongoing estimated impact of COVID-19 in the future financial position detailed in this Medium Term Financial Strategy increases the risk associated with these assumptions.

1.9.2 The outcome of the Government's Comprehensive Spending Review covering the period 2021-23 won't be known until the Autumn and the spending intentions for Local Government could differ from assumptions contained in this Medium Term Financial Strategy. Any differences will, in turn, impact upon the level of resources available to the Council.

1.9.3 There remain significant uncertainties with regard to business rates reform, the Government's Fair Funding review, the impact of the UK leaving the EU and also the Government's intentions for the future funding of social care.

1.9.4 This Medium Term Financial Strategy contains a number of inherent risks which include estimating demand and demographic pressures within services such as Adult Social Care and Children's Services, determining key income budgets that rely upon the number of users of a service, inflation being higher than that assumed in the Medium Term Financial Strategy and that costs associated with managing the Council's debt is higher than budgeted assumptions.

1.10 Principles of the MTFS

1.10.1 The Best Council Plan sets out the Council's ambitions, outcomes and priorities for the City of Leeds and for the Local Authority. This Plan can only be delivered through a sound understanding of the organisation's longer term financial sustainability which enables decisions to be made that balance the resource implications of the Council's policies against the financial constraints. This is a primary purpose of the Medium Term Financial Strategy which also provides the financial framework for the annual budget.

1.10.2 The Strategy contains provision for the Council's Revenue Budget to become both more financially resilient and sustainable, reducing the risks associated with funding recurring revenue expenditure through a requirement to generate capital receipts and making provision to unwind the utilisation of reserves and capitalisation of staffing costs, reducing the extent to which the Revenue Budget is supported by these mechanisms. Grant Thornton, the Council's external auditors, concluded in their 2018/2019 Annual Audit letter "that the Council has proper arrangements in place to ensure sustainable resource deployment".

1.10.3 One of Leeds City Council's values relates to "spending money wisely" and ensuring that maximum value is extracted for every £1 spent. External Audit provides independent assurance that value for money is being achieved and

the 2018/2019 Annual Audit letter from Grant Thornton concluded that they were satisfied that "the Council has put in place proper arrangements to ensure economy, efficiency and effectiveness in the use of it resources."

1.10.4 Whilst the Government's spending plans for the forthcoming financial period will not be known until the outcome of the Comprehensive Spending Review is announced in the Chancellor's Autumn speech, with full details being contained in the Provisional Local Government Finance Settlement in December, this Medium Term Financial Strategy assumes no growth in the Settlement Funding Assessment (Business Rates baseline plus Revenue Support Grant) for the period 2021/22 to 2025/26. It is assumed that 75% Business Rates retention applies nationally from 2023/24 onwards.

1.10.5 Business Rates receivable over and above the Business Rates baseline have been projected forward with account being taken of the ongoing impact of COVID-19 upon the forecast level of business rates receivable. In respect of Council Tax a 1.99% per annum increase is forecast each year with the Council Tax base growing by 1.2% in 2021/22 rising to 1.59% by 2025/26.

1.10.6 The purpose of the general reserve policy is to aid longer- term financial stability and mitigate the potential impact of future events or developments which may cause financial difficulty. General and useable reserves are a key measure of the financial resilience of the Council, allowing the Authority to address unexpected and unplanned pressures.

1.10.7 The Medium Term Financial Strategy recognises the requirement to keep the level of the Council's reserves under review to ensure that they are adequate to meet the identified risks. Grant Thornton's "Annual Audit Letter" for the year ended 31st March 2019 noted that "the Council has continued to maintain reserves at around 5% of net revenue expenditure" whilst at the same time recommending the "need for the Council to consider the adequacy of its reserves going forward." In accordance with this recommendation this Medium Term Financial Strategy provides for resources to ensure that this 5% requirement is achieved, although the level of reserves always remains under review, particularly in the context of the current COVID-19 pandemic.

1.10.8 The Strategy assumes a 2% pay award each year for employees and inflation has been provided for where there is a contractual commitment but anticipates that the majority of other spending budgets are cash limited. An anticipated 3% rise in fees and charges, where they can be borne by the market, has also been built into the Financial Strategy.

1.10.9 The ongoing impact of COVID-19 upon both income and expenditure assumptions is estimated to be £17.3m in 2021/22. Whilst this variation has been projected forward into the future years covered by the Strategy these projections will be refined and revised as the financial impact of COVID-19 is upon the Council's financial position is better understood.

1.10.10 Whilst funding for Devolution will in the first instance be devolved to WYCA, the Council may need to think differently about the way in which services are

organised, funded and delivered as regional collaboration continues to be strengthened over the coming years and this will influence the Medium Term Financial Strategy in future years.

1.10.11 This Strategy does not incorporate any specific impacts of Brexit although it is acknowledged as a risk with regard to potential economic uncertainty and the impact this could have upon the level of financial resources available to the Council.

1.10.12 The approach to the determination of the Capital Programme considers the affordability and the capital spending requirements over a 10 year time period. The greater integration of the Capital Programme within the Strategy better reflects a more co-ordinated approach to capital investment requirements whilst ensuring that affordability remains within the Medium Term Financial Strategy.

1.11 Summary / Conclusion

1.11.1 This Medium Term Financial Strategy needs to be seen in the context of significant inherent uncertainty for the Council in respect of future funding and spending assumptions. Specifically, the implications of the Government's future spending plans with regard to local government, and other areas of the public sector from 2021/22 onwards, remain unknown and the level of resources available to the Council will be heavily influenced by the Government's response to the significant increase in borrowing that has been undertaken in response to the COVID-19 pandemic.

1.11.2 As a result of the 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. The estimated ongoing impact of COVID-19 upon the Council's financial position has been projected forward and incorporated into this Medium Term Financial Strategy.

1.11.3 In addition, and to compound the uncertainty over the period covered by the Medium Term Financial Strategy, the Government has re-stated its intention to move to 75% business rates retention nationally, to reset business rates baselines and to implement the outcome of the Government's Fair Funding review of the methodology, which determines current funding baselines and is based on an assessment of relative needs and resources. However the timing of all these changes to the local government finance system is uncertain. An assumption has been made for this Strategy that they will all be introduced simultaneously alongside the business rates revaluation, which also requires significant adjustments to be made to the system and which the Government has confirmed will take place in 2023/24. This would have the advantage of adding some stability to the funding system over the medium-term. Adding to this uncertainty is the continued delay in the publication of the Government's Green Paper on adult social care, which will hopefully provide greater certainty around future funding intentions.

1.11.4 The Council's Medium Term Financial Strategy covers a five year period, which is considered to be an appropriate timescale for financial planning. The principle underpinning the Strategy, over the five years, is to ensure that Leeds City Council is robust, financially sustainable and resilient with less reliance upon short term solutions to fund recurring expenditure.

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

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

1.11.7 In response to the estimated budget gap of £166.3m over the life of the Medium Term Financial Strategy, of which £118.76m relates to 2021/22, the Council has embarked upon a series of service and budget reviews. The outcomes of these reviews have been incorporated into a number of budget savings proposals which can be found in a separate report elsewhere on this Executive Board agenda.

1.11.8 The outcome of the consultation on these service review proposals will be reported back to Executive Board in advance of the 2021/22 Initial Budget Proposals being received at December's Executive Board. As it currently stands, the value of both the service review and business as usual proposals are insufficient to bridge the estimated budget gap for 2021/22. As a result further budget savings proposals will need to be identified and brought before this Board.

1.11.9 The Council's Initial Budget Proposals will be received at Executive Board in December 2020 prior to a period of consultation, before final proposals are considered for approval in February 2021. The Council is required to present a balanced budget to Full Council for approval in advance of the financial year.

Part 2: Introduction and Background to Leeds City Council

2.1 Leeds City

2.1.1 Leeds is a growing city with a population estimated at 793,000 (ONS Mid-Year Estimate 2019), an increase of about 42,000 since the 2011 Census. Accompanying this growth, the population has continued to become more diverse in terms of age, countries of origin and ethnicity. Leeds has a large, urban core but, unlike many other cities, our administrative boundary includes a significant rural area, with villages and market towns.

2.1.2 During the two decades prior to the last global financial crisis, the city's economy experienced significant growth, driven] in large part by financial and business services. Leeds had established itself as a vibrant, diverse and dynamic city, with a strong knowledge-based economy. More recently, Leeds has returned to economic growth faster than many of its neighbours, and, prior to COVID-19, workplace-based employment in the city was estimated to have recovered beyond pre-recession levels.

2.1.3 However, even before the pandemic, not everyone was benefitting from this economic success. Poverty and deprivation remain significant challenges. Despite very strong performance in job creation in recent years, low pay is an increasing problem, with people caught in a loop of low pay, low skills and limited career progression. These challenges not only limit the opportunities for individuals, they hold back the economy, affect productivity, cause skills' shortages, and create additional costs for businesses and the public sector. Early evidence suggests that those in low pay / low skill occupations have been amongst those most affected by the economic consequences of COVID-19.

2.2 Influences

2.2.1 COVID-19 continues to have a major impact on this context at all levels. It has also severely impacted the Council's operating environment both in terms of the demand for services and our financial framework.

2.2.2 However, recognising our response to the crisis is likely to be complex and long lasting, maintaining clarity of focus will be crucial. We will continue to be guided by our Best City ambition for a strong economy that is compassionate, with the overriding priority of tackling poverty and inequalities, and our Best Council ambition to be an efficient, enterprising and healthy organisation.

2.2.3 There are a number of other influences which affect the resources available to Leeds City Council. These include :

- International Influences
- National Influences

- Regional Influences
- Population and Demographic Influences

Each of these factors contributes to the Direction of the City in achieving the Best Council Plan. More detail is provided in Section 3 of this Strategy.

2.2.4 The Medium Term Financial Strategy (MTFS) covers a five year period to ensure that the resources available to Leeds City Council are forecast over this period, identifying the influences which impact on the availability and use of these resources.

2.2.5 The Council's priorities are set out in the Best Council Plan which provides the strategic context and direction against which the Authority's resources are utilised. Further information on the Best Council Plan is set out in Section 3.

2.2.6 The MTFS brings together the key issues affecting the Revenue Budget, the Housing Revenue Account, Dedicated Schools Grant and the Capital Programme. A key part of the Strategy is to highlight the budget issues that need to be addressed by the Council over the coming financial years, by forecasting the level of resources from all sources and budget pressures relating to both Capital and Revenue Budgets. The Strategy highlights the measures being taken by the Council to reach its aim of being financially sustainable and resilient for the future.

Part 3 - The Influences, Strategies, Best Council Plan and Priorities affecting the Medium Term Financial Strategy

3.1 Influences affecting the Medium Term Financial Strategy

3.1.1 The socio-economic conditions and the policy drivers that shape our Medium Term Financial Strategy have clearly been affected by COVID-19 which continues to have a major impact at all levels, international, national and local. It has also severely impacted the council's operating environment both in terms of the demand for services and our financial framework.

3.1.2 However, recognising our response to the crisis is likely to be complex and long lasting, maintaining clarity of focus will be crucial. We will continue to be guided by our Best City ambition for a strong economy that is compassionate, with the overriding priority of tackling poverty and inequalities, and our Best Council ambition to be an efficient, enterprising and healthy organisation.

3.2 International, national and regional influences

3.2.1 The funding available to local authorities, and the way this is used, can be affected by factors at a regional, national and international level. Our Medium-Term Financial Strategy has been produced at a time when Leeds is facing significant change and challenges, some of which come as a result of developments far beyond the city's borders.

3.3 COVID-19 and a new operating context

3.3.1 COVID-19 has fundamentally affected the way in which the Council works. Elements of this change which relate directly to crisis response will, in time, revert largely back to normal. However, an event of this magnitude undoubtedly means the Council will need to consider closely how its business and services should operate in the future. Measures introduced nationally to combat the virus have had direct and indirect negative impacts on council finances which will need to be managed over future years. There remains potential longstanding impact on council income if behaviour, working practices and spending patterns in the city continue to change and this will need to be monitored and managed moving forward.

3.4 National policy direction and international relationships

3.4.1 On January 31st 2020 the UK left the EU, and at the end of December 2020 the transition period will come to an end. While throughout this time Leeds has been preparing to take advantage of the opportunities the EU exit presents, it is important to recognise the potential impact the loss of European Structural and Investment Funds (ESIF) could have. The Government has previously committed to introduce the UK Shared Prosperity Fund (UKSPF from 2021 to replace ESIF, but full details about the fund and

how it will operate have not yet been published. On trade, we await the outcome of ongoing negotiations about the future UK/EU relationship as the transition period comes to an end in December 2020. There continues to be significant uncertainty about the shape of any trade agreement which may be reached, and the potential for an exit on World Trade Organisation (WTO) terms remains possible. The council has been closely monitoring developments over recent years, ensuring it is as prepared as possible to respond to all potential exit scenarios. This places Leeds in a strong position to grasp any opportunities presented by EU exit, but it will not be possible to anticipate what all impacts of the final exit terms may be. Therefore the Council will need to remain ready to respond in an agile way as the situation develops.

3.4.2 As a part of the Comprehensive Spending Review process the Government asks for representations to inform policy development and these representations should contain policy suggestions which should explain the desired outcome, policy rationale, costs, benefits and deliverability of proposals. The outcome of the Comprehensive Spending Review will be incorporated into the Chancellor's Autumn budget speech which will set out the Government's spending plans for the forthcoming three financial years. Once again, we expect there to be significant focus on the financial challenge for local government services, with finding a sustainable model for social care perhaps expected to draw the most attention. The Comprehensive Spending Review will likely embed many of the policy announcements made by the new Government since its election, including on issues such as major infrastructure, obesity and active lifestyles. The Council should be prepared to identify ways for its services to embrace any opportunities which arise.

3.5 West Yorkshire Devolution

3.5.1 At a local and regional level 2021 is likely to see some major changes. Following the agreement of a devolution deal for West Yorkshire in March 2020, the region is expected to hold its first mayoral election in May 2021. Devolution will result in a new working relationship between the council, the West Yorkshire Combined Authority (WYCA) and a new elected mayor, alongside significant levels of additional funding for the region to match its ambition. Funding will in the first instance be devolved to WYCA, but the council may need to think differently about the way in which services are organised, funded and delivered as regional collaboration continues to be strengthened over the coming years.

3.6 About Leeds: Socio-economic context

Population

A more diverse population – with growth centred in our most deprived areas

3.6.1 International immigration has been an important factor behind the city's growth, with the population continuing to become more ethnically diverse

since the 2011 Census. EU countries such as Romania, Poland, Italy and Spain make up a significant proportion of new arrivals, as do countries from better-established migration routes from south Asia and parts of Africa. It is unclear what the impact of Brexit will be on patterns of international migration, though it is clear that many recent migrants play an important role in contributing to our economy.

3.6.2 Data from the city's schools shows there are more children and young people of black and minority ethnic heritages, particularly Black African and White Eastern European. The proportion of the school population from BME backgrounds has nearly doubled since 2005, increasing from 18% in 2005 to 35% in 2019[1]. The greatest ethnic diversity is in younger age groups, with 36% of BME pupils in primary schools and 32% of BME pupils in secondary and post-16 settings. In 2019, a fifth of Leeds school pupils spoke English as an additional language, with the top five main languages being Urdu, Polish, Romanian, Panjabi and Arabic.

3.6.3 Intelligence regarding the demand for services confirms sometimes very rapid demographic changes, particularly in our most deprived communities, are not only driven by immigration, but also influenced by the local housing tenure.

An ageing population

3.6.4 The backdrop to these localised pressures is the wider trend of the city's ageing population, reflecting the UK picture. Leeds' population is projected to continue to grow by 5% (41,300 people) between 2018 and 2028 with the 65+ age group projected to grow by 15% in that time. There are currently higher numbers of older people in the city's outer areas, though this may change as the recent shifts in the composition and spatial concentration of the population work through, resulting in a far more ethnically diverse older population with a greater concentration in the city's inner areas. There are a range of implications for service provision – in particular for health and social care. International evidence shows a strong association between deprivation, income inequality and a variety of health problems.

More children and young people

3.6.5 Leeds has the youngest age profile of the Core Cities (the largest cities outside London). Although the increase in the birth rate from the early 2000s appears to have plateaued at around 10,000 per annum over the last six years, the child population is still growing at a faster rate than the population of Leeds as a whole. Over the 10 years 2008 to 2018, there has been a very significant increase in the number of primary school age children in Leeds, with a growth of 18,900 children (21%) in the 0-10 age group. Over the 10 years 2018 to 2028, the peak of those primary age increases will start feeding into secondary school, with a large rise the number of teenagers in

[1] January School Census 2019

Leeds. There are projected to be 12,500 more young people aged between 11 and 17 by 2028 (22%).

3.6.6 Where Leeds most notably stands out is for the rate of growth in the child population living in areas considered in the 3% most deprived in England (Indices of Multiple Deprivation 2019): between 2012 and 2018 it is estimated the child population (ages 0-17) grew by 17% or 3,400 children in these areas (based on ONS Mid-Year Estimates 2018), the largest numerical growth of any local authority.

3.6.7 As the age profile of these areas show a greater proportion of residents of childbearing age, combined with higher housing densities as well as patterns of migration, it is no surprise the city's most deprived communities show higher birth rates than the Leeds average. However, it is the scale of the change that has the most impact on the provision of services.

3.7 Economy

3.7.1 Leeds has been the main driver of economic growth for the city region, with key strengths in financial and business services, advanced manufacturing, health and creative and digital industries, with a strong knowledge-rich employment base. These strengths, linked to the city's universities and teaching hospitals, are major innovation assets for Leeds. Leeds has also experienced high levels of business start-ups, foreign direct investment and employment growth; with strong performance in digital and medical technologies, telecoms and creative industries.

3.7.2 Almost 470,000 people work in the city, in over 32,000 businesses (ONS BRES 2018). Three quarters of the workforce are in the private sector, putting Leeds in the top five nationally for private sector employment, maintaining the city's employment rate above regional and core-city averages. This relatively strong performance may mitigate some of the effects of an economic downturn as a result of COVID-19.

