Report author: Victoria Bradshaw
Tel: 88540

Leeds CITY COUNCIL

Report of the Chief Officer Financial Services

Report to Executive Board

Date: 21st April 2021

Subject: Financial Health Monitoring 2020/21 – Provisional Outturn

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

Summary

1. Main issues

- The purpose of this report is to inform the Executive Board of the 2020/21 provisional financial outturn for the Authority in respect of both the General Fund revenue budget and the Housing Revenue Account.
- The Council has managed to achieve considerable savings since 2010 and the budget for 2020/21 requires the delivery of a further £28.4m of savings.
- The current and future financial climate for local government represents a significant risk to the Council's priorities and ambitions. Whilst the Council continues to make every effort possible to protect the front line delivery of services, it is clear that the position remains challenging.
- This is the ninth budget monitoring report of the year, and Executive Board will recall that the 2020/21 general fund revenue budget, as approved by Council, provides for a variety of actions to reduce net spend through the delivery of £28.4m of budget action plans by March 2021. At this stage of the financial year, it is clear that COVID-19 has impacted on the delivery of some of these actions.

- In addition the Council continues to incur additional expenditure and to lose income across services as a consequence of COVID-19. As a result Directorate dashboards highlight a potential COVID-19 related overspend of £120.3m before proposals to balance.
- The addition of projected losses of council tax and business rates income results in a total projected COVID overspend of £170.2m at Month 11 (Provisional Outturn). In addition pension strain and severance costs associated with staff exiting the Council through the Early Leavers Initiative increases the overall overspend to £183.1m.
- As a result of taking account of non-COVID savings and the application of earmarked reserves and additional Government funding the projected Directorate overspend reduces by £36.7m to £83.6m. When combined with the corporate pressures the overall General Fund overspend has reduced from £183.1m to £146.4m.
- The Council had received £72.2m of Government funding towards the costs of COVID-19, of which £2.6m has been applied in 2019/20, leaving £69.5m of available funding. An estimated £26.9m Government contribution to lost income is also reflected, pending confirmation of the final amount. Application of this £96.4m of grant reduces the financial pressure in 2020/21 to £49.9m.
- Since this reported position assumes that the estimated Collection Fund income shortfall of £49.9m will impact on the revenue position in 2021/22 and future years, the provisional outturn projection for 2020/21 reflects a balanced budget position at year end.
- This position reflects the Council's best estimate of the impact of the current lockdown arrangements which equates to a calculated COVID impact of £27m per month. This calculated impact covers both expenditure and income which is compensated for through the Government's sales, fees and charges scheme. In addition it does not reflect the potential effects of any further local or national lockdown arrangements not yet introduced, which could impact on these financial projections.
- At provisional financial outturn, the Housing Revenue Account is forecast to underspend by £14m, of which around £9.6m will be transferred to the Major Repairs Reserve for use in future years to support ongoing investment in the Housing stock and approximately £4m relating to the in year underspend on repairs to a repairs reserve.

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

- The 2020/21 Budget targeted resources towards the Council's policies and priorities as set out in the Best Council Plan. This report comments on financial performance against this Budget, supporting the Best Council ambition to be an efficient and enterprising organisation.

3. Resource Implications

- At provisional financial outturn Directorate dashboards reflect a projected overspend which largely relates to COVID-19 pressures of £120.3m which when combined with Corporate pressures results in an overall overspend of £183.1m.

After application of government funding and a range of further measures, this report shows a balanced budget position for 2020/21.

Recommendations

Executive Board are asked to:

a) Note the projected provisional financial outturn for the Authority and note the projected impact of COVID-19 on that position;

b) Note that for 2020/21 the Authority is forecasting a balanced budget position.

1. Purpose of this report

1.1. This report sets out for the Executive Board the Council's provisional financial outturn position for 2020/21.

1.2. Budget monitoring is a continuous process throughout the year, and this report reviews the position of the budget and highlights potential key risks and variations after the tenth month of the year.

2. Background information

2.1 Executive Board will recall that the net budget for the general fund for 2020/21 was set at £525.7m.

2.2 Following the closure of the 2019/20 accounts, the Council's general fund reserve stands at £31.6m. The 2020/21 budget assumes further use of £9.0m from this reserve during the current financial year. However it is planned to contribute £4.1m into the general fund reserve during 2020/21 so that the anticipated balance at 31st March 2021 will be £26.7m

2.3 The Financial Health report received at March's Executive Board projected a balanced budget position for 2020/21 after the application of Government funding, the delivery of non-COVID savings and the utilisation of earmarked reserves.

2.4 Financial monitoring continues to be undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget that are judged to be at risk, for example the implementation of budget action plans, those budgets which are subject to fluctuating demand, key income budgets, etc. This has again been reinforced through specific project management based support and reporting around the achievement of the key budget actions plans.