3.7.3 COVID-19 has had an unprecedented impact on the economy locally, nationally and internationally. On 11th August 2020 it was confirmed that the UK economy had entered an official recession for the first time in 11 years, suffering its biggest slump on record between April and June 2020 with GDP shrinking 20.4% compared with the first three months of the year. Forecasts predict it may take between 2021 and 2024 to return to pre-crisis levels. Although there are some potential green shoots, with the Bank of England's Chief Economist estimating that the UK has already recovered "perhaps half of its losses", going on to state that the recovery in jobs will take longer but the risks to jobs have receded as spending and business confidence has picked up.

3.7.4 Locally, we are still seeing an acceleration of trends in the labour market and people's working patterns which continues to affect the city. Leeds city centre still has the highest levels of footfall in Yorkshire but this remains below what we would expect for this time of year. The most recent data shows footfall is

approximately 67.5% of normal levels but this is steadily increasing. Nationally, larger cities have seen a higher proportional drop in footfall compared to towns and district centres. This is because in cities, footfall is supported by a greater proportion of office workers, students, events and conferences which have all been affected. Leeds is performing in line with other core cities such as Liverpool and Manchester, and London's West End is faring considerably worse than Leeds in terms of percentage drop. Traffic flows are on average 15% of the levels seen in August during 2019, whilst rail passengers are approximately 70% lower than they were in March but are rising. Similarly, the combined level of MCard and concessionary fare use shows a reduction of 66% compared to March levels.

3.7.5 According to WYCA's latest business survey, the majority of businesses across the region say they are now open as normal, but 40% continue to report operating at significantly reduced capacity. The Leeds economy continues to be the main driver for the region. Employment data shows Leeds has many strengths in different sectors, the largest being Financial and Professional Services. It is difficult to provide an up to date picture on the health of our businesses. Safeguards put in place from Government have meant that business closures remain at low levels since April, but we expect this to change as Government support begins to be withdrawn.

3.7.6 The current sector split in Leeds is as follows:

Sector	Percentage of Businesses
Manufacturing	5.1
Construction	11.5
Wholesale & retail	14.2
Transport and storage	6.7
Accommodation & food services	6.0
Information & communications	8.5
Finance & bus services	34.6
Public sector	5.9
Arts, entertainment, etc.	6.0

3.7.7 Our digital sector is growing faster than anywhere in the UK and now employs 30,000 people, an increase of 67% since 2015 and has been

particularly resilient. There are also many opportunities in emerging Green sectors. Recent modelling from the Local Government Association shows Leeds will become a hotspot for new green jobs, generating the highest estimated number of jobs in the low-carbon and renewable energy sector of all the English Core Cities, with the city expected to see almost 34,000 jobs by 2050.

3.7.8 The recent outbreaks across West Yorkshire highlight the continued risk of further shocks and we need to be vigilant to local pressures, a potential second wave and any other disruption which may arise as we end the transition period with the European Union.

3.8 Labour Market

3.8.1 Common to other Core Cities, our economic output growth has only been mid-table in recent years. A challenge faced by all cities has been the 'hollowing-out' of skilled and semi-skilled occupations in all sectors, accompanied with growth in high skilled/high valued jobs in the knowledge-based sectors, together with growth in lower skilled/lower income jobs, often in consumer-services. Again it is unclear what the longer-term impact of COVID-19 will be, but early indications suggest an acceleration of this process of 'hollowing-out' combined with the increasing vulnerability of low skilled/low income employment in consumer services.

3.8.2 The latest Universal Credit claimant figures for Leeds for July were published on 11th August 2020. The provisional count of the number of people claiming Universal Credit in July shows a continued increase to 67,174. This is a 90% increase in claimant numbers (both in and out-of-work) between March and July 2020. The greatest impact has been on young people with 19% of claimants aged between 16-24 years, 16% aged 25-29 years and 16% aged 30-34 years.

3.8.3 There is likely to be a lag in unemployment data as the situation develops. However, the city currently has over 105,000 employees on furlough (HMRC, June 2020), representing almost 30% of the workforce. As the furlough scheme tapers, there are grave concerns regarding future levels of unemployment.

3.9 Deprivation

3.9.1 Leeds' diversity is reflected across all its communities and neighbourhoods, both in the physical identity of our neighbourhoods and in the variety of cultures and ethnic identities of our residents. However, it is the divergence in economic characteristics that is most prominent, and perhaps more so than most other Core Cities.

3.9.2 The Index of Multiple Deprivation (IMD[2]) 2019 confirms this divergence, with almost a quarter of Leeds' Lower Layer Super Output Areas (LSOAs – areas

[2] The IMD 2019 measures relative deprivation in England across 32,844 neighbourhoods or Lower Super Output Areas (LSOAs), based on 39 indicators across seven domains. It ranks each neighbourhood from most deprived to least deprived.

with populations of around 1,500 people) mainly in the inner east and inner south of the city, falling within the most deprived 10% nationally; but also showing significant areas of the city which are relatively affluent.

3.9.3 COVID-19 has compounded these deep-rooted inequalities, with young people and low earners being primarily affected to date as they are most prevalent in the hardest hit sectors. Many families are struggling with uncertainty and the potential of mounting debt. The longer-term economic fallout is likely to have an adverse impact on already significant health inequalities, with those individuals and communities at most disadvantage hit hardest.

3.9.4 Please visit the Leeds Observatory online here for more data about the Leeds population and Leeds economy, including for further information and analysis on the IMD 2019.

3.10 Leeds City Council's strategic priorities

3.10.1 The socio-economic context and the influences explained above inform our strategic ambitions and priorities for the city and for Leeds City Council. These are set out in our corporate strategy, the 'Best Council Plan' 2020 to 2025 (available here with the Plan on a Page included at Annexe A) which provides the basis for how and where we allocate our resources and thus for this Medium Term Financial Strategy.

3.11 Best City

3.11.1 The Best Council Plan describes our ambition for Leeds to be the best city in the UK: compassionate and caring with a strong economy; which tackles poverty and reduces inequalities; working towards being a net zero carbon city by 2030. We want Leeds to be a city that is distinctive, sustainable, ambitious, fun and creative for all. But most of all, in light of the impacts of the Coronavirus pandemic, we want Leeds to be a safe city.

3.11.2 Building on a range of key council and partnership strategies in place and in development, the Best Council Plan sets out a number of interconnected priority areas of work. These flow in particular from our two long-standing main strategies – Inclusive Growth and Health and Wellbeing – as well as a third, new for 2020, strategic key pillar for the organisation: the Climate Emergency. This addition recognises the scale of the challenge facing the city – and indeed the world – to make the changes needed to combat climate change effectively.

3.11.3 Taken together, a focus on eight 'Best City' priorities will deliver improved outcomes for everyone in Leeds:

- **Inclusive growth** – supporting the city's economic recovery from COVID-19, tackling poverty and helping everyone benefit from the economy to their full potential

- **Health and wellbeing** – ensuring support for the health and social care sector to respond to and recover from COVID-19, reducing health inequalities and supporting active lifestyles

- **Sustainable infrastructure** – tackling climate change risks, improving air quality and improving the city's transport and digital infrastructure

- **Child-friendly city** - making Leeds the best city for children and young people to grow up in

- **Age-friendly Leeds** - making Leeds the best city to grow old in

- **Culture** - improving the quality of lives and enhancing the image of Leeds through cultural and creative activities

- **Housing** - providing homes of the right quality, type and affordability in the right places and minimising homelessness

- **Safe, strong communities** - keeping people safe from harm and prioritising community respect and resilience.

3.11.4 Our emphasis on these priorities is crucial in establishing a 'new normal' for life in Leeds after the COVID-19 pandemic. Our longstanding commitment to them is now more important than ever as we continue to focus our support on those in most need, while enabling everyone to reach their full potential.

3.12 <u>Best Council</u>

3.12.1 The Best Council Plan 2020 to 2025 also maintains our long-established 'Best Council' strategic focus on being an efficient, enterprising and healthy organisation, all of which are particularly relevant in the context of COVID-19. This reflects our wider positive outlook for the role of local government in working with our communities to shape and strengthen the prospects of the city and its residents.

3.12.2 Despite growing demand and an unprecedented period of budget reductions for local government, the Council has continued to deliver high quality, improved public services and value for money for the Leeds public. We use our resources, influence and convening capacity to drive inclusive economic growth and promote health and wellbeing, tackling deprivation and other deep-rooted challenges to improve the quality of life for our residents.

3.12.3 As we start to understand the longer-term implications of COVID-19 on the city and the Council, the Best Council framework will provide the basis for the decisions we make in the coming months and years on the services we provide and how best to allocate our resources.

3.12.4 Underpinning everything we do and how we work to achieve our ambitions are our Values:

- Being open, honest and trusted

- Treating people fairly
- Spending money wisely
- Working as a team for Leeds
- Working with all communities

3.12.5 Our Best Council framework draws on our core strengths:

- Strong leadership of place
- Effective partnership working and commissioning
- Maintaining a clear focus on delivering high quality public services
- Using need-led, asset-based approaches based on early intervention and prevention
- Ongoing engagement with communities and individuals
- Making the best use of our resources

3.12.6 These resources include:

- Our **budgets**: our *Financial Strategy* (a one-page summary is available here and included at Annexe B**)** is helping us become more financially sustainable and resilient, safeguarding public funds while achieving value for money. This will ensure we are well placed to respond to the significant funding uncertainties and pressures we face – exacerbated to an unprecedented level as a direct result of coronavirus – and to target our money to where it can make the most difference
- Our **people**: our People Strategy (available online here and included at Annexe C) sets out our ambition to be the best place to work, through exceptional employee experience, talented managers and leaders, and a culture underpinned by fairness, diversity and collaboration. In line with our overall ambition to keep the city safe, the Strategy also includes a focus on keeping our staff safe whilst building in flexibility across the workforce in response to the pandemic
- Our **digital capabilities** play a central role in maximising the use of tools and technology to improve and transform the way the council works, provides services and engages with citizens.
- Our **land and buildings**: our Estate Management Strategy (in development) explains our vision and approach to managing the Council's land and buildings across the city, helping us deliver a modern, efficient, sustainable estate and workplaces that remain fit for purpose as the world adapts to new ways – and places – of working.
- Our **evidence and insights**, drawn from listening to our citizens and effective use of data, help us identify and understand the challenges and opportunities we face, assess progress in delivering our Best City and Best Council ambitions and drive improvement.

- Our **communications** enable us to clearly explain the challenges and opportunities to our citizens, partners and other key stakeholders, and to engage them in being a part of the solutions, further strengthening these vital relationships and collaborative working.

Part 4: The Five Year Financial Plan

4.1 Introduction

4.1.1 The Five Year Plan needs seen in the context of the factors that have influenced and been taken account of in the development of this Medium Term Financial Strategy and which are detailed in both Part 1 and 3 of this document.

4.1.2 This 5 Year Financial Plan takes account of the range of socio-economic conditions and the policy drivers that shape our Medium-Term Financial Strategy. These include taking account of international, national and regional influences which include the UK exiting the European Union, implementation of devolution across West Yorkshire, the demography of the city, the national and local economy, the local labour market and impact of deprivation across the city. In addition the Five Year Financial Plan also incorporates the ambitions and priorities of the Council as set out in its Best City and Best Council strategies. The socio-economic conditions and the policy drivers that shape our Medium Term Financial Strategy have clearly been affected by COVID-19 which continues to have a major impact at all levels, international, national and local. It has also severely impacted the Council's operating environment both in terms of the demand for services and our financial framework

4.1.3 The 5 Year Financial Plan has also been shaped by the financial challenges it has had to overcome in the past, whereby the Council's core funding from Government has reduced by £263m or nearly 60% since 2010, and the financial challenge detailed below which reflects the fact that a previously reported estimated budget for the period covered by this Medium Term Financial Strategy has increased significantly as a result of COVID-19, impacting upon the level of resources available to the Council to deliver the services that it provides.

4.1.4 Part 4 of this Medium Term Financial Strategy provides the information regarding the resources available to the Council, including the forecasts and assumptions underpinning these resources and it also details the pressures that the Council faces during the period covered by this strategy.

4.2 Financial Resources

Settlement Funding Assessment (SFA) and Changes in Local Funding

4.2.1 Settlement Funding Assessment (SFA) is the aggregate of core general government grant (Revenue Support Grant), the funding a local authority is expected to retain from locally collected business rates, known as the business rates baseline, and a tariff paid from locally retained business rates to Government. It is provisionally announced as part of the annual provisional Local Government Finance Settlement (LGFS) usually in November/December and confirmed in the Final LGFS in February.

4.2.2 The first SFA was set in 2013/14 when the Business Rates Retention Scheme was introduced, and formed the starting point for setting the Revenue Support Grant. This first SFA was allocated through a funding formula using estimates of the relative local needs and resources of all local authorities across England, such as the ability to raise Council Tax, and the relative demand for local services.

4.2.3 The business rates baseline and the tariff were also first set in 2013/14 based on the level of business rates collectable in an area and both are increased annually by CPI in line with the Small Business Rates Multiplier. The difference between total SFA and the sum of the business rates baseline and the tariff (known as baseline funding) is the amount the Council receives as Revenue Support Grant. Since 2013/14 SFA has been reduced every year until 2019/20. As the business rates baseline and tariff are fixed in real terms, this has meant that all these reductions in SFA have disproportionately reduced Revenue Support Grant. Only in 2020/21 did SFA increase by CPI (1.7%) which meant that RSG also increased by 1.7%.

4.2.4 Table 4.1 shows SFA and the other sources of funding included in the Council's Net Revenue Budget. These are Council Tax income and Business Rates growth income and are discussed in further detail in paragraph 4.3.

4.2.5 Additionally, the Council receives specific grants from Government. These can be announced alongside the LGFS, although they do not form part of the SFA. Changes in the levels of specific grants receivable are also discussed in more detail at paragraph 4.3.

4.2.6 Table 4.1 Estimated Level of Financial Resources

	2020/21 Final £m	2021/22 Indicative £m	2022/23 Indicative £m	2023/24 Indicative £m	2024/25 Indicative £m	2025/26 Indicative £m
Revenue Support Grant	28.2	27.1	25.0	0.0	0.0	0.0
Business Rates Baseline	158.4	159.5	161.6	186.6	186.6	186.6
Settlement Funding Assessment	**186.6**	**186.6**	**186.6**	**186.6**	**186.6**	**186.6**
Net Cumulative Business Rates Growth	10.9	(8.6)	(7.1)	(3.9)	2.9	9.6
Business Rates Surplus/(Deficit)	(5.5)	(88.3)	(8.8)	(8.8)	0.0	0.0
Council Tax: Core	306.8	305.7	323.9	339.6	352.7	366.5
Council Tax: Adult Social Care Precept	28.4	28.4	28.4	28.4	28.4	28.4
Council Tax Surplus/(Deficit)	(1.6)	(14.3)	(5.4)	(5.4)	0.0	0.0
Net Revenue Budget	**525.7**	**409.5**	**517.7**	**536.6**	**570.7**	**591.2**
Change in Resources		(116.2)	**108.2**	**18.9**	**34.1**	**20.5**

4.2.7 The Council's Net Revenue Budget, as shown in Table 4.1, is the net funding requirement to be met by general government grant and from local funding - Business Rates and Council Tax income. It is calculated as the amount by which the Council's gross expenditure exceeds its income from sales, fees and charges, specific grants and contributions and from all other income sources for that particular year. This gap between gross income and gross expenditure is then partly met by SFA and Business Rates Growth. After

taking account of any Collection Fund surplus or deficit brought forward from the previous year, any remaining gap is funded from Council tax income – the Authority's 'Council Tax Requirement'. Each of these elements is discussed further in paragraph 4.3.

4.2.8 Table 4.1 shows that the Net Revenue Budget for the Council is forecast to increase over the life of the Strategy, from £525.7m in 2020/21 to an estimated £591.2m in 2025/26. However this overall increase includes a significant decline in the Net Revenue Budget in 2021/22 as a consequence of the estimated impact of the COVID19 pandemic on local funding – Council Tax and Business Rates income. As discussed in paragraph 4.3 below, it is assumed that local funding will not return to pre-COVID levels until 2024/25.

4.2.9 Government can award additional grant funding to local authorities using ministerial discretion under Section 31 of the Local Government Act 2003. This mechanism has been used in 2020/21 to mitigate the impact of COVID-19 on local funding: £79.6m of additional grant funding has been received in regard to business rates, primarily compensating the Council for the cost of Government mandated reliefs given to retail and leisure businesses and children's nursery schools, and £8.9m relating to lost Council Tax income, which the Government expects to be used to give additional support to those residents claiming Local Council Tax Support. The Council will carry forward these grants in reserves to apply in 2021/22, thereby increasing gross income in that year which correspondingly reduces the Net Revenue Budget. This reduces the impact of the £116.2m change in resources shown in Table 4.1 on the overall budget position by £88.5m in 2021/22, such that the resulting budget pressure is £27.7m before any other budget pressures or savings identified in this report.

4.3 Budget Assumptions

4.3.1 The Government's previous four-year funding settlement period ended in 2019/20 and was replaced by a single-year settlement in 2020/21. For 2021/22 and beyond, there is little clarity about the future of local government funding. Government has indicated that Spending Review 2020, expected in the Autumn, will allocate funding to local government for the three year period 2021/22 – 2023/24. The Fair Funding Review and Business Rates Retention Reform were initially then intended to follow on from this three year settlement. However Government has since announced that the Business Rates Revaluation, which would have revalued every business property in the country, will now not take place until 2023/24. Such a Revaluation requires significant further adjustments to be made to the Business Rates Retention Scheme and this, in conjunction with the disruption caused by the ongoing Coronavirus crisis, leads to the assumptions reflected in this report that the new Fair Funding formula and reform to Business Rates Retention will now also be delayed until the Revaluation is completed in April 2023.

4.3.2 Further to this, it was assumed previously that there would be a reset of the Business Rates Retention Scheme in 2021/22, whereby accumulated growth in business rates income since 2013/14 would be redistributed between

authorities according to their relative needs. However, as a consequence of the Coronavirus crisis it is becoming increasingly apparent that there will be a significant reduction in this accumulated growth, although the extent of this reduction is difficult to quantify. It is further assumed that any reset will now take place alongside the delayed Revaluation. Therefore no redistribution has been assumed in this Strategy.

4.3.3 No separate figures for Revenue Support Grant (RSG) are shown in Table 4.1 after 2022/23 as it is anticipated that 75% Business Rates Retention will be introduced from 2023/24. The value of the grant foregone will be taken into account in setting the Council's new tariff (the amount of business rates income the Council is expected to return to Government), decreasing it to the level of SFA (the overall level of Government funding), which remains unchanged. Although this Strategy assumes that SFA will remain unchanged for the forecast period, this will not become clearer until after the Comprehensive Spending Review and the local government finance settlement in December 2020.

4.3.4 Changes in local funding, i.e. Business Rates Retention and Council Tax, are discussed in paragraphs 4.3.6 to 4.3.25. After taking account of the overall changes in the level of funding available to the Council, Table 4.1 shows that the Net Revenue Budget for the Council is forecast to increase over the life of the Strategy, from £525.7m in 2020/21 to an estimated £591.2m in 2025/26. However, this includes a significant decline in the Net Revenue Budget in 2021/22 as a consequence of the estimated impact of COVID-19 and it is assumed that local funding will not return to pre-COVID levels until 2024/25.

4.3.5 Government has awarded additional Section 31 grants to the Council in 2020/21 to mitigate this impact of COVID-19 on local funding. The Council will carry these grants forward in reserve to apply in 2021/22, which will increase gross income and correspondingly reduce the Net Revenue Budget in that year. As such, the impact of the £116.2m reduction in resources shown in Table 4.1 on the overall budget position is mitigated by £88.5m in 2021/22, such that the resulting budget pressure is £27.7m before any other budget pressures or savings identified in this report.

Business Rates Retention

4.3.6 In 2019/20 the North & West Yorkshire Business Rates Pool, of which Leeds is a member, was successful in applying to Government to pilot 75% business rates retention, retaining 75% of Business Rates growth rather than the 50% normally retained locally. The pilot allowed this additional growth to be pooled and spent locally rather than being paid to Government. Under the 75% pilot arrangements no levy on growth was payable. In 2020/21 the North & West Yorkshire Pool reverted to standard 50% retention pooling arrangements, whereby it retains levy payments on growth which member authorities would otherwise have paid to Government. These pooled funds are spent locally by a Joint Committee made up of representatives of the member local authorities. The Council is currently projected to contribute levy

payments to the Pool of £2.1m in 2021/22 and £0.02m in 2022/23 based on current projections of income from the Business Rates Retention Scheme. It is expected that, with the introduction of 75% Business Rates Retention in 2023/24, the system of levy payments on growth will be abolished in line with the 2019/20 75% pilot and therefore no levy payments are assumed from that year onwards.

4.3.7 It was expected that 75% Business Rates Retention would be introduced across England in 2021/22, however Government has now announced that, as a consequence of the COVID-19 pandemic, introduction will be further delayed, with no date currently proposed. Government has also announced that the scheduled 2021 Revaluation of all business properties will be delayed until 2023, to better reflect the post-COVID valuations of properties. A Revaluation requires significant adjustments to be made to the Business Rates Retention Scheme. The introduction of 75% Business Rates Retention would also require extensive adjustments to be made to the retention scheme, therefore for this Medium Term Financial Strategy it has been assumed that both will be introduced in the same year to maintain some stability in the Local Government finance system. In the interim the Strategy assumes that the Council will continue with 50% Business Rates Retention until 2023/24. In addition the COVID-19 crisis has placed considerable strain on the Business rates system and on the income that local authorities retain through the Business Rates Retention Scheme. Areas of particularly high risk for the Council reflected in this Strategy include increases in provisions for non-collection (bad debts), increased levels of Empty Rate Relief, the immediate shock to businesses resulting in a reduction in the tax base in the city and likely reduced growth in Gross Rates payable in future years.

4.3.8 The assumptions used to forecast business rates income in the Strategy are shown in Table 4.2.

Table 4.2 Assumptions used to forecast business rates income

	2021/22 Indicative	2022/23 Indicative	2023/24 Indicative	2024/25 Indicative	2025/26 Indicative
Estimated immediate reduction in taxbase	-3.9%	-	-	-	-
In-year growth in taxbase	0.0%	0.5%	0.8%	1.1%	1.1%
Level of bad debts	-3.5%	-2.9%	-2.2%	-1.6%	-0.9%
Level of Empty Rates relief	-5.8%	-6.0%	-5.2%	-4.8%	-4.5%
CPI	0.7%	1.3%	1.9%	2.0%	2.0%
Level of retention	50%	50%	75%	75%	75%

4.3.9 Since the Council set its budget for 2020/21 Government has introduced new 100% Reliefs to all retail and leisure establishments and to children's nurseries in response to the impact of COVID19 on these business sectors. The Strategy assumes these new reliefs are for one year only.

4.3.10 Any shortfall in business rates income received in comparison with the budget set is carried through into the following year as a surplus or deficit. The total deficit carried forward into 2021/22 is currently projected to be in the region of £105.9m. Part of this deficit is due to the reliefs described in

paragraph 4.3.9 above, as these were introduced after the Council's 2020/21budget was approved. However the Council will receive full compensation for the cost to the Council's Business Rates income of these reliefs, funding currently estimated at £79.6m. This funding will be held in reserve by the Council and carried forward to be applied to the total deficit in 2021/22, reducing the 'unfunded deficit' to £26.3m. This estimated unfunded deficit is made up primarily by the projected reduction in the tax base by the end of 2020/21 (£11.7m), an increase in the projected cost of additional bad debts provisions (£5.1m), an increase in the projected level of Empty Rate Relief (£4.7m), a deficit carried forward from the outturn 2019/20 Collection Fund (£3.6m), increased costs brought about by reductions in Rateable Value by the Valuation Office Agency (£0.8m) and an unfunded increase in the cost of the Small Business Rates relief scheme (£0.5m). To date, any losses incurred for these elements of Business Rates income do not receive compensation from the Government.

4.3.11 Government has indicated that Billing Authorities will be allowed to spread the cost of this remaining deficit over three years, although the precise application of this measure will not be known until the 2020 Spending Review expected in the autumn. The Strategy currently assumes that this £26.3m deficit will be spread evenly over the three years 2021/22 to 2023/24. In 2024/25 and 2025/26 it is expected that actual business rates income retained will be as budgeted and that therefore the Collection Fund will return to balance with no further deficit. At the time of writing the Council is not aware of any additional Government support in response to the impact of COVID-19 on business rates income, thus no further support is assumed in the Strategy.

4.3.12 Based on the above assumptions, the Strategy assumes that budgeted in-year Business Rates income retained by the Authority in 2020/21 (£169.3m) will reduce to £150.9m in 2021/22 (excluding the repayment of the 2020/21 deficit on the Collection Fund), and increase marginally to £154.5m in 2022/23 before recovering in 2023/24 to £182.7m with the introduction of 75% retention, £189.5m in 2024/25 and £196.2m in 2025/26. However the increase in in-year Business Rates assumed in 2023/24 will be partially offset by the assumed loss of £25.0m in Revenue Support Grant between 2022/23 and 2023/24.

4.3.13 Taking account of the impact of the deficit carried forward and the three year spread, the total budgeted income retained from the Business Rates Retention Scheme will reduce from £163.8m in 2020/21 to £62.6m in 2021/22, although this will be mitigated by the £79.6m of Section 31 grant funding brought forward in reserve from 2020/21 (as detailed in paragraph 4.3.10) making a total of £142.2m of resources for 2021/22. In 2022/23 this is expected to rise to £145.7m before recovering to £173.9m in 2023/24 with the introduction of 75% retention, £189.5m in 2024/25 and £196.2m in 2025/26.

4.3.14 Business Rates growth above the baseline represents the growth in retained Business Rates income achieved by the Authority since the start of the

Retention Scheme in 2013/14. Originally Government stated that the growth achieved nationally would be pooled in 2020/21 and redistributed following the Fair Funding Review along with further reforms to the Retention Scheme, a process known as a 'reset'. This was first delayed until 2021/22 and, as explained above, this Strategy now expects the reforms to Business Rates Retention Scheme, the reset and the introduction of the Fair Funding formula not to take place until the Revaluation is completed in 2023/24. However the subsequent COVID-19 crisis makes any estimation of the amount of growth to be distributed by any reset almost impossible to estimate. Therefore this Strategy assumes that any effects of these processes will be revenue neutral.

4.3.15 The MTFS has estimated that increased risks around bad debts, Empty Rates Relief, reductions to the current tax base and reduced in-year growth in future years will more than reverse all the accumulated growth above the baseline achieved since 2013/14 and that this will not recover until 2024/25. Details of the underlying assumptions for each of these elements are given in Table 4.2. The net effect of these assumptions on growth above the baseline is detailed in Table 4.3.

Table 4.3: The net effect of losses on business rates growth above the baseline

	2021/22	2022/23	2023/24	2024/25	2025/26
	Indicative	Indicative	Indicative	Indicative	Indicative
Leeds share of growth above the baseline	49%	49%	74%	74%	74%
Growth above baseline assumed in previous year (£m)	**10.9**	**-8.6**	**-7.1**	**-3.9**	**2.9**
Adjustment due to introduction of 75% retention	0.0	0.0	-3.6	0.0	0.0
Reduction in current taxbase in 2020/21 (£m)	-9.0	0.0	0.0	0.0	0.0
Change in cost of bad debt provisions (£m)	-4.5	1.1	1.7	1.8	1.8
Change in cost of empty rate relief (£m)	-3.6	-0.7	2.5	1.2	0.9
Change in cost of Small Business Rates Relief (£m)	-1.1	0.0	0.0	0.0	0.0
In-year growth of business rates yield (£m)	0.0	1.2	2.9	3.9	4.0
Other changes in the tax base (£m)	-1.3	-0.1	-0.2	-0.1	0.0
Growth above baseline assumed in current year (£m)	**-8.6**	**-7.1**	**-3.9**	**2.9**	**9.6**

4.3.16 The risks posed by appeals against the 2010 ratings list continue to reduce as the number of outstanding appeals is anticipated to reduce over the forthcoming months. The 2017 ratings list was introduced alongside a new appeals process and before COVID-19 the number of appeals against this list has been much lower than the 2010 ratings list, however a large number of appeals have been received by the Valuation Office Agency since April 2020. At present it seems these recent appeals are not resulting in reductions to Rateable Value but it remains uncertain as to whether this will continue.

4.3.17 There remain many uncertainties around the future of business rates retention within the local government finance system. The timing and changes to the Business Rates Retention Scheme in anticipation of the move to 75% retention nationally are unclear. The timing and mechanism of any baseline reset remains uncertain, as does whether the Government will

centralise any of the growth to be redistributed to local government to fund other initiatives. The Government also recently launched a 'Call for Evidence' on a fundamental review of the business rates system itself, the results of which are unknown. This Financial Strategy assumes that 50% retention in its current form will continue until 2023/24 and that the current retention scheme mechanism will continue during the period of this Strategy once 75% retention is introduced. However, the underlying uncertainties persist throughout this period.

Council Tax

4.3.18 This Medium Term Financial Strategy is written in the context of the current coronavirus situation and assumptions regarding the subsequent economic recovery. As such, Council Tax base growth is projected to be lower than previous estimates. Table 4.4 shows that growth in 2021/22 is estimated to be 1.2% (around 2,600 band D properties in 2021/22), 0.3% below pre-COVID predictions. Taxbase growth is then expected to rise incrementally in the following years, reaching pre-COVID levels in 2024/25, where it is estimated to be 1.54%.

4.3.19 The Strategy makes further assumptions about the economic impact of the current coronavirus situation; that the number of Local Council Tax Support claimants will increase in the short to medium term as the furlough scheme ends and unemployment rises to a projected 12% during 2020/21. Table 4.4 projects that unemployment is then expected to gradually fall to 5% by 2023/24 and remain static for the remainder of the Strategy at 1% above pre-COVID levels. The Strategy also assumes there will be a short to medium term reduction in collection rates, returning to pre-COVID levels of 99% by 2022/23.

4.3.20 The Strategy projects that councils will be able to raise core Council Tax by 1.99% in 2021/22 and in future years. It is assumed there will be no further additional precept for Adult Social Care, but that additional funding will be provided through government grant, as discussed at paragraph 4.3.31.

4.3.21 As with Business Rates, any shortfall between budgeted and actual Council Tax income is a cost that must be met in the following year. In 2020/21 the financial effect of the current Coronavirus situation on Council Tax is a projected deficit of £25.2m.

4.3.22 The Government awarded a Hardship Fund to Billing Authorities on the basis of their share of the national caseload of working age Local Council Tax Support (LCTS) claimants, to support authorities to reduce the council tax burden for those in receipt of LCTS. The Council received £8.9m in April 2020, paid as Section 31 grant, which will be held in reserves and used to meet the element of the Council Tax deficit carried forward into 2021/22 which relates to Council tax income losses arising from reducing the amount of Council Tax payable by LCTS recipients in 2020/21.

4.3.23 Applying the value of this Hardship Fund to the projected deficit of £25.2m reduces this deficit to £16.2m. As with Business Rates, Government are allowing Billing Authorities to spread the deficit amount carried forward to 2021/22 over three years. The Medium Term Financial Strategy reflects these adjustments. At the time of writing the Council is not aware of any additional Government support in response to the impact of COVID19 on council tax income, so no further funding is assumed in the Strategy.

4.3.24 Table 4.4 Assumptions used to forecast business rates income

	2021/22 %	2022/23 %	2023/24 %	2024/25 %	2025/26 %
Core increase to LCC precept	1.99%	1.99%	1.99%	1.99%	1.99%
Taxbase growth from previous year	1.20%	1.40%	1.49%	1.54%	1.59%
Levels of Bad Debt	2.00%	1.00%	1.00%	1.00%	1.00%
Unemployment assumptions impacting on levels of LCTS	10.00%	7.00%	5.00%	5.00%	5.00%

Deficit position from 2020/21 to be allocated over three years: 2021/22, 2022/23, 2023/24

Other Funding Changes

4.3.25 The paragraphs below outline the key changes to other funding that the Council receives, which are detailed in Table 4.10 in addition to changes to the Settlement Funding Assessment and to local funding outlined above.

Specific Grant Funding Changes - New Homes Bonus

4.3.26 Since 2011/12, the Council has received New Homes Bonus, an incentive grant based on housing growth. In 2018/19, the Government announced their intention to review the operation of the Bonus to better align the scheme with local authorities' performance in meeting local housing demand beyond 2019/20. No further detail has yet been provided and the existing scheme was simply rolled forward in 2020/21. Consequently, this Strategy assumes that the current legacy payments system will continue into 2021/22 and that the Scheme will then end. It is also assumed that the funding top-sliced for New Homes Bonus will be returned to local government in some form, although this will not be known until the provisional Local Government Finance Settlement, expected in December 2020. Since Leeds accounts for receipt of New Homes Bonus grant in the year in which the housing growth takes place, with grant actually received in the following year, the Council would not receive any such returned funding in 2021/22, creating a funding shortfall in that year.

4.3.27 The income from New Homes Bonus in 2021/22 is currently projected to be £2.2m, £2.5m below the level budgeted for in 2020/21 as a further year of legacy payments drops out of the system. Subsequently, it is assumed that

any changes to the scheme will be revenue neutral and therefore this £2.2m level of grant income is assumed to continue for the lifetime of this Strategy, whether received as New Homes Bonus Grant or in another way.

Specific Grant Funding Changes - Adult Social Care

4.3.28 The final 2020/21 Local Government Finance Settlement confirmed Government's intention to protect all social care grants that had been receivable in 2019/20, with an additional injection of £1 billion of new Social Care grant funding in 2020/21 for adults and children's services. Leeds received £14.0m of this, using £7.5m within Adult Social Care and the balance within Children's Social Care.

4.3.29 In the absence of either the Government's Green Paper, which was expected to provide greater certainty about the Government's future funding intentions in respect of adult social care, or of any details regarding increased future financial support, this Strategy assumes that all existing social care grants continue to be protected, including the new 2020/21 Social Care grant allocation.

4.3.30 It is difficult to think that there will not be some recognition of the demand pressures facing Adult Social Care services. As such, Table 4.10 reflects the assumption that additional funding equivalent to improved Better Care Fund (iBCF) annual growth in the previous 4 year settlement (£10.1m per annum) will continue to be receivable over the period of the Strategy.

4.3.31 The Strategy assumes 2020/21 to be the final year of the Adult Social Care Precept increases in Council Tax, reflecting concerns about the local tax burden, particularly post-COVID-19, and the inequitable resource impact of the precept nationally. However, given the extent to which current Precept income provides funding for Adult Social Care services (over £6.4m in Leeds in 2020/21) the Strategy assumes that this funding would be replaced by equivalent Government Grant.

4.3.32 As such, the Medium Term Financial Strategy assumes an increase in Adult Social Care resources of £87.9m over the period 2021/22 to 2025/26, detailed in Table 4.5. This grant will be utilised to fund a range of adult social care pressures and priorities including demand, demography and inflation increases on commissioned services. If the assumed levels of grant funding are not realised, the directorate will be required to reduce their expenditure budget accordingly.

4.3.33 Table 4.5 Assumed Increases in Adult Social Care Grant Funding

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Assumed increase in ASC funding - inflation	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)	(50.5)
Assumed increase in ASC funding -to replace ASC Precept	(6.6)	(7.0)	(7.5)	(7.9)	(8.4)	(37.4)
	(16.7)	**(17.1)**	**(17.6)**	**(18.0)**	**(18.5)**	**(87.9)**

Specific Grant Funding Changes – Children and Families

4.3.34 As discussed at paragraph 4.3.29, the final 2020/21 Local Government Finance Settlement confirmed the Government's intention to protect all social care grants receivable in 2019/20, with an additional injection of £1 billion of new Social Care grant funding. Of the £14m received by Leeds, £6.5m was used within Children's Social Care and the remainder in Adult Social Care. The Strategy assumes continuation of all existing Children's Social Care grants, including the new 2020/21 Social Care grant allocation, the School Improvement Monitoring and Brokerage Grant and the Troubled Families Programme: Earned Autonomy grant. If the assumed levels of grant funding are not realised, the directorate will be required to reduce their expenditure budget accordingly.