3. Main Issues

3.1 The provisional financial outturn position projects a COVID related overspend of £170.2m which, combined with the additional pension strain and severance costs associated with staff exiting the Authority through the Early Leaver's Initiative, results in an overall overspend position of £183.1m.

3.2 In response to the financial challenge for 2021/22 that was detailed in the Medium Term Financial Strategy report received by Executive Board in September, to date

845 employees have either left or are due to leave the Council through the Early Leaver's Initiative by the 31st March 2021. The salary savings resulting from these staffing reductions contribute towards the realisation of the budget savings proposals for 2020/21 that were received at this Board in September, October, November and December 2020.

3.3 Whilst the Council has incurred severance and pension strains costs of £12.9m in 2020/21 it is projected that over the five year period covered by the Council's Medium Term Financial Strategy savings of £100.2m (before reconfiguration costs) will be realised through the deletion of the posts.

3.4 The projected overspend position of £183.1m also reflects the estimated Collection Fund deficit of £49.9m resulting from a reduction in collection rates in respect of both Council Tax and Business Rates.

3.5 Details of the Directorate overspend due to COVID-19 are summarised in Table 1.

3.6 The Council has received £72.2m of Government funding towards the costs of COVID-19 to date, of which £2.6m has been applied in 2019/20, leaving £69.5m available. On 2nd July Government announced a further package of financial support for Local Government as a consequence of which £18.9m has been claimed with an estimated further £8m to be received for the remainder of the financial year. Application of this £96.4m of grant in 2020/21 would reduce the COVID financial pressure to £86.6m.

3.7 **Table 1**

Summary Position at Provisional Outturn - Financial Year 2020/21

		(Under) / Over spend for the current period								
Directorate	**Director**	**Staffing**	**Total Expenditure**	**Income**	**Total (under) /overspend**	**COVID related**	**Non-COVID related**	**Month 10 Total**	**COVID related**	**Non-COVID related**
		£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Adults & Health	Cath Roff	(643)	52,451	(41,837)	10,614	10,614	0	10,614	10,614	0
Children and Families	Sal Tariq	123	4,370	3,722	8,092	8,092	0	8,092	8,092	0
City Development	Martin Farrington	(3,207)	(7,168)	29,194	22,026	25,180	(3,154)	22,194	25,180	(2,986)
Communities & Environment	James Rogers	1,219	5,021	18,638	23,659	26,724	(3,065)	23,717	27,141	(3,424)
Resources & Housing	Neil Evans	(3,319)	2,057	10,731	12,788	17,546	(4,758)	13,359	17,802	(4,443)
Strategic	Victoria Bradshaw	(139)	104,964	(78,210)	26,754	32,155	(5,400)	26,738	32,038	(5,300)
Strategic (Proposals to balance)	Victoria Bradshaw	12,440	(500)	(99,933)	(100,433)	(100,433)	0	(101,213)	(101,213)	0
Adults & Health (Proposals to balance)	Cath Roff		(3,500)	0	(3,500)	(3,500)	0	(3,500)	(3,500)	0
Total Current Month (Dashboards)		**6,474**	**157,695**	**(157,695)**	**0**	**16,377**	**(16,377)**	0	16,153	(16,153)
Council Tax & Business Rates Losses (Declared)					49,890	49,890	0	49,890	49,890	0
					49,890	**66,267**	**(16,377)**	**49,890**	**66,043**	**(16,153)**

Previous month (under)/over spend in directorates		**6,849**	**149,771**	**(149,771)**	**(0)**

3.8 The major variations are outlined below, with additional detail provided on the Directorate dashboards which are appended to this report;

3.8.1 **Adults & Health** – at provisional financial outturn the directorate is projected to overspend its budget by £7.1m. This figure is based upon COVID-19 related cost pressures of £10.6m, offset by a £3.5m contribution from reserves.

The pressure is related to a number of actions taken by the directorate in light of the pandemic and the resultant impact of those changing priorities on delivering a number of budgeted savings plans. It is currently projected that £3.6m of savings plans will not be delivered this financial year; though it is assumed that once a return to ‘normal’ is achieved the work needed to deliver these plans will resume, but there will be slippage in the delivery.

The pressures that make up the remaining COVID pressure are the £0.5m relating to non-realisation of savings to fund the additional pay award; additional care packages to meet the needs of people affected by day centre closures (£0.5m) and ‘paying to plan’ on home care (£0.5m). £4.5m has been committed to meet pressures within the care sector. In line with national guidance to support the pressures within the provider market the equivalent of a 20% fee uplift, based on historic payments, has been paid to providers over each of the first three months of the year. £0.4m has been incurred to fund PPE and equipment to facilitate early discharge. The NNDR attached to the Waterside building has been allocated as a COVID-19 cost due to its use as a temporary mortuary. Income is also affected with a pressure caused by the cessation of face to face financial assessments. The directorate has finalised the review and transfer of packages previously funded by NHSE Early Discharge funding.