4.3.35 Leeds is one of three authorities to receive funding through the Department for Education (DfE) Strengthening Families Protecting Children (SFPC) Programme to support the spread of innovation programmes across 20 local authorities over five years. The 2020/21 budget for the Children and Families Directorate included the first tranche of additional grant of £1.6m. The additional 4 years of funding and fallout of this grant in 2024/25 are reflected in the Strategy.

4.3.36 As such, the Medium Term Financial Strategy assumes no increase in Children's Social Care resources over the period 2021/22 to 2025/26 and reflects the fallout of the £1.6m per annum Strengthening Families grant in 2024/25.

Specific Grant Funding Changes - Communities and Environment

4.3.37 The Housing Benefit and Local Council Tax Support Administration Subsidy grants are anticipated to continue to reduce by a further £1.5m over the life of the Strategy, reflecting the continuing reductions in the national quantum of funding allocated to Local Authorities. These are indicative assessments at this stage as the final allocations for 2021/22 will not be made until late 2020/early 2021. No other grant funding changes are assumed.

Specific Grant Funding Changes –Section 31 grants

4.3.38 Section 31 grants are received from Government to compensate local authorities for the costs of business rates reliefs introduced by the Government since the start of the Business Rates Retention Scheme and increases to the Small Business Rates multiplier being capped.

4.3.39 Government has awarded local authorities funding to meet the cost of the increased Business rates reliefs, as discussed at paragraph 4.2.9. Section 31 grant of £79.6m will be held in reserve by the Council and carried forward to be applied to the Business Rates deficit in 2021/22. Likewise, Council Tax Hardship Grant funding of £8.9m will be held in reserves and used to meet the element of the Council Tax deficit carried forward into 2021/22 which relates to Council tax income losses arising from reducing the amount of Council Tax payable by LCTS recipients in 2020/21, as discussed at paragraph 4.3.23. It has been assumed that these are both one-off grants, falling out in 2022/23.

4.3.40 Given the increase in the demand for the partially funded Small Business Rates Relief in the city since the 2020/21 budget, it is currently projected that related section 31 grants will increase by £0.7m in 2021/22, and then continue to increase by £0.3m in 2022/23, £0.4m in 2023/24, £0.5m in 2024/25 and £0.5m in 2025/26 in line with increases in the Small Business Rates multiplier. It is assumed the multiplier will continue to increase in line with CPI as forecast by the Office for Budget responsibility (OBR) as it has in previous years.

Other Funding Changes – Strategic Accounts

4.3.41 Local authorities pay a levy on Business Rates growth, either to the Government or to a local Pooling arrangement where one exists, as discussed in paragraph 4.3.6. Levy payments are projected to save £2.2m over the life of this strategy, when compared to the budgeted levy for 2020/21, reflecting assumptions about the impact of COVID-19 on business rates growth. It is estimated that levy payments will reduce from £2.1m in 2021/22 to £0.2m in 2022/23 and £0 in subsequent years once 75% Business Rates Retention has been introduced nationally, again explained more fully in paragraph 4.3.6.

Movement on the use of reserves

4.3.42 In 2021/22 the Medium Term Financial Strategy reflects the fallout of the £9m contribution from the General Reserve to the Revenue Budget in 2020/21. The Strategy also reflects a £3m planned contribution to the General Reserve in each of the three years 2023/24 – 2025/26, one of the Financial Sustainability measures considered in more detail in paragraph 4.5. The opening General Reserve 2020/21 stood at £31.6m with the opening position for 2021/22 estimated to be £26.7m. The impact of these assumptions on the level of General Reserve over the life of the Strategy is discussed in Part 5 of this Strategy document.

4.3.43 Movements across a range of earmarked reserves provide an increased pressure of £8.4m on the General Fund over the life of the Strategy: opening earmarked reserves for 2020/21 stood at £105.8m. £7m of this pressure due to the overall increase in these reserves relate to the Financial Sustainability measures regarding provision for Business Rates (£4m) and the provisions for Insurance and MMI (£3m), all of which are discussed in more detail in paragraph 4.5.

4.4 Budget Pressures

Inflation

4.4.1 The Financial Strategy makes allowance for £31.6m of net inflation from 2021/22 to 2025/26. It provides inflation where there is a contractual commitment but anticipates that the majority of other spending budgets are cash limited. The Strategy assumes an inflationary uplift on fees and charges where they can be borne by the market.

Employers Local Government Pensions Contributions

4.4.2 The most recent actuarial valuation took place in November 2019 and this showed that the West Yorkshire Pension Fund is in a surplus position. As a result of this position, the Council was notified that the employer's contribution would reduce from 16.2% to 15.9% from the 1st April 2020 and remain unchanged for three years. It was initially assumed that this contribution rate would be maintained for the life of the Strategy. However, the current COVID-19 pandemic may impact the Pension Fund adversely both by affecting return on investments and by changing the profile of membership of the Fund. It is therefore considered prudent to assume a short term increase in the employer's contribution. As such the Strategy reflects an increased contribution rate of 16.1% in 2021/22, falling to 16% in 2022/23 and returning to 15.9% in 2023/24. These increases result in additional costs of £0.7m in 2021/22, which then fall out over the following two years.

Pay Award and the Leeds Living Wage

4.4.3 Provision of £46.6m has been made for the costs of anticipated pay awards for the period covered by the Medium Term Financial Strategy. As well as providing for the cost of an annual 2% pay award for the period covered by the Strategy, it also provides for annual increases in the Council's minimum pay rate so as to achieve the £10.50 National Minimum Wage by 2024 announced in September 2019 by the then Chancellor. Each 1% increase in pay award costs approximately £4.5m.

Fall-out of capitalised pension costs

4.4.4 The fall-out of capitalised pension costs associated with staff who have left the Council under the Early Leavers Initiative (ELI) will save an estimated £0.5m in 2021/22, with no additional savings assumed in later years.

Early Leavers Initiative 2020

4.4.5 The Council relaunched its ELI scheme and a range of other voluntary options to reduce the wage bill in July 2020. Whilst initially the focus is to enable employees to exit the authority on 31st March 2020, this Strategy assumes that further leavers will be agreed in 2021/22. Provision of £6.3m has been made in 2021/22 to meet the costs of severance payments and pension strain with the level of funding required reducing over the life of the Financial Strategy, such that the net overall pressure is £2.4m. The associated savings in 2021/22 have been identified as part of the service review process.

Future Early Leavers Scheme

4.4.6 Any further savings required during the lifetime of this strategy will consider the costs associated with the payments of severance and pension strain.

National Living Wage for Commissioned Services and the Ethical Care Charter

4.4.7 In respect of services commissioned from external providers, provision of £6.9m per annum (£34.4m in total) has been included in the Strategy; £5.3m in the Adults and Health Directorate which includes £1.4m for Ethical Care Charter and £0.6m in the Children and Families Directorate. This is consistent with the National Living Wage assumptions. Elements of the Ethical Care Charter, particularly in respect of better terms and conditions including improved rates of pay for care staff were implemented in 2019/20 and the provision required for the period consolidates this position.

4.4.8 The increased costs associated with both paying our staff the National Minimum Wage (£3.1m over the life of the Strategy in addition to the assumed 2% pay increase each year, included in the total cost of the pay award at paragraph 4.4.3 above) and encouraging the services we commission to pay their staff the National Minimum Wage, detailed in paragraph 4.4.7, have been resourced by the Council without any additional funding from the Government.

Demand and Demography

4.4.9 The Medium Term Financial Strategy recognises the increasing demography and consequential demand pressures for services in Adult Social Care, Children and Families services and Waste services, with £47.9m being provided over the five years up to 2025/26.

Table 4.6 Demand & Demography

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m	£m
Adults & Health	7.18	7.18	7.18	7.18	7.18	35.90
Children & Families	2.20	2.20	2.20	2.20	2.20	11.00
Communities & Environment	0.20	0.20	0.20	0.20	0.20	1.00
	9.58	**9.58**	**9.58**	**9.58**	**9.58**	**47.90**

4.4.10 Within Adults and Health, the population growth forecast assumes a steady increase from 2019 in the number of people aged 85-89 between 2020 and 2025. These increases of 2.8%, 2.7%, 1.8%, 2.6% and 1.3% respectively result in additional costs for domiciliary care and care home placements. In addition, the Medium Term Financial Strategy reflects the anticipated impact of increasing cash personal budgets through to 2025. The Learning Disability demography is expected to grow by 2.3% (based on ONS data) over the period. It should be noted that the high cost increase 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. The Strategy provides £7.2m each year to deal with this demand and demographic growth, £35.9m in total across the years of the Strategy.

4.4.11 Children and Families 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. Consequently, the Medium Term Financial Strategy provides £2.2m per annum for the projected growth in the 0-19 year old population and the impact that this will have on both the Children Looked After budget and transport costs, £11.0m in total.

4.4.12 As a result of further demand pressures due to assumed household growth, provision of £0.2m has been made in each year of the Strategy for the increased disposal costs of waste to the Recycling and Energy Recovery Facility (RERF).

Income Pressures

4.4.13 Over its life, the Strategy provides for pre-COVID income pressures of £0.9m, relating to local land charges (£0.2m), car parking income (£0.5m) including income lost through the sale of land used for parking, reductions in court fee income (£0.1m) and Apprentice Levy income (£0.1m).

COVID-19 Pressures

4.4.14 Whilst the Council's 2020/21 budget has borne the brunt of the COVID-19 pandemic, this Financial Strategy makes provision for a continued impact on both the Council's expenditure and loss of income into 2021/22, estimated at £17.3m, of which £4.6m relates to additional costs:

- £1.1m for increased CLA external placements,
- £0.6m to reflect assumed increase in levels of waste,
- £0.5m additional PPE and cleaning costs,
- £1.0m impact on LBS costs as a consequence of continued social distancing
- £0.8m continued impact on delivery of planned savings.

A further £12.7m of COVID-19 pressures relate to estimated income losses:

- £4.2m relating to Sport and Arts and Heritage,
- £0.4m planning income
- £3.3m relating to commercial and Markets rents and advertising income
- £2.2m loss of car parking income
- £0.7m loss of income at attractions,
- £0.7m relating to cafes, shops and events, licencing and bereavement services,
- £0.5m impact on Parks operations income charged to capital schemes and the HRA,
- £0.5m court fee losses reflecting the backlog in cases.

This Strategy assumes the same level of impact in future years, however both the in-year impact of COVID and any impact assumed in future years continue to be reviewed and refined.

Other pressures

4.4.15 Over the life of the Medium Term Financial Strategy 2021/22-2025/26 other cost pressures amount to £40.8m, £32m of which relates to reducing the Council's reliance on capitalisation and internal charging arrangements, which are two further measures introduced to improve the future financial sustainability in 2022/23 and later years, discussed in paragraph 4.5 and shown within the Strategic Accounts figures at Table 4.7.

Table 4.7 Other Pressures

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Adults & Health	1.50	0.01	0.01	0.01	0.01	1.52
Children & Families	0.19	0.58	0.06	0.06	0.01	0.90
City Development	1.25	1.07	0.89	(3.93)	0.01	(0.73)
Communities & Environment	0.87	0.81	0.75	0.51	0.28	3.22
Resources & Housing	1.09	0.01	0.02	0.12	0.02	1.26
Strategic Accounts	0.68	9.00	10.00	15.00	0.00	34.68
	5.57	**11.48**	**11.71**	**11.76**	**0.32**	**40.84**

Debt

4.4.16 Over the life of the Strategy, provision of £84.9m is required to service debt.

Table 4.8 Provision for Debt

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Minimum Revenue Provision (Gross)	5.39	4.99	6.50	4.50	4.50	25.88
Capital Receipts Applied	20.00	5.00	5.00	0.00	0.00	30.00
Fallout of MRP Savings (Asset Lives)	5.93	0.00	0.00	0.00	0.00	5.93
Minimum Revenue Provision (Net)	**31.32**	**9.99**	**11.50**	**4.50**	**4.50**	**61.81**
Reduced Reliance on Capital Receipts (Financial Sustainability)	0.00	5.00	5.00	0.00	0.00	10.00
Treasury Management Savings	(3.11)	0.00	0.00	0.00	0.00	(3.11)
Strategic Debt and PFI Lifecycle Costs	6.44	6.32	(1.25)	2.03	0.89	14.42
Estimated Cost of Capitalisation: 2020/21 Funding Gap	1.73	0.00	0.00	0.00	0.00	1.74
Total Provision for Debt	**36.38**	**21.31**	**15.25**	**6.53**	**5.39**	**84.86**

4.4.17 Of this £61.8m relates to the net requirement to increase the level of budgetary provision for MRP. Changes approved at Full Council in February 2017 in relation to the MRP policy recognised that MRP had been overprovided for between 2008/2009 and 2014/15. This enabled the Council to benefit from reduced MRP payments in 2017/18, 2018/19 and 2019/20. However in 2020/21 this reduction in payments has come to an end, increasing the requirement for the revenue budget, gross of any use of capital receipts, to £51.1m in 2020/21 and £56.5m in 2021/22.

Table 4.9 Minimum Revenue Provision

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Gross MRP Debt	56.47	61.46	67.96	72.46	76.96
Therefore:					
Impact on MTFS (Increase in Provision)	**5.39**	**4.99**	**6.50**	**4.50**	**4.50**

4.4.18 The Council anticipates utilising £10m of capital receipts to contribute to the MRP requirement of £56.5m in 2021/22, a reduction in usage of £26m when compared with 2020/21. £5m will be applied in 2022/23, a further reduction of £5m when compared with 2021/22. No capital receipts are applied in later

years of the Strategy. Indeed, to enable the Council to utilise capital receipts for investment in the Council's Assets, thereby reducing the need to borrow, the MTFS has further reduced the Authority's reliance on capital receipts by increasing the revenue resources available to cover the cost of MRP payments. This Financial Sustainability measure is shown in Table 4.8 above and is considered in more detail in paragraph 4.5.

4.4.19 The Debt assumptions shown here do not take account of the outcome of the Capital Programme Review, which is the subject of a separate report to Executive Board in September 2020. Decisions relating to 2021/22 will be incorporated into the Initial Budget Proposals report to be received at December's Executive Board.

4.4.20 Table 4.10 Estimated Budget Gap (including Financial Sustainability Measures)

2021/22 TO 2025/26 PROJECTIONS	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Settlement Funding Assessment	0.0	0.0	0.0	0.0	0.0	0.0
Changes in Local Funding	116.2	(108.2)	(18.9)	(34.1)	(20.5)	(65.5)
Change in contribution to/(from) General Reserve	9.0	0.0	3.0	0.0	0.0	12.0
Change in contribution to/(from) Earmarked Reserves	3.0	(1.6)	2.0	5.0	0.0	8.4
COVID-19 Grants	(88.5)	88.5	0.0	0.0	0.0	0.0
Other Changes in Specific Grant	(14.0)	(16.7)	(17.3)	(16.1)	(18.2)	(82.3)
Changes in S31 grants	(0.7)	(0.3)	(0.4)	(0.5)	(0.5)	(2.4)
Other Funding Changes	(0.1)	(2.0)	(0.0)	0.0	0.0	(2.2)
Decrease/(Increase) in Funding	**24.9**	**(40.4)**	**(31.7)**	**(45.7)**	**(39.2)**	**(132.0)**
2021/22 TO 2025/26 PROJECTIONS	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**Total £m**
Inflation	4.5	6.6	6.7	6.8	6.9	31.6
Employer's LGPS contribution	0.7	(0.3)	(0.4)	0.0	0.0	0.0
Pay Award including Living Wage	9.9	8.5	9.2	9.4	9.6	46.6
Severance & Capitalised Pension costs	5.8	(3.9)	0.0	0.0	0.0	1.9
NLW Commissioned Services and Ethical Care Charter	6.9	6.9	6.9	6.9	6.9	34.4
Demand and Demography	9.6	9.6	9.6	9.6	9.6	47.9
Income pressures	0.5	0.3	0.0	0.2	0.0	0.9
Estimated COVID-19 Pressures	17.3	0.0	0.0	0.0	0.0	17.3
Other pressures/savings	5.6	11.5	11.7	11.8	0.3	40.8
Debt - external interest/Minimum Revenue Provision	36.4	21.3	15.3	6.5	5.4	84.9
Projected Cost Increases	**97.2**	**60.4**	**58.9**	**51.2**	**38.7**	**306.3**
Total Cost and Funding Changes	**122.1**	**20.1**	**27.3**	**5.5**	**(0.5)**	**174.4**

4.4.21 After taking account of changes to the Settlement Funding Assessment, changes in local funding plus other cost and funding changes as outlined above, there is a requirement to deliver £174.4m of savings over the period covered by the Medium Term Financial Strategy. The scale of the overall savings requirement needs to be considered in the context of the Council's current budget: gross General Fund budget of £1,365.0m and net budget of £525.7m in 2020/21.

4.5 Medium Term Financial Sustainability Measures

4.5.1 The financial position of the Council has been reviewed over the longer term with the intention of increasing financial sustainability and resilience. Table 4.11 shows the latest position assumed for a range of financial sustainability measures and each is then discussed in more detail.

Table 4.11 Financial Sustainability Measures

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Included in Funding Changes (Table 4.2):					
General Fund Balances	0.0	0.0	3.0	0.0	0.0
Provision for Business Rates	0.0	0.0	2.0	2.0	0.0
Provision for Insurance	0.0	0.0	0.0	2.0	0.0
Provision for MMI	0.0	0.0	0.0	1.0	0.0
Repayment of Borrowing from Ring Fenced Resources	0.0	0.0	1.0	1.0	0.0
Included in Cost Increases (Table 4.2):					
Capitalisation	0.0	5.0	5.0	10.0	0.0
Capital Receipts Funding Revenue Budget	0.0	5.0	5.0	0.0	0.0
Internal Charging	0.0	4.0	4.0	4.0	0.0
Total Financial Sustainability Measures	**0.0**	**14.0**	**20.0**	**20.0**	**0.0**

4.5.2 Previous years' budgets have utilised both the capitalisation of revenue expenditure and capital receipts to resource MRP payments to mitigate the impact of the Government's austerity agenda and the resultant reduction in funding to local authorities since 2010. In order for the Council's Revenue Budget to become more financially resilient, whilst at the same time reducing the risks associated with funding recurring revenue expenditure through a requirement to generate capital receipts, this Strategy contains provision to unwind the extent to which the Revenue Budget is supported by these mechanisms. Consequently, as detailed in Table 4.11, the base budget provision has increased by £30m per annum over the life of the Strategy.

4.5.3 An additional £12m has been added to the base budget between 2022/23 and 2024/25 to reduce the extent to which internal charging mechanisms are used in the Council's revenue budget, where the application of internal charging is driving the wrong financial behaviours and sustaining inefficiencies.

4.5.4 The level of business rates appeals continues to be a risk. Whilst there is now little scope for new appeals against the 2010 ratings list, there continues to be very limited information available on which to base an assessment of appeals against the 2017 list. The impact of the current COVID19 pandemic on business and the direct impact this has on the level of resources that the Council has to fund services, has reinforced that it is prudent to increase the

contribution to the business rates appeals provision (£4m increase in base budget provision by 2024/25).

4.5.5 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. The Medium Term Financial Strategy recognises the requirement to keep the level of the Council's reserves under review to ensure that they are adequate to meet identified risks. Subsequently the Council's external auditors, Grant Thornton, issued their "Annual Audit Letter" for the year ended 31st March 2019 in which they noted that "the Council has continued to maintain reserves at around 5% of net revenue expenditure" and that with future projections "the level of reserves may reduce. We recommend there is a need for the Council to consider the adequacy of its reserves going forward". In accordance with this recommendation the MTFS provides for a £3m base budget contribution to the General Reserve each year from 2023/24 to 2025/26. The impact is to provide General Reserves of £26.7m in 2021/22, £26.7m in 2022/23, £29.7m in 2023/24, £32.7m in 2024/25 and £35.7m in 2025/26.

4.5.6 In recognition of the requirement to adequately provide for insurance claims against the Council and specific insurance liabilities arising from having been a member of Municipal Mutual Insurance (MMI) the MTFS provides for a base budget increase in the level of the insurance provision in 2024/25 of £3m.

4.5.7 Against a background of reductions in Government funding the Council has used its balance sheet to support its Revenue Budget. In the context of making the Revenue Budget financially sustainable a planned reduction in the reliance on balance sheet items, as detailed in Table 4.7, has been provided for in the revised budget position (£2m increase in base budget provision by 2024/25).

4.5.8 The impact of these variations on the estimated budget gaps each year shown in Table 4.10 are summarised in Table 4.11, which shows that the measures agreed increase the base budget by £54.0m in total over the life of this Financial Strategy.

4.6 Savings and the Efficiency Programme

4.6.1 The Medium Term Financial Strategy recognises a number of savings proposals which have been previously agreed and reported as part of the 2020/21 budget process. These savings total £8.1m over the life of the Strategy. £6.3m of savings proposed are categorised as Business as Usual and have no impact on service delivery or on the Workforce. Savings proposals totalling £1.8m are considered to have service delivery or workforce implications. In all cases these are the later year impacts of proposals that were agreed as part of the 2019/20 savings review process, with the first year incorporated into the 2020/21 budget.

4.6.2 After recognition of these savings proposals, there remains a requirement to deliver £166.3m of savings over the period covered by the Medium Term Financial Strategy, £118.8m of which is required in 2021/22.

4.6.3 Table 4.12 Estimated Budget Gap less Savings Options

2021/22 TO 2025/26 PROJECTIONS	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Estimated Budget Gap	**122.1**	**20.1**	**27.3**	**5.5**	**(0.5)**	**174.4**
Directorate Budget Savings Proposals To Date						
Business As Usual	(2.6)	(0.8)	(1.0)	(1.9)	0.0	(6.3)
Service Delivery	(0.0)	0.0	0.0	0.0	0.0	(0.0)
Workforce	(0.5)	(0.5)	(0.5)	0.0	0.0	(1.6)
Service Delivery/Workforce	(0.2)	(0.0)	0.0	0.0	0.0	(0.2)
Total Budget Savings Proposals	**(3.3)**	**(1.3)**	**(1.5)**	**(1.9)**	**0.0**	**(8.1)**
Gap after Savings Proposals To Date	**118.8**	**18.7**	**25.8**	**3.6**	**(0.5)**	**166.3**

Bridging the Revised Gap – the Savings Programme

4.6.4 Recognising the financial challenge of bridging the estimated budget gaps for the period 2021/22 to 2025/26 whilst at the same time seeking to ensure that the Council's revenue budget is robust, resilient and sustainable, a savings programme has been established. The programme identified a series of workstreams and the saving proposals identified will contribute towards the delivery of a balanced budget position in each of the financial years covered by the MTFS.

4.6.5 The first of these workstreams relates to a number of **cross council** reviews that are currently being undertaken. Some of these reviews relate to activities that the Council has been pursuing for some time to deliver savings and these include areas such as changing the workplace, a review of business administration and a reduction in expenditure on mail and print. More recently identified workstreams being progressed, and which will be reported to Executive Board, include reviews of Commissioning, face to face/customer contact, reducing the wage bill locality working and community contacts and intervention.

4.6.6 Directorates have undertaken reviews of all services and these along with specific service reviews will contribute towards a targeted saving of 10% of Gross Expenditure or 20% of Net Expenditure for each Directorate. These reviews are a joint undertaking by all services within the Council with a review working group being established with representations from all directorates within the Council. Support Services have provided robust advice and challenge to support the reviews and peer reviews are being carried out by Directors to provide challenge in the process. In addition a number of specific service reviews are being undertaken and because these

are more complex reviews than the Directorate led reviews of all services, additional independent support is being provided to support the process.

4.6.7 A **review of the capital programme** is being undertaken. Whilst this progresses all non-essential capital spend has been placed on hold with the exception of essential health and safety works, Covid-19 related spend and externally/part funded schemes (where funding agreements are in place). Where review outcomes result in revenue savings, such as a reduction in the Council's cost of borrowing, these will contribute towards reducing the estimated budget gaps in the Council's Medium Term Financial Strategy.

4.6.8 The outcome of the workstreams described in paragraphs 4.6.5 to 4.6.7 has provided a number of saving proposals which are either classified as Business as Usual or Service Review proposals.

4.6.9 **Business as Usual** savings proposals do not require any consultation to implement. This is largely because the proposals relate to improving the efficiency of the service or are cost reduction measures with no impact of service users or staff.

4.6.10 **Service Review** savings proposals relate either to the way that the service is delivered, such that consultation is required with service users, or to an internal restructure of a service such that consultation with staff will be required. Some service reviews may require consultation with service users and staff on options for future service delivery.

4.6.11 The savings proposals identified to address the estimated budget gaps identified in this Strategy will be reported separately to the Council's Executive Board for agreement.

4.7 The Capital Programme

4.7.1 The Council's 10 year capital programme considers the need for capital investment against affordability within the MTFS. The programme identifies annual programmes across the Council that aim to provide investment in assets to ensure that the Council can continue to operate effectively. The Council also has a number of major programmes that provide investment in line with the Council's best plan objectives.

4.7.2 Capital investment needs are assessed on an annual basis under the direction of the Councils Strategic Investment Board with final approval sought from Executive Board and full council in February each year. Capital investment proposals that deliver savings or generate additional income can come forward thought the year and are subject to a robust business case approval. In addition schemes funded by external resources can be brought forward through the year.

4.7.3 A review of the capital programme is underway and a set of proposals have been presented to this Executive Board elsewhere on the agenda. The review is recommending that £131.5m of schemes are either stopped,

reduced or delayed. This is summarised as: £81.989m deletions, £30.021m of funding swaps; and £19.511m of rephasing.

4.7.4 The restated 10 year programme is detailed in Table 4.13.

Table 4.13

Annual Programme Capital Review	2020/21 £000,	2021/22 £000,	2022/23 £000,	2023/24 £000,	2024/25 £000,	2025/26 £000,	2026/27 £000,	2027/28 £000,	2028/29 £000,	2029/30 £000,	Total £000,
Highways Maintenance	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0	100,000.0
Highways Maintenance - supported by external funding	83.2										83.2
Highways Maintenance Capitalisations	4,600.0	4,600.0	4,600.0	4,022.1	2,800.0	1,800.0	900.0				23,322.1
Highways Bridges & Structures	362.1	1,499.9									1,862.0
Highways Bridges & Structures - supported by external funding	43.4	1,300.1	2,700.0	2,656.6	2,700.0	2,700.0	2,700.0	2,700.0	2,700.0	2,700.0	22,900.1
Traffic Management Programme	6.6	0.0									6.6
Highways Section 278	5,503.8	4,158.6	3,550.0	4,495.0	2,100.0	1,400.0	700.0				21,907.4
Highways Section 278 - external contributions / supported by external funding	7.5	82.7	0.0	700.0	1,400.0	2,100.0	2,800.0	3,500.0	3,500.0	3,500.0	17,590.2
General Capitalisation	4,100.0	4,100.0	4,100.0	3,300.0	2,700.0	1,800.0	900.0				21,000.0
Schools Capital Expenditure	2,500.0	3,500.0	3,500.0	2,800.0	2,100.0	1,400.0	700.0				16,500.0
Childrens Centres	76.4	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	526.4
Adaptations - Disabled Facilities Grants	1,913.1	1,069.0	1,069.0	1,069.0	1,069.0	1,069.0	1,069.0	1,069.0	1,069.0	1,069.0	11,534.1
Adaptations - supported by external funding	4,958.2	4,649.0	7,552.7	7,552.7	7,552.7	7,552.7	7,552.7	7,552.7	7,552.7	7,552.7	70,028.8
Vehicle Programme	3,632.2	1,000.0	2,000.0	2,000.0	1,200.0	800.0	400.0				11,032.2
Vehicle Programme - supported by external funding	981.2										981.2
Adaptation to Private Homes	532.6	470.0	470.0	470.0	470.0	470.0	470.0	470.0	470.0	470.0	4,762.6
Telecare ASC	479.6	600.0	600.0	600.0	600.0	600.0	600.0	600.0	600.0	600.0	5,879.6
General Refurbishment Schools	308.4	385.0	235.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	928.4
General Refurbishment Schools - supported by external funding	340.7	219.9									560.6
Library Books	525.0	525.0	525.0	450.0	300.0	200.0	100.0				2,625.0
Sports Maintenance	102.3	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	1,002.3
Project Support Fund (Groundwork)	65.9	0.0	0.0	0.0	70.0	70.0	70.0	70.0	70.0	70.0	485.9
Project Support Fund (Groundwork) - supported by external funding	70.0	70.0	70.0	70.0							280.0
Essential Services Programme	5,883.9	4,210.0	4,210.0	3,400.0	2,500.0	1,700.0	800.0				22,703.9
Digital Development	5,187.3	5,150.0	2,500.0	2,500.0	2,500.0	2,500.0	2,500.0	2,500.0	2,500.0	2,500.0	30,337.3
Corporate Property Management	4,848.9	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	18,348.9
Fire Risk Assessments	710.4	750.0	750.0								2,210.4
Capital Programme Management	541.4	541.4	541.4	541.4	541.4	541.4	541.4	541.4	541.4	541.4	5,414.0
Civic Hall Backlog Maintenance	403.8										403.8
Demolition Programme	1,383.5	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	5,883.5
Heritage Assets	4,059.3	4,250.0	4,538.3								12,847.6
Capitalisation of Interest	500.0	300.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	2,400.0
Total Annual Programmes	64,710.7	55,580.6	55,861.4	48,976.8	42,953.1	39,053.1	35,153.1	31,353.1	31,353.1	31,353.1	436,348.1
Climate Emergency	830.2	100.0	100.0	100.0	600.0	600.0	600.0	600.0	600.0	600.0	4,730.2
Climate Emergency - supported by external funding	50.0	600.0	650.0	700.0	250.0	300.0	350.0	350.0	350.0	350.0	3,950.0
Transformational Change to LCC (excl Core Systems Review)	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	15,000.0
PFI Lifecycle Capitalisations	9,389.4	8,677.8	11,462.0	11,980.0	12,895.0	13,395.0	13,895.0	14,395.0	14,895.0	15,395.0	126,379.2
Total Continuing Major Programmes Programmes	11,769.6	10,877.8	13,712.0	14,280.0	15,245.0	15,795.0	16,345.0	16,845.0	17,345.0	17,845.0	150,059.4
Total	76,480.3	66,458.4	69,573.4	63,256.8	58,198.1	54,848.1	51,498.1	48,198.1	48,698.1	49,198.1	586,407.5
LCC Borrowing	69,946.1	59,536.7	58,600.7	51,577.5	46,295.4	42,195.4	38,095.4	34,095.4	34,595.4	35,095.4	470,033.4
External Funding	6,534.2	6,921.7	10,972.7	11,679.3	11,902.7	12,652.7	13,402.7	14,102.7	14,102.7	14,102.7	116,374.1
Total	76,480.3	66,458.4	69,573.4	63,256.8	58,198.1	54,848.1	51,498.1	48,198.1	48,698.1	49,198.1	586,407.5

4.7.5 The impact on the cost of debt if schemes are slipped is shown below in Table 4.14. The forecast saving delivered by 2024/25 will be £8.6m

Table 4.14

	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Forecast Debt Budget	27.3	58.8	74.8	76.5	78.9	80.6	80.9	82.4	83.9	84.2
Year on Year Increase		31.5	16.1	1.7	2.4	1.7	0.3	1.4	1.5	0.3
Cumulative Increase		31.5	47.6	49.2	51.6	53.4	53.7	55.1	56.6	56.9
Cumulative MTFS*		31.8	49.5	54.9	60.2	62.0	62.3	63.7	65.2	65.5
Cumulative Impact of Review Savings		-0.3	-1.9	-5.7	-8.6	-8.6	-8.6	-8.6	-8.6	-8.6
Annual Impact		-0.3	-1.6	-4.1	-4.5	0.0	0.0	0.0	0.0	0.0

*Green current MTFS assumptions 2021/22 to 2024/25. From 2024/25 assumption made that there is an increase in the MTFS base annual programme

4.8 Capital Receipts

4.8.1 The main source of capital receipts include property sales, the proceeds from right to buy sales, and the repayment of capital loans to external organisations. A number of initiatives are considering how additional receipts can be generated for example asset rationalisation where the better use of the estate through embracing new working can release further assets for sale.

4.8.2 Capital receipts are used to fund a number of revenue budgets: MRP, transformational change, PFI liabilities and capital expenditure.

4.8.3 The MTFS recognises that the future generation of Capital receipts will be to invest in capital infrastructure / expenditure in the future. The revenue resource requirements have been increased to reflect this change in strategy

4.8.4 The current forecast and requirement of capital receipts is shown in Table 4.15:

Table 4.15

	2020/21	2021/22	2022/23	2023/24	2024/25
	£	£	£	£	£
Useable capital receipts	27,955,690	26,724,684	23,450,299	18,338,056	17,943,577
Revenue budget requirement (MRP)	36,822,000	10,000,000	5,000,000	5,000,000	5,000,000
Additional Target 2020/21	11,109,000	0	0	0	0
Flexible use of capital receipts (ELI & Digital)	2,233,000	4,700,000	6,480,000	2,850,000	1,500,000
Revenue budget requirement (PFI)	21,479,000	24,827,000	25,672,000	28,298,000	30,680,000
Charging PFI over asset life	(15,745,000)	(18,152,000)	(18,155,000)	(19,766,000)	(21,016,000)
Total Revenue budget requirement	55,898,000	21,375,000	18,997,000	16,382,000	16,164,000
In Year Surplus/(deficit)	(27,942,310)	5,349,684	4,453,299	1,956,056	1,779,577
Useable capital receipts surplus/(deficit) b/f	0	(27,942,310)	(22,592,626)	(18,139,327)	(16,183,271)
Useable capital receipts surplus/(deficit) c/f	**(27,942,310)**	**(22,592,626)**	**(18,139,327)**	**(16,183,271)**	**(14,403,694)**

4.9 Housing Revenue Account

Background

4.9.1 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 total resources available to the HRA is around £255m, with 87% of this being derived from rent and service charges to tenants.

4.9.2 Since all housing priorities are funded through the HRA, any variations in the rental income stream will directly impact upon the level of resources that are available for the delivery of housing priorities. Throughout the life of this plan, 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.

2021-2026 Deficit

4.9.3 Over the 5 years of the plan, there is an initial gap, prior to savings proposals, of £3.5m in year 1 and a cumulative deficit of £16.2m. This is summarised in Table 4.16.

Table 4.16: 5 year summary

Category	2021/22	2022/23	2023/24	2024/25	2025/26
	£000s	£000s	£000s	£000s	£000s
Income	(256,202)	(262,351)	(269,892)	(275,675)	(280,426)
Expenditure	147,440	147,975	150,972	153,760	157,770
Provisions	2,342	2,342	2,342	2,342	2,342
Transfer Payments	109,976	115,271	118,116	122,757	126,655
Reserves	0	(1,304)	(280)	(924)	815
Total	**3,556**	**1,934**	**1,258**	**2,260**	**7,157**

4.9.4 **Key Income Assumptions 2021-2026**

- **Rental Income.** In February 2019 the government confirmed that there will be a return to a rent formula of CPI+1% for 5 years from 2020/2021 and therefore forecast rental figures are based on this principle.

  Increases are based on the CPI Inflation rate as at September each year. Whilst the Office of Budget Responsibility (OBR)'s long term target remains at 2%, which would result in a rental increase level of 3% (CPI+1%), the latest available CPI rate is 0.8% and as a result it is prudent to plan for an increase in rent of 1.8% at this stage for 2021-22. For every 0.1% point change results in an approximate £210k change to rental income per year. Future year's assumptions are in line with OBRs targets

- **Right to Buy Sales.** RtB sales provide receipts which enable the capital programme to be sustained at a target of £80m per annum. They also provide a source of income via an administration fee for each sale. The current plan assumes 610 sales per year for the next two years, reducing by 50 a year in 2023-24 until reaching 400 a year. Whilst this reflects the expectation that the recent increase in sales will diminish at some point, RtB discounts remain a considerable incentive for many people. This could put further pressure on the rental income budget whilst increasing capital receipts.

- **Other Income.** The financial plan, as in previous years, assumes service charges will rise in line with inflation and the Sheltered Housing Support Charge for self-payers which is currently subsidised, will be increased on a stepped basis until full cost recovery is achieved. Specifically in 2021-22, this would generate an estimated £125k towards eliminating the subsidy with the subsidy eliminated over the life of this plan.

- **PFI Grant.** This grant remains fixed at £21.4m over the life of the PFI contract.

4.9.5 **Key Expenditure Assumptions:**

- **Pay Award and Price Inflation.** The plan provides for a pay award in each year of 2%, with the need to build into the base budget an additional 0.75% to reflect the pay offer for 2020-21. Price inflation is generally assumed at CPI levels in the plan, except where the budget is related to recharged services, where 2% is assumed.

- **Full Year Effect.** The 2020-21 budget provided for the expansion of the Enhanced Community Safety Initiatives in High Rise Flats; the plan recognises the full year effect of this at a cost of £290k.

- **Repairs.** The financial plan reflects the forecast changes in stock numbers, both losses through RtB sales and an adjustment for housing growth. There is a potential pressure within the plan for 2021-22 specifically on Gas contracts where above inflation increases are expected to result in a £550k pressure, however this will need to be managed within the overall repairs allowance of around £45m in 2021-22, rising to £48m over the life of the plan.

- **Disrepair Provision.** Resolving disrepair remains a priority for the service. Current costs of disrepair are around £3m which is in excess of existing budgetary provision. However, reflecting the need to identify actions to bring spend down, the financial plan assumes that this will be achieved and an annual budget of £1.4m for disrepair is provided for.

- **Provision for Bad Debt.** In the short term, as a result of the COVID 19 pandemic, the service has seen an increase the value of tenant arrears and it is prudent to review the levels of bad debt provision in the plan.

  Housing Management have an excellent track record in collecting income due. The work of the Enhanced Income Team in ensuring tenants are moved on to Alternative Payment Arrangements (APAs) means that whilst Universal Credit has increased arrears, providing for an increase in bad debt on the arrears that are paid by APAs may not be necessary.

  The figures in the plan therefore assume there is a return to usual payment levels next year, or that payment for those tenants in financial difficulty and on universal credit will be made via an APA. These figures do however assume a change in methodology in calculating the bad debt provision to reflect both increased arrears and additional debt being collected via APAs;

- **Capital Programme.** The revenue contribution to the capital programme (RCCO) is approximately 25% of the total HRA budget (£60m). This contribution, along with RtB receipts, funds an annual Capital Programme of around £80m. It is intended to maintain this level over the life of the plan. However, to do this it is necessary to transfer approximately £10m of in year (2020-21) RCCO savings to the Major Repairs Reserve and use £2m per annum of this reserve in the financial strategy.

- **Additional interest on borrowing charges.** The plan reflects increased costs associated with servicing the HRA's debt to fund the Council's Housing Growth Programme. The costs reflect a plan to deliver the current Housing growth programme and then 300 homes a year thereafter. The cost of this investment is in excess of £330m over the life of the plan.

- **Recharges to the HRA.** Recharges to the HRA relate to services provided from other parts of the Council on behalf of the HRA. For example, back office services such as HR, Finance, and DIS as well as front facing services such as the contact centre, hubs and environmental cleansing. At a time when the general fund services are required to make significant cost savings, the plan assumes that an appropriate element of these reductions are factored into the HRA financial strategy.

- **Use of Reserves.** The base budget is currently underpinned by the use of £1.4m of reserves. These are required to be replenished in future years as reserves are only available to be used once.

- **Contribution to General Reserve.** The level of HRA general reserve is £6.5m, which is approximately 2.5% of total spend. To provide a sustainable base going forward, and in line with the general fund strategy, it is recommend to target a general reserve level of 5% of spend by the end of the decade. The plan reflects an assumption that contributions to general reserve are made from 2022/23.

4.9.6 Table 4.17 summarises the initial key pressures for 2021-22.

Table 4.17

Category	£000s
Rent and Service Charges	(2,003)
Pay Award and Inflation	1,989
FYE Enhanced Security in High Rise Flats	290
Additional RCCO for Capital Programme	1,785
Fall Out of Use of Reserves	1,188
Contribution to PFI Reserves	216
Reduction in charges to capital	216
Total	**3,556**

4.9.7 The strategy to mitigate this cumulative deficit on the Housing revenue Account is in line with the approach being taken for the rest of the Council, i.e. options for balancing will include savings that can be generated from business as usual proposals and those that require more specific service reviews options including reductions in staffing numbers and full review of all budget lines.

4.10 Dedicated Schools Grant

Background

4.10.1 The Dedicated Schools Grant (DSG) is allocated by the Education and Skills Funding Agency (ESFA) and is the main source of income for local authorities' schools budgets. It consists of four funding blocks: schools, high needs (special educational needs), early years and central school services. The Council is forecast to receive DSG Funding of £2,652m over the next 5 years and further details are provided in Table 4.18.

4.10.2 Along with many other local authorities, Leeds is currently not receiving the full allocation of DSG due under the national funding formula, as there is a cap on some of the funding increases and this has created pressures on the DSG account. If the cap on gains had not been in place, Leeds would have been allocated an additional £26.4m of funding between 2018/19 and 2020/21 across the schools block (£9.5m) and high needs block (£16.9m). Further detail is provided in paragraphs 4.10.10 to 4.10.12.

4.10.3 In accordance with requirements set out in the Education Act, some of the DSG can be retained by the council to provide services for schools, however the majority is passed directly on to schools and other educational settings. There is some flexibility within the regulations in how funding is allocated out to schools and it is also possible to move some funding between the different blocks of the DSG to address pressures if required. Funding arrangements are reviewed annually, taking into account available funding and priorities set out with the Best Council Plan and supporting strategies. Funding allocations are agreed following consultation with schools and the Leeds Schools Forum, a statutory board with some decision making powers.

Projections

4.10.4 As shown in Table 4.18 below, the schools block and early years block budgets are expected to balance over the next five years, based on previous trends and forecast data.

4.10.5 In line with national trends, the key pressure anticipated in the MTFS for DSG relates to the high needs block, which provides funding in relation to pupils with special educational needs. The assumptions and risks associated with the projections for this funding block are set out in further detail in the sections that follow. There is also a smaller pressure on the central school services block from 2022/23, due to the phased reduction in DSG for any council expenditure no longer deemed eligible for funding.

4.10.6 Table 4.19 shows the projected cumulative DSG deficit at the end of each year. Also shown is the positive impact if the ESFA remove the cap on gains for high needs funding and if funding continues to be transferred from the schools block to support the pressures on the high needs block. This would however still leave a projected deficit which the Children and Families directorate is developing a plan to address. Further details on this are provided in the sections that follow.

4.10.7 Table 4.18 – Dedicated Schools Grant projected income and expenditure

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Schools Block					
DSG Income	(343.1)	(357.9)	(367.0)	(372.6)	(379.7)
Individual Schools Budgets	335.7	350.4	359.4	365.0	372.0
De-delegated budgets	4.4	4.5	4.6	4.6	4.7
Growth Fund	3.0	3.0	3.0	3.0	3.0
	0.0	**0.0**	**0.0**	**0.0**	**0.0**
Central School Services Block					
DSG Income	(4.9)	(4.8)	(4.7)	(4.6)	(4.6)
CSSB Expenditure	4.9	5.0	5.0	5.1	5.2
	0.0	**0.2**	**0.3**	**0.5**	**0.6**
Early Years Block					
DSG Income	(59.5)	(58.7)	(58.6)	(58.8)	(58.3)
3 and 4 year olds entitlement	49.0	48.5	48.0	47.4	46.8
2 year olds entitlement	7.4	7.2	7.7	8.5	8.7
Other early years provision	3.1	3.0	2.9	2.9	2.8
	0.0	**0.0**	**0.0**	**0.0**	**0.0**
High Needs Block					
DSG Income	(87.9)	(94.8)	(102.1)	(110.2)	(119.1)
Funding passported to institutions	87.3	93.7	101.7	109.1	116.6
Commissioned services	2.0	2.1	2.3	2.4	2.6
Directly managed by Children & Families	5.6	5.8	5.9	6.0	6.1
	7.0	**6.8**	**7.8**	**7.3**	**6.2**
Total Dedicated Schools Grant overspend	**7.0**	**7.0**	**8.1**	**7.8**	**6.8**

Table 4.19 – Dedicated Schools Grant projected deficit

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
DSG balance brought forward	7.1	14.1	21.1	29.2	37.0
In year deficit (from table 1)	7.0	7.0	8.1	7.8	6.8
Total cumulative deficit on General DSG before further actions	**14.1**	**21.1**	**29.2**	**37.0**	**43.8**
Potential additional funding:					
High needs block cap on gains removed by ESFA	(3.9)	(3.9)	(3.9)	(3.9)	(3.9)
Transfer agreed of 0.5% of schools block to high needs block	(3.0)	(3.1)	(3.2)	(3.2)	(3.3)
Potential revised cumulative deficit	**7.2**	**7.2**	**8.2**	**8.9**	**8.5**

Assumptions and risks

Funding increases

4.10.8 Local authorities are allocated DSG funding based on a combination of pupil data and historical funding. Since 2018/19 the government has been moving towards a national funding formula to address historical funding differences for local authorities and schools. In 2019/20, the Government also announced a three year funding settlement for the schools and high needs blocks of the DSG, providing a combined national rise of £7.1bn by 2022/23 compared to 2019/20. Local authority allocations are released on an annual basis and it is not yet known how this increase will be allocated in 2022/23, or what increases may be available beyond this.

4.10.9 Projections in Table 4.18 assume that the minimum funding increases will follow the same trends as in recent years. If increases were not as high as expected for the schools and early years blocks this would be matched by a reduction in funding allocated out to settings. In relation to future high needs block funding, the figures presented in the table assume increases in funding will continue at the same rate as recent years. This would however still not provide Leeds with its full high needs funding allocation under the national funding formula, as increases are currently capped. Further details on this are provided below.

Cap on gains

4.10.10 Although funding has increased since the move towards the national funding formula, some local authority funding increases have been subject to a cap on gains. Although this cap has been removed from the schools block from 2020/21 onwards it is still in place for the high needs block until at least 2021/22.

4.10.11 If the cap on gains had not been in place, Leeds would have been allocated an additional £26.4m of funding between 2018/19 and 2020/21 across the schools block (£9.5m) and high needs block (£16.9m). A further funding cap of £3.9m will apply in 2021/22 to the high needs block, based on provisional funding allocations released by the ESFA.

4.10.12 It is not currently known whether a cap will continue to be applied to the high needs block beyond 2021/22. The initial projected deficit in Table 4.19 above shows the impact of the current level of cap continuing, as well as the estimated impact on the deficit if the cap ended.

High needs demand

4.10.13 In line with the national picture, Leeds has experienced an increase in high needs demand and complexity in recent years, with this trend expected to continue. However Leeds has historically been underfunded in comparison to

other local authorities. Before the transition to the national funding formula started, in 2017/18 the high needs block funding for Leeds was 25% lower per pupil than the national average. The ESFA's national funding formula seeks to address this historical issue, however as noted above there is currently still a cap on funding increases and to date any additional funding received by Leeds has been exceeded by increased costs.

4.10.14 The projections in tables 4.18 and 4.19 are based on the current data available for forecast increases in special educational needs within the population. There are however risks that demand could be higher than projected, particularly in relation to the impact of COVID-19 on learning and deprivation, the effects of which may only become apparent after the planned re-opening of schools in September.

Funding transfers between DSG blocks

4.10.15 Since 2017/18 a total of £9.8m has been transferred to the high needs block from other funding blocks of the DSG, in order to redirect funding to support special educational needs pressures (£8.15m from the schools block and £1.65m from the central school services block).

4.10.16 Beyond 2021/22 it is not known whether funding can continue to be moved between DSG blocks in this way, as the ability for local authorities to do this may become more limited once the full national funding formula is introduced. In addition, any future transfers from the schools block would require annual consultation with schools and approval by the Leeds Schools Forum.

4.10.17 Table 4.19 shows the estimated funding available if a transfer of 0.5% of schools block funding to the high needs block continued and the impact on the overall deficit. The 0.5% transfer is in line with the current limit that Schools Forums can agree without further approval from the Secretary of State.

DSG savings plan

4.10.18 With effect from the end of 2019/20, new provisions have been added to the School and Early Years Finance Regulations which require local authorities to carry forward any DSG overspends or deficit balances to the following year. These should be dealt with from future DSG income, rather than being funded by the council, unless otherwise authorised by the Secretary of State. In practice Leeds, along with many local authorities, has historically dealt with any overspends on DSG in this way. The new regulations however reinforce that councils should not fund a DSG deficit from the general fund.

4.10.19 However any local authority with an overall deficit on its DSG account, or whose DSG surplus has substantially reduced during the year, must co-operate with the Department for Education (DfE) in managing that situation, including providing information on plans for managing the DSG account and meeting with officials from the DfE as and when requested. The Secretary of

State may also impose more specific conditions of grant on individual local authorities that have an overall deficit on their DSG account, where he believes that they are not taking sufficient action to address the situation.

4.10.20 The DfE expects to approach selected local authorities with deficits to begin more detailed discussions with them during 2020. In order to make this process manageable, discussions will be limited to a fairly small number of authorities in 2020/21 and will be expanded to other authorities during 2021/22 and subsequent years. The Council is likely to be required to take part in this process at some point, as a DSG deficit of £4m was carried forward from 2019/20 and current projections are for this to increase to £7.1m at the end of 2020/21. However as there are a number of other authorities with more significant DSG deficits than Leeds it is possible that this process may take place in future years.

4.10.21 A previous review by Children and Families of the high needs block in 2017 identified a range of options to reduce costs, which were consulted on with stakeholders and implemented as appropriate at the time. The Children and Families directorate are carrying out further work to identify a medium term plan which looks to bring the high needs block back into balance and addresses the current DSG deficit, to the extent that this is possible given any limitations in funding and increases in demand. Options are currently being considered for creating high needs provision in the city, with the intention of improving outcomes while also reducing costs.

4.11 The Financial Risks

4.11.1 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 risks as is the Council's financial position going into significant deficit in any one year. Both of these risks are subject to regular review.

Risks to funding

4.11.2 Even without the identified impact of COVID-19, the Medium Term Financial Strategy makes assumptions in respect of the level of resources that are receivable through Council Tax, Business Rates and Government Grant. Any variations from these assumptions has implications for the level of resources available to the Council.

4.11.3 The financial position detailed in this Medium Term Financial Strategy makes a number of assumptions in respect of the impact of COVID-19 upon 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 the period 2021/22 – 2025/26. These assumptions will be subject to review through the financial management, monitoring and reporting processes that the Council has in place.

4.11.4 The outcome of the Government's Comprehensive Spending Review, covering the period 2021-2023, will be published in the Autumn followed by the Provisional Local Government Finance Settlement in December. The publication of these documents will detail the Government's spending intentions for Local Government which could be different to assumptions contained in this Medium Term Financial Strategy and any variations will impact upon the level of resources available to the Council either positively or negatively.

4.11.5 Over the period up to 2025/26 there remain uncertainties with regard to Business Rates reform, the Fair Funding Review and also the Government's intentions for the future funding of social care and these could impact upon the assumptions contained in this document.

4.11.6 In addition to the economic impact of COVID-19, the impact of the UK's full withdrawal from the EU from January 1st 2021 could potentially have an adverse impact upon the economy and consequentially the Government's spending plans and the level of resources available to the Council. Conversely the UK's exit from the EU could have the opposite effect upon the economy.

Key Risks to cost assumptions

4.11.7 The Medium Term Financial Strategy contains a number of inherent risks which include the requirement to implement budget plans, budgets which are subject to both fluctuating demand and demographic pressures and key income budgets that rely upon the number of users of a service.

4.11.8 Specifically there are risks that demographic and demand pressures in Adult Social Care and Children's Services could be greater than anticipated, that inflation is higher than that assumed in the Medium Term Financial Strategy and that the costs associated with managing the Council's debt is higher than budgeted assumptions.

4.11.9 Key risks for the Dedicated Schools Grant (DSG) projections relate mainly to the high needs block of the DSG, which provides funding in relation to pupils with special educational needs. Future demand has been estimated based on trends and forecasts, both for population growth and increases in complexity of need, however actual demand may vary from these assumptions. In particular, the potential impact of COVID-19 on these trends is not yet known. In addition, funding allocations are confirmed on an annual basis and there is a risk that actual funding increases will differ from the amounts assumed in the MTFS. Specifically, funding increases are currently capped and it is not yet known how this cap will operate in future years. Lastly, a number of funding decisions are made by the Leeds Schools Forum, a statutory body of education representatives from across the city, and there is a risk these decisions may impact on future DSG pressures.

4.11.10 There are a number of risks that are specific to the Housing Revenue Account. These include CPI being lower than the percentage figure assumed

in the calculation of the rent increase in each of the years covered by this Medium Term Financial Strategy. Every 0.1% variation equates to a reduction of £0.2m in the level of resources available to support the services provided to Leeds tenants.

4.11.11 In addition the position contained in this Strategy makes assumptions around rent collection rates and tenant arrears. The ongoing impact of COVID-19 or a second wave will have implications for these assumptions and ultimately the amount that has to be set aside for bad debt provision.

4.11.12 Contained within these assumptions is a targeted reduction in the number and value of disrepair claims. If this targeted action is not successful then there will be a corresponding pressure upon the repairs budget.

Capital risk

4.11.13 One of the main risks in developing and managing the capital programme is that insufficient resources are available to fund the programme. A number of measures are in place to ensure that this risk can be managed effectively:

- Monthly updates of capital receipt forecasts prepared, using a risk based approach, by the Director of City Development;
- Monthly monitoring of overall capital expenditure and resources forecasts alongside actual contractual commitments;
- Quarterly monitoring of the Council's VAT partial exemption position to ensure that full eligibility to VAT reclaimed can be maintained;
- Ensuring written confirmation of external funding is received prior to contractual commitments being entered into;
- The capital programme includes a central contingency of £10m to cater for any unforeseen circumstances; £1m of this is allocated for specific emergencies. In addition individual programmes and schemes contain a risk provision for unexpected circumstances;
- Compliance with Financial Procedure rules, Financial Regulations and Contract Procedure Rules to ensure the Council's position is protected.

4.11.14 The Chief Officer – Financial Services will continue to work with service directors to ensure that capital schemes are properly developed and that a rigorous business case process is operated to demonstrate investment is aligned to Council best plan objectives and will deliver best value.

4.11.15 In managing the overall funding for the programme particular emphasis is placed on ensuring that contractual commitments are only made when there is reasonable certainty that the appropriate resources are available.

4.11.16 The Council recognises a number of pressures and development schemes that bring economic and wider benefits that have implications for the level of

debt. The Council will look to manage these pressures and limit the impact on debt costs by ensuring where possible that new schemes are fully funded (either by external resources or departmental prudential borrowing), or are essential (under health and safety grounds or in order to ensure Council assets are maintained for continued service provision). A revised approach to ensuring that new capital schemes are prioritised and injected at two points in the year has been implemented. This strategy does however allow for spend to save schemes that are supported by robust business cases or those of an immediate health and safety nature to be injected throughout the year.

4.11.17 In funding the requirements of the capital programme through borrowing the treasury strategy will aim to manage the debt requirement at the lowest possible cost that is consistent with a strategy to have a stability long term debt portfolio.

4.11.18 The execution of treasury management strategy and associated risks are kept under regular review through:

- Monthly reports to the Finance Performance Group;
- Quarterly strategy meetings with the Chief Officer-Financial Services and the Council's treasury advisors; and
- Regular market, economic and financial instrument updates and access to real time market information.

Part 5: Financial Assurance

5.1 Assurance

5.1.1 This section of the Strategy details the arrangements that the Chief Officer – Financial Services has established to provide assurance that, in respect of the management of public financial resources that the Council has in place effective and robust arrangements for financial planning, financial control and other financial management activities. These provide the assurance that the current arrangements set out below comply with the requirements of the Chief Finance Officer protocol as set out in Section 5k of the Council's constitution.

5.2 Governance Structure

5.2.1 In the context of the terms of reference for the Council's Corporate Governance and Audit's Committee, which is to review the adequacy of policies and practices to ensure compliance with statutory and other guidance", the Chief Officer – Financial Services produces an annual report which provides assurance that the Council has in place effective and robust arrangements for financial planning, financial control and other financial management activities.

5.2.2 The role of the Chief Officer – Financial Services, the Section 151 officer, is critical in ensuring that the financial resources of the Council are safeguarded. In accordance with CIPFA's statement on the role of the Chief Financial Officer in local government, the Chief Officer – Financial Services reports directly to the Director of Resources and Housing; is a member of the Council's Leadership Team, attends Executive Board; has advance notice (including receiving agendas, minutes, reports and related papers) of all relevant meetings of the Authority; has the right to attend any meeting of the Authority; and has sufficient resources to enable them to address any matters concerning their Section 151 functions.

5.2.3 The Budget Accountability Framework, approved in October 2014 and amended in March 2015, sets out how the Council manages its budget. The framework sets out these key roles, the way in which they inter-relate and how budget management accountability is exercised and evidenced.

5.2.4 The revenue budget principles, approved by Executive Board in July 2019, support the budget process and need to be complied with in conjunction with compliance with the Council's Budget and Policy Framework, the Budget Management Accountability Framework and detailed guidelines provided for setting budgets. The capital programme principles have been developed to enable focus on the purposes of the Capital Programme and to seek agreement for the use of limited resources.

5.2.5 The Chief Officer – Financial Services, as Section 151 officer, is responsible for systems of financial control and, as a part of this system of control, Financial Regulations provide a framework for managing the Council's financial affairs. This system of control ensures that the financial transactions of the Council are recorded as soon as, and as accurately as, reasonably practicable, they enable the prevention and detection of inaccuracies and fraud and ensure that risk is appropriately managed.

5.2.6 The Council's Contract Procedure Rules (CPRs) set out the key responsibilities and actions that Council staff must follow when undertaking procurements. They support staff to meet legislative requirements and to meet the Council's ambitions for procurement, the Council's procurement strategy, and related policies and procedures. They also support staff to deliver effective procurement.

5.2.7 A report received at July 2020's Corporate Governance and Executive Board detailed the process the Council must follow for the submission of an emergency budget and provides assurance that the proposed measures would be both agreed by Council's Executive Board and consulted upon prior to Full Council consideration of the proposals.

5.2.8 The Council has tried and trusted arrangements for treasury management which comply with CIPFA's Code of Practice on Treasury Management and Prudential Code. An annual Treasury Management Governance Report which reports on the robustness of these arrangements is received at the Council's Corporate Governance and Audit Committee.

5.3 <u>Internal Audit and Systems of Control</u>

5.3.1 The Public Sector Internal Audit Standards outline that a professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. On behalf of the Corporate Governance and Audit Committee and the Section 151 Officer, Internal Audit acts as an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. The work of Internal Audit contributes to Leeds City Council achieving its key priorities by helping to promote a secure and robust internal control environment, which enables a focus on accomplishing Best Council Plan objectives in an efficient and effective way. The independent check and challenge provided by Internal Audit provides an important source of assurance for the Section 151 Officer in exercising statutory responsibility for the financial administration of the Council.

5.3.2 Each financial year, a risk based Internal Audit Plan is put together incorporating a review of information from a range of sources including strategic plans and risk registers. The Internal Audit Plan is designed to promote the effective and efficient use of resources across the organisation, and is subject to constant review throughout the financial year to ensure that coverage is prioritised and directed towards the areas of highest risk. This

ensures that audit and consultancy work is aligned with new projects, emerging risks and shifting medium term priorities.

5.3.3 The challenging financial climate that provides the backdrop for the Medium Term Financial Strategy underlines the importance of effective financial control and resilience. The Internal Audit Plan includes annual reviews of the council's key financial systems, providing assurance that the financial systems that are fundamental to the Council's operations remain effective and work well in practice.

5.3.4 Internal audit coverage is spread across directorates and risk areas, ensuring that there is a balance between breadth (taking a broad look at governance and risk management) and depth (drilling down into specific areas where internal audit can provide a valuable insight). The reviews undertaken throughout the year cover a range of functions including finance and procurement. The achievement of value for money is a primary consideration throughout each piece of Internal Audit work, providing valuable assurance on the effective use of the Council's resources.

5.3.5 Each piece of audit work results in an audit report that provides, where appropriate, an assurance opinion along with highlighting areas for improvement and recommended actions to address the identified risks. A follow up audit is undertaken to provide assurance on the actions implemented for all reviews that have resulted in limited or no assurance opinions. This helps to contribute to a culture that is geared towards continual improvement.

5.3.6 Leeds City Council is committed to the highest standards of openness, probity and accountability. To underpin this commitment, the Council takes a zero tolerance approach to fraud and corruption and is dedicated to ensuring that the organisation operates within a control environment that seeks to prevent, detect and take action against fraud and corruption. As custodians of the Council's anti-fraud and corruption policy framework and owners of the fraud and corruption risk, Internal Audit adopts an overarching responsibility for reviewing the Council's approach to preventing and detecting fraud. This is fundamental to safeguarding financial resources at a time when it is vitally important to make every pound go further.

5.4 Financial Assurance and Resilience

5.4.1 The Council has a proven and comprehensive approach to the development of its Medium Term Financial Strategy, its annual budget setting and the identification of savings plans. The Medium Term Financial Strategy covers a five year period and incorporates the Council's capital strategy. This Medium Term Financial Strategy recognises the requirement for the Council's revenue budget to become more financially resilient and sustainable whilst at the same time reducing the risks associated with funding recurring revenue through mechanisms such as capital receipts and capitalisation.

5.4.2 Budget management and monitoring is a continuous process which operates at a number of levels throughout the Council. The Council's budget accountability framework clearly articulates roles and responsibilities and aligns financial accountability within service decision making. Financial monitoring is undertaken on a risk based approach with monthly budget monitoring reports being received at Directorate leadership teams, Executive Board and respective Scrutiny Committees.

5.4.3 Arrangements for managing the capital programme include the requirement to submit rigorous business cases for new capital schemes funded from borrowing and that appropriate measures are in place to ensure that sufficient resources are available to fund the capital programme.

5.4.4 A combination of CIPFA's code and Government guidance require a local authority to produce a Capital and Investment Strategy. The capital element of the Strategy sets out the principles that underpin the Council's Capital Programme and as such how it supports the corporate priorities and objectives. The Strategy sets the framework for all aspects of the Council's capital expenditure and investment decisions. It supports strategic planning, asset management and robust option appraisal. The Investment Strategy covers the Council's approach to non-treasury investment decisions. Treasury investment decisions are already contained within the Treasury Management Policy Statement that is presented as part of the annual Treasury Management report.

5.4.5 External Audit provides independent assurance on the Council's accounts and accounting practice and that there are appropriate controls around the key financial systems. In addition they provide independent assurance to ensure value to money is being achieved and the 2018/2019 Annual Audit letter from Grant Thornton concluded that they were satisfied that "the Council has put in place proper arrangements to ensure economy, efficiency and effectiveness in the use of it resources.

5.4.6 Internal Audit continues to provide assurance to Members that all of the key core financial systems and processes are robust and operating effectively.

5.4.7 The Corporate Financial Integrity Forum, which is an officer forum, meets each month and has a key role within the financial control environment since its function is to help ensure that there are appropriate procedures and operations in place to help ensure the continued integrity of the Council's financial accounts.

5.4.8 In October 2019 CIPFA published the Financial Management Code. The Code, which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability, has been introduced following concerns about fundamental weaknesses in financial management particularly in relation to organisations that may be unable to maintain services in the future. The Code itself contains a series of financial management standards for which compliance is required if a local authority is to meet the minimum standards of financial management

acceptable to meet fiduciary duties to tax payers, customers and lenders. Local authorities are required to apply the requirements of the Financial Management Code with effect from 1st April 2021. Adoption of the Code reinforces the Council's budget principles which provide a framework for managing the revenue and capital budgets. These principles were adopted by the Council in July 2019.

5.4.9 Implementation of the Code complements the Council's Statutory Financial Officer's statement, which is required under the 2003 Local Government Act, on the adequacy of reserves as a part of the annual budget setting process.

5.5 Robustness of the Budget

5.5.1 The Local Government Act (Part II) 2003 places a requirement upon the Council's statutory officer (the Chief Officer – Financial Services) in Leeds to report to Members on the robustness of the budget estimates and the adequacy of the proposed financial reserves.

5.5.2 In considering the robustness of any estimates, the following criteria need to be considered:

- The reasonableness of provisions for inflationary pressures.
- The extent to which known trends and pressures have been provided for.
- The achievability of changes built into the budget.
- The realism of income targets.
- The alignment of resources with the Council's service and organisational priorities.
- A review of the major risks associated with the budget.
- The availability of un-earmarked reserves to meet unforeseen cost pressures.
- The strength of the financial management function and reporting arrangements.

5.5.3 In coming to a view as to the robustness of the budgets being approved in any of the years covered by this Medium Term Financial Strategy the Chief Officer – Financial Services will need to take into account the following issues:

- Detailed estimates were prepared by directorates in accordance with principles laid down by the Chief Officer – Financial Services based upon the current agreed level of service. Service changes are separately identified and plans are in place for them to be managed.

- The estimate submission has been subject to rigorous review throughout the budget process both in terms of reasonableness and adequacy. This process takes account of previous and current spending patterns in terms of base spending plans and the reasonableness and achievability of additional spending to meet increasing or new service pressures. This is a thorough process involving both financial and non-financial senior managers throughout the Council.
- Financial pressures experienced in the previous financial year are recognised in the following year's budget.
- As part of the budget process, directorates undertook a risk assessment of their key budgets, and provided a summary of major risks within the directorate budget documents. All directorate budgets contain efficiencies, income generation and service reviews which will require actions to deliver and any delay in taking decisions may have significant financial implications. Whilst the level of risk within the budget was considered manageable on the understanding that key decisions are taken and that where identified savings are not delivered alternative savings options will be needed.
- In addition to specific directorate/service risks, the collection of council tax and the generation of business rate yields are two key risks which need to be closely monitored.
- Where the budget assumes the generation of additional capital receipts from property and land sales which are utilised to offset PFI liabilities, repay MRP and fund redundancy payments, the timing of the delivery of these receipts needs to be closely monitored and contingency actions identified should there be any slippage to budgeted assumptions.
- Under the Business Rates Retention Scheme the Council's local share of business rates is exposed to risks both from collection and from reductions in rateable values. Since 2013 two trends have become clear: firstly that there is a lag between gradual economic recovery and significant volumes of business new-builds in Leeds, with little growth in aggregate Rateable Value in Leeds until 2018/19, and secondly that business rates growth that does occur has been offset by successful appeals and other reductions to the rating list - either through closure or Valuation office reviews.
- Business rates income continues to be a significant risk, however, as is also the case for council tax, any losses greater than those assumed in setting the budget will materialise through a collection fund and will not impact in the current year, although this will be an issue in future financial years.
- The Council's financial controls are set out in the Council's financial regulations as described in the previous section. These provide a significant degree of assurance as to the strength of financial management and control arrangements throughout the Council. The Council has a well-established framework for financial reporting at directorate and corporate levels. Each month Executive Board receives a risk-based financial health

report from each directorate and action plans are utilised to manage and minimise any significant variations to approved budgets.

5.5.4 In determining whether a budget is robust and that the level of reserves is adequate in any of the financial years covered by the Medium Term Financial Strategy, the Chief Officer – Financial Services will consider that a proposed budget is robust and that the level of reserves are adequate when:

- Directors and other budget holders accept their budget responsibilities and subsequent accountability.
- The level of reserves is in line with the risk based reserves strategy but their enhancement will be a prime consideration for the use of any fortuitous in-year saving.
- Risk based budget monitoring and scrutiny arrangements are in place which include arrangements for the identification of remedial action.
- The budgets which contain a number of challenging targets and other actions should be clearly identified and as such are at this time considered reasonable and achievable.
- Budget risks are identified and recorded and will be subject to focused control and management.
- For each of the financial years covered by the Medium Term Financial Strategy that Directorates have in place budget action plans which set out how they will deal with variations during the year.
- There is a clear understanding of the duties of the Council's statutory financial officer and that the service implications of these being exercised are fully understood by Members and senior management alike.

5.5.5 Since the Chief Officer – Financial Services reported on robustness of the budget estimates for 2020/21 the impact of the COVID-19 pandemic has had a significant impact upon the Council's financial position both in the current and future financial years. Whilst the impact of a pandemic could not have been foreseen and therefore factored into the Chief Officer – Financial Services' statement on the robustness of the Council's budget estimates, the Council's Executive Board has subsequently received a series of reports detailing the financial impact of COVID-19 and the actions being taken to achieve a balanced budget position in 2020/21. With regard to the response to the impact of the COVID-19 pandemic upon Leeds City Council's financial position, a letter has been received by the Council's Chief Officer – Financial Services from Grant Thornton, the Council's external auditors, which states that they are "fully supportive of the measures Leeds City Council are taking to help bring the Council's finances back into balance and comply with statutory duties."

5.5.6 As detailed in this Medium Term Financial Strategy, the ongoing impact of COVID-19 has been factored into the Council's financial assumptions for the period 2021/22- 2025/26. The statement by the Chief Officer – Financial Services on the robustness of the 2021/22 budget, which will be received at

Full Council in February 2021, will take account of the assumed impact of COVID-19 upon these estimates.

5.6 Level of Reserves and Balances

5.6.1 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.

5.6.2 The purposes of the general reserve policy are to help longer- term financial stability and mitigate the potential impact of future events or developments which may cause financial difficulty. General and useable reserves are a key measure of the financial resilience of the Council, allowing the Authority to address unexpected and unplanned pressures.

5.6.3 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.

5.6.4 The Medium Term Financial Strategy recognises the requirement to keep the level of the Council's reserves under review to ensure that they are adequate to meet the identified risks. Grant Thornton's "Annual Audit Letter" for the year ended 31st March 2019 noted that "the Council has continued to maintain reserves at around 5% of net revenue expenditure" whilst at the same time recommending the "need for the Council to consider the adequacy of its reserves going forward." In accordance with this recommendation this Medium Term Financial Strategy provides for resources to ensure that this 5% requirement is achieved, although the level of reserves always remains under review particularly in the context of the current COVID-19 pandemic.

5.6.5 This Medium Term Financial Strategy assumes that reserves will be at £26.7m between 2021/22 and 2022/23 and will rise to £35.7m by 2025/26. The indicative general reserve levels from 2020/21 to 2025/26 are set out in Table 5.1 below. This position assumes that a balanced budget position is delivered in 2020/21.

Table 5.1 Level of General Reserve

General Reserve	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m	£m
Brought Forward 1st April	31.6	26.7	26.7	26.7	29.7	32.7
Budgeted Contribution/(Use) in-year	(10.0)	0.0	0.0	3.0	3.0	3.0
Repayment of Treasury Management Savings	1.0	0.0	0.0	0.0	0.0	0.0
Additional Contribution in-year	4.1	0.0	0.0	0.0	0.0	0.0
Carried Forward 31st March	**26.7**	**26.7**	**26.7**	**29.7**	**32.7**	**35.7**

5.6.6 Whilst the Council continues to maintain 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 levels of reserves are lower than those of other comparable local authorities. In addition, whilst the funding position continues to remain challenging and the impact of COVID-19 continues to impact upon the Council's financial position, we will continue to keep the Council's reserves under review to ensure that they are adequate to deal with the identified level of risks.

5.7 Revenue and Capital Principles

5.7.1 The revenue budget principles, which were agreed by Executive Board in July 2019, have been developed to support the budget process and need to be complied with in conjunction with compliance with the Council's Budget and Policy Framework, the Budget Management Accountability Framework and detailed guidelines provided for setting the budget. The budget position is based on a number of significant subjective assumptions. To enable the Council to react to changes in these assumptions in a timely fashion, these principles should be adhered to, which should support a balanced budget being set. The current financial year will also have a significant impact on future years budgets being set and therefore a number of the principles relate to the current financial year.

5.7.2 The capital principles have been developed to enable the Capital Programme resource to achieve the priorities within the Best Council plan and will support the development and monitoring of the Capital Programme.

5.7.3 The revenue budget principles support the determination of future years budgets and detailed guidance is provided in respect of key assumptions such as incorporating the full year effect of previous year's savings proposals; consequences of the capital programme; taking account of Council decisions; how to prepare salary budgets and; how to deal with external funding. In addition the principles detail the processes involved with regard to the determination and agreement of budget savings proposals and proposals in respect of discretionary fees and charges.

5.7.4 In respect of the current financial year a number of key principles deal with contributions to non-ring fenced reserves; substituting grants for general funding; the carry forward of budget into the following financial year; the

requirement for Directors to deliver a balanced budget; the requirement to manage budget pressures with no overspend in budgets unless there is a safeguarding/statutory need and; the requirement to manage a required reduction in expenditure where a revenue grant ceases in year.

5.7.5 The capital principles have been developed to enable focus on the purpose of the capital programme and to seek agreement for the use of limited resources. These principles cover the requirement for the Programme to be compiled at project level for a 10 year period; the profiling of capital expenditure into the correct financial years and; when a capital scheme has been completed the business case and outcomes reviewed to ensure that the targeted outcomes have been achieved.

5.7.6 The capital principles also cover the utilisation of capital resources and the approval process for capital projects. These principles also contain the requirement for the revenue implications of the proposed scheme to be clearly identified and include ongoing operating costs and lifecycle costs as well as the cost of any prudential borrowing including MRP and interest.

5.7.7 Adoption of these revenue and capital principles results in a more robust and accountable approach to budget management which closely aligns itself with the principles that are set out in CIPFA's Financial Management Code, which all local authorities will be required to fully implement by the 31st March 2021

5.8 <u>Assurance Statement</u>

5.8.1 The Head of Audit is required to deliver an annual internal audit opinion and report that can be used by the Council to inform its Annual Governance Statement, which is reported to Councillors and must accompany the statement of accounts.

5.8.2 The annual internal audit opinion is a culmination of the work performed by Internal Audit during the course of the year and provides the Head of Audit's opinion based on an objective assessment of the framework of governance, risk management and control.

5.8.3 Effective governance, risk management and control arrangements are key to enabling the Council to achieve its strategic outcomes and provide services in a cost effective way. The continual review of these arrangements and the annual assurances delivered by the Head of Audit help to provide confidence in the conditions that exist to support the successful delivery of the Medium Term Financial Strategy.

Part 6: Financial Strategies

6.1 Financial Strategies

6.1.1 The purpose of the Council's financial strategies are that they provide the framework within which the Council will plan, procure, prioritise and manage its capital investment and financing decisions in support of the delivery of the council's priorities which are set out in the Best Council Plan 2020-2025 and delivered though this Medium Term Financial Strategy.

6.2 Capital Strategies

6.2.1 The requirement for a Capital Strategy is included in the revised Prudential Code for Capital Finance in Local Authorities 2017. The Prudential Code was developed by CIPFA (Chartered Institute of Public Finance and Accountancy) as a professional Code to support Councils in taking their decisions. Councils are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local government Act 2003

6.2.2 The capital strategy sets out the principles that support the Council's 10 year capital programme and as such how it supports corporate priorities and objectives.

6.2.3 The Capital Strategy sets the framework for all aspects of the Council's capital expenditure and capital investment decisions. It will support: strategic planning, asset management and proper option appraisal.

6.2.4 The keys aims of the Strategy are to:

- Ensure that decisions are made within the framework, CIPFA codes and statutory legislation;
- Prioritise and deploy capital resources in line with corporate priorities;
- Support service plans;
- Address major infrastructure investment;
- Support the review of the Council's estate and provide investment to ensure that it is fit for purpose;
- Enable investment on a spend to save basis;
- Create sustainable income streams through capital investment;
- Support the revenue budget and assist in the delivery of budget decisions;
- Support economic growth and outcomes; and
- Attract investment in the City through third party, grants or private matched funding.

6.2.5 Capital investment decisions should be undertaken with regard to:

- Service objectives;
- Proper stewardship of assets;
- Value for money – through option appraisal;
- Prudence and sustainability;
- Affordability; and
- Practicality – achievability of the forward plan

6.2.6 The Investment Strategy brings together information on all of the council's investment activities, covering its Treasury Management investments, other service related loans and investments and non-financial investment activity such as the acquisition of investment properties.

6.2.7 The aim of the strategy is to enhance transparency and accountability by presenting a clear picture of all of the council's investment activity, including the contribution made by investments to the council's objectives, the decision-making process for entering into investments, the exposure to risk, and the risk management arrangements in place

6.3 Procurement Strategies

6.3.1 The Procurement Strategy 2019 to 2024 was updated in June 2019 and detailed on the Council web site. The Council currently spends approximately £800 million externally each year, across both revenue and capital and the purpose of the procurement strategy is to ensure that the council continually seeks to improve outcomes and deliver value for money from the goods, works and services that it buys.

6.3.2 The Strategy identifies the following 5 key areas for procurement:

- **Value for money and efficiency**. The strategy ensures that the Council gets maximum value from its contracts through best value and innovative procurement practice by adopting a consistent corporate approach to commissioning; adopting a clearly identified savings strategy and continuing to use a category management approach to procurement.
- **Governance**. We will ensure compliance with the Contract Procedure Rules, the Council's Constitution and public procurement law (including the Public Contracts Regulations 2015) in order to manage procurement risk and to comply with legal requirements. Having good governance means our contracts are procured properly thereby ensuring we are testing the market with clear terms and conditions and avoiding the cost of legal challenge from failing to abide by the procurement rules.
- **Social value and Living Wage**. We will seek to improve economic, social and environmental wellbeing from our contracts, over and above the delivery of the services directly required. By including social value outcomes in our contracts and encouraging our contractors to pay the

Foundation Living Wage we ensure that we are making every £ spent go further.

- **Commercial opportunities.** In many cases market development is led by the commissioning teams within directorates and, in collaboration with Procurement and Commercial Services, those teams will continue to seek new ways to develop and create commercial opportunities, not just by promoting revenue generation, but by looking at how we engage with, and influence, the marketplace and potential suppliers in order to drive innovation and develop new ideas around service delivery.

- **Supplier engagement and contract management:** Within the Council responsibility for contract management lies firmly within directorates and this will continue. All directorates manage their strategic supplier relationships through continuous engagement with their suppliers and ensure effective management of all contracts from beginning to end in order to control costs, obtain the quality outcomes and performance levels set out in the contract (including in respect of social value), and minimise the level of risk. By engaging with suppliers and undertaking robust contract management we ensure that the council gets what it is are paying for.

6.4 Treasury Management Strategy

6.4.1 The Treasury Management Strategy seeks to manage the long term borrowings of the council and the short term cash flow resources of the council consistent with maximising opportunities for delivering value consistent with the low risk appetitive of the Council. The strategy also sets out how it will fund the requirements of the capital programme. Specific objects are to:

- Reduce the cost of debt management;

- Ensure that the management of the HRA and general fund is treated equally and new accounting principles are examined to provide benefits where possible;

- Effect funding at the lowest point of the interest rate cycle;

- Maintain a flexible approach regarding any financial matters that may affect the Authority;

- Keep under constant review advice on investment/repayment of debt policy;

- Maintain a prudent level of volatility dependent upon interest rates;

- Set upper and lower limits for the maturity structure of its borrowings and to maintain a reasonable debt maturity profile;

- Specifically ensure that Leeds City Council does not breach Prudential Limits passed by the Council;

- Ensure that the Treasury Management Policy Statement is fully adhered to in every aspect.

6.4.2 In accordance with CIPFA Code of Practice on Treasury Management fully revised Fourth Edition 2017 the Council has adopted, as part of their standing orders and financial procedures, the following clauses:

- This Authority will create and maintain, as the cornerstones of effective treasury management:

  - A Treasury Management Policy Statement (TMPS), stating the policies and approach to risk management of its treasury management activities

  - Suitable Treasury Management Practices (TMP's), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. A full set of TMP's are maintained on the Treasury Section

- The Executive Board will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a half year update and an annual report after its close, in the form prescribed in its TMP's.

- This organisation delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive Board, and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the organisation's TMPS and Treasury Management Practices and, if he/she is a CIPFA member, CIPFA's *Standard of Professional Practice on Treasury Management.*

- This organisation nominates the Corporate Governance and Audit committee to be responsible for ensuring the effective scrutiny of the treasury management strategy and Policies

6.4.3 Whilst this Treasury management Policy Statement outlines the procedures and considerations for the treasury function as a whole, requiring revision occasionally, the Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. The strategy is submitted to the Executive Board for approval before the commencement of each financial year.

6.4.4 The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter term variable interest rates (for instance, the Council may postpone borrowing if fixed interest rates are falling).

6.4.5 The Treasury Management Strategy is also concerned with the following elements:

- the prospects for interest rates;
- the limits placed by Council on treasury activities (per this TMPS);
- the expected borrowing strategy (including forward start borrowing);
- the temporary investment strategy;
- the expectations for debt rescheduling.

6.4.6 The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using published forecasts where applicable), and highlight sensitivities to different scenarios.

Annexe A

Leeds CITY COUNCIL

BEST COUNCIL PLAN 2020 – 2025

Tackling poverty and reducing inequalities

with the city's Inclusive Growth Strategy, Health & Wellbeing Strategy and Climate Emergency declaration as key drivers and locality working as a core principle

Leeds Best Council Ambition

An Efficient, Enterprising and Healthy Organisation

- Strong place leadership
- Effective partnership working and commissioning
- Clear focus on delivering high quality, locally integrated public services
- Asset-based approaches, supporting the people and places most in need
- Ongoing engagement with communities and individuals
- Making the best use of our resources:
  - Our people
  - Our money
  - Our digital capabilities
  - Our land and buildings
  - Our evidence and insights
  - Our communications

BEST CITY PRIORITIES

What we and our partners are focusing on to improve outcomes

Health & Wellbeing

- Ensuring support for the health and social care sector to respond to and recover from COVID-19
- Reducing health inequalities and improving the health of the poorest the fastest
  - Supporting healthy, physically active lifestyles
    - Supporting self-care, with more people managing their own health conditions in the community
      - Working as a system to ensure people get the right care, from the right people in the right place

Inclusive Growth

- Supporting the city's economic recovery from COVID-19 and building longer-term economic resilience
- Supporting growth and investment, helping everyone benefit from the economy to their full potential
- Supporting businesses and residents to improve skills, helping people into work and into better jobs
- Targeting interventions to tackle poverty in priority neighbourhoods
- Tackling low pay

Sustainable Infrastructure

- Improving transport connections, safety, reliability and affordability
- Improving air quality, reducing pollution and noise
- Improving the resilience of the city's infrastructure and the natural environment, reducing flooding and other risks from future climate change
- Promoting a more competitive, less wasteful, more resource efficient, low carbon economy
- Strengthening digital and data 'Smart City' infrastructure and increasing digital inclusion

Child-Friendly City

- Supporting families to give children the best start in life
- Improving educational attainment and closing achievement gaps for children and young people vulnerable to poor learning outcomes
- Improving social, emotional and mental health and wellbeing
- Helping young people into adulthood, to develop life skills and be ready for work
- Enhancing the city now and for future generations

Age-Friendly Leeds

- Developing accessible and affordable transport options which help older people get around
- Making Leeds' public spaces and buildings accessible, safe, clean and welcoming
- Promoting opportunities for older people to be healthy, active, included and respected
- Helping older people participate in the city through fulfilling employment and learning opportunities

Culture

- Growing the cultural and creative sector
- Ensuring that culture can be created and experienced by anyone
- Enhancing the image of Leeds through major events and attractions

Safe, Strong Communities

- Keeping people safe from harm, protecting the most vulnerable
- Helping people out of financial hardship
- Tackling crime and anti-social behaviour
- Being responsive to local needs, building thriving, resilient communities
- Promoting community respect and resilience

Housing

- Housing of the right quality, type, tenure and affordability in the right places
- Minimising homelessness through a greater focus on prevention
- Providing the right housing options to support older and vulnerable residents to remain active and independent
- Improving energy performance in homes, reducing fuel poverty

Leeds Best City Ambition

A Strong Economy and a Compassionate City

OUTCOMES

We want everyone in Leeds to…

- Be safe and feel safe
- Enjoy happy, healthy, active lives
- Live in good quality, affordable homes in clean and well cared for places
- Do well at all levels of learning and have the skills they need for life
- Enjoy greater access to green spaces, leisure and the arts
- Earn enough to support themselves and their families
- Move easily around a well-planned, sustainable city that's working towards being carbon neutral
- Live with dignity and stay independent for as long as possible

OUR VALUES

Underpinning everything we do and how we work

BEING OPEN, HONEST AND TRUSTED • TREATING PEOPLE FAIRLY • SPENDING MONEY WISELY • WORKING AS A TEAM FOR LEEDS • WORKING WITH ALL COMMUNITIES

Annexe B

FINANCIAL STRATEGY 2020 – 2025

HELPING DELIVER THE BEST COUNCIL PLAN

Our Financial Strategy is helping us become more financially sustainable and resilient, safeguarding public funds whilst achieving value for money. This will ensure we are well placed to respond to the significant funding uncertainties and pressures we face and to target our money to where it can make the most difference.

Leeds Best Council Ambition

An Efficient, Enterprising and Healthy Organisation

Leeds Best City Ambition

A Strong Economy and a Compassionate City

OUR AIMS

- Financially resilient and sustainable
- Providing value for money
- Target resources to meet our priorities
- Safeguarding public money

How we are delivering our Financial Strategy to achieve our aims

MEDIUM TERM FINANCIAL STRATEGY

5 YEAR ROLLING STRATEGY

3 YEAR BUDGET INCLUDING REVENUE AND CAPITAL PROGRAMME SCHEMES

BUSINESS CASE DEVELOPMENT

BUDGET MONITORING AND CAPITAL BUSINESS CASE MONITORING

CLOSURE OF ACCOUNTS

Financial Strategies

- Capital Strategy
- Procurement Strategy
- Treasury Strategy
- Risk Management Strategy

Leadership

- Strategic direction and vision
- Corporate management – resource planning
- Political and financial awareness
- Public sector partnership
- Continuous improvement / innovation

Assurances

- Section 151 responsibilities
- Internal Audit Plan
- Assurance statement
- External Audit
- External inspections
- Financial Resilience Index
- Robustness of the Budget
- CIPFA Financial Resilience Index
- Level of reserves and balances

Statute and Governance

- Section 151 of the Local Government Act 1972 – England and Wales
- Section 114 of the Local Government Act 1988 – England and Wales
- Section 25 of the 2003 Local Government Act
- Council's Constitution
- Financial Regulations
- Contract Procedure Rules
- Budget and Policy Framework
- Scheme of Delegation
- Governance structure
  - Full Council
  - Executive Board
  - Scrutiny Committees
  - Corporate Governance and Audit Committee

Digital and Data

- Accounting and financial information systems
  - Accessible
  - Complete
  - Comprehensive
  - Consistent
  - Accurate record of the council's financial transactions
- Reporting and monitoring
- Benchmarking
- Data analytics
- Integrity of data
- Self-sufficiency

Highly Skilled Workforce

- Leadership Team
- Operational Leadership
- Chief Finance Officer – professionally qualified
- Financial Services – highly skilled workforce
  - Business Partners
- Accountable Chief Officers
- Accountable budget holders
- Adhering to:
  - Professional Standards
  - Financial Management Code
  - Budget Management Accountability Framework
  - Capital and Revenue Principles

OUR VALUES

Underpinning everything we do and how we work

Leeds CITY COUNCIL

BEING OPEN, HONEST AND TRUSTED • TREATING PEOPLE FAIRLY • SPENDING MONEY WISELY • WORKING AS A TEAM FOR LEEDS • WORKING WITH ALL COMMUNITIES

Annexe C

THE BEST PLACE TO WORK

Our People Strategy 2020 – 2025

Helping deliver the Best Council Plan

BEST ORGANISATION

• Coaching and support • Quality appraisals • Work well with partners and councillors • Do things with people and build inclusive teams • Great communication • Say thank you • Embracing new technology and wider change • Listen and act • Great team spirit • Respect for all and a fair chance • Plan resources well and stick to budget • Can-Do attitude and adopting new ways of working • Provide top quality customer service

BEST LEADERSHIP & MANAGEMENT

All our leaders and managers are capable, confident and compassionate

BEST EMPLOYEE EXPERIENCE

Join us, and you will get

Flexible career paths and progression

Development and opportunities for leaders and managers

- Support to follow your chosen career path, that matches your ambitions and circumstances
- Opportunities to work in flexible and agile ways
- Development routes for both technical and managerial careers
- Recognition and reward for the great work you do, and the difference you make

Make a difference with one of our Best City partners

Great recruitment and a warm welcome

- A fair and straightforward selection and appointment process
- A quality induction to gain a flying start
- A great pay, benefits and rewards package

Brilliant development

- Clear job goals and expectations
- Exciting opportunities and job variety
- Tailored personal and professional development

Great all round experience

In return for your dedication and commitment, you will get:

- A well designed job and role
- Caring and supportive teams and colleagues
- Modern workplaces and people practices
- A strong voice about your work and workplace
- The opportunity to work in partnership with others, through staff networks, trade unions and more

BEING YOUR BEST

You feel like you count.

You are supported to be well at work.

You are valued for who you are.

STRENGTHENING OUR CULTURE AND VALUES

Being Open Honest and Trusted

We will:

- Develop and implement a talent management framework
- Support job personalisation
- Enhance our workforce information and analytics to aid decision making

Treating People Fairly

We will:

- Promote diversity, inclusion and difference
- Provide holistic health and wellbeing programmes
- Enable safe and sustainable places of work

Spending Money Wisely

We will:

- Pay the living wage, and have a fair and sustainable pay structure
- Develop long term service led workforce plans
- Support service design and the management of change

Working as a Team for Leeds

We will:

- Identify and deliver the skills needed for the future
- Deliver HR in collaboration with others to provide exceptional support to our services
- Work closely with our city, regional and national partners

Working with All Communities

We will:

- Drive the people changes needed to deliver our city wide strategies for Inclusive Growth, Health and Wellbeing and the Climate Emergency
- Improve employment opportunities for people from priority neighbourhoods and communities
- Promote the public value of all the work we do

OUR SUCCESS MEASURES

How Efficient, Enterprising and Healthy the organisation is, and the overall Employee Experience for staff. Captured in our Best Council Plan KPIs.

Leeds CITY COUNCIL