3.8.2 **Children and Families** – As detailed on the dashboard, the current year-end forecast for the Children and Families directorate is an overspend of £8.092m, in line with the position previously reported for Month 10. The overspend is due to a number of pressures as a result of COVID.

The Month 11 projected overspend of £8.092m is broken down as follows:

Expenditure	**£m**
• Staffing related costs	0.12
• Placements (CLA and non-CLA)	5.75
• Section 17 payments	0.31
• Direct payments	0.25
• Passenger Transport	(0.70)
• Other expenditure	(1.36)
	4.37

Income	**£m**
• Traded income from schools	2.02
• School attendance income	0.40
• Childcare income	3.65
• Net additional funding	(2.35)
	3.72

Total projected overspend **8.09**

Although the overall position since Month 10 has not changed, within this there is an additional £160k of savings relating to travel and legal costs which are reflected in other expenditure, offset by an equivalent increase in funding.

As shown in the breakdown above, the key pressure within expenditure relates to the budget for Children Looked After (CLA) and non-CLA placements, which is currently forecast to overspend by £5.75m. Although detailed benchmarking is not yet available, feedback from local authorities across the country is that many are currently seeing an overall increase in CLA numbers. In Leeds however there has been a decline in CLA numbers since the start of the year and overall as at early March there were 64 fewer placements than originally budgeted, despite the impact of COVID in the city.

Although CLA numbers in the city are less than the total amount budgeted for, the rates paid to providers have increased during 2020/21 due to COVID. In addition, within the non-CLA placements there is a pressure on semi-independent living costs for over 18 year olds due to an increased number of placements compared to the budget. This reflects the difficulty with young people being able to move out of these placements in the current climate, as well as the impact of COVID on providers.

A further key impact of COVID on the Children and Families budget is on income, and in total a £5.87m pressure has been identified due to expected loss of income from children's centres, school trading and school attendance income. In line with principles laid out by Government, the Council has taken the approach that schools should be charged as normal for disrupted Council services for which they have a regular financial commitment, as they have received funding to pay for these services. However there is still some loss of income projected for ad hoc traded services to schools and those paid for through parental contributions, such as music services. This has been included on the Council's claim to MHCLG for funding towards loss of income.

Dedicated Schools Grant

In relation to the Dedicated Schools Grant (DSG), at the end of 2019/20 there was a deficit balance of £3.95m on the general DSG. The provisional outturn projects a £375k overspend on general DSG for 2020/21, which would result in a closing deficit of £4.33m. This is due to a projected overspend of £1.76m on high needs, which is partly offset by:

- £567k underspend on early years, due to funding being calculated at a point in the year when the numbers of children are higher than the average over the full year. There is a degree of uncertainty in these projections due to the volatility created by COVID, both in terms of the grant that the Council will receive and the payments required to providers as a result of the impact of COVID;
- £77k underspend on central school services, as a result of staff vacancies; and
- £741k underspend on schools. £246k of this is due to timing differences in funding arrangements when maintained schools convert to academies. The remaining £495k is due to an underspend on the fund for growing schools, which will be carried forward to be used in 2021/22.

The projected high needs overspend is due to a cap on funding increases and an increase in the demand and complexity of special educational needs across the country. Although high needs funding increased nationally for 2020/21, the Department for Education still applied a cap on gains which meant that the allocation for Leeds was subject to a reduction of £4.7m. A plan for managing the pressures on DSG is currently being developed by Children and Families.

3.8.3 **City Development –** At provisional financial outturn the Directorate is projecting an overspend of £22.03m, which is a favourable movement of £0.17m from the Month 10 position previously reported to Executive Board. This includes an estimated impact of COVID-19 of £25.18m. The projected outturn includes the forecast financial impact of Lockdown 3 and assumes that the Lockdown restrictions will be in place to the end of the financial year. The Directorate's financial position continues to be significantly affected by the current restrictions in place and the subsequent impact on the economy with the vast majority of the overspend resulting from reduced income across a number of services. The projections reflect a projected overspend of £600k on Winter Maintenance due to the particularly cold weather and the need for increased gritting.

The variances below include £0.378m of ELI savings that will be realised by employees leaving before the 31st March 2020.

The most significant loss in income is still forecast to be in Active Leeds where some facilities only started re-opening on a staggered basis at the end of July but with reduced capacity, closed again due to the current second lockdown, and then closed for the current lockdown. The year-end financial position for Active Leeds is projected to be an overspend of £12.5m. This is an increase of £2.5m of COVID related income pressures however it is anticipated that this pressure will be offset by circa £1.9m via the fees and charges loss of income funding from MHCLG.

Other services also facing projected reductions in income include:

- Arts and Heritage - £2.2m, net of running cost savings, following the closure of sites and cancellation of events.
- Asset Management and Regeneration - £2.8m from expected reductions in rental and other commercial income. This includes expected shortfalls against new commercial income included in the 2020/21 budget.
- Planning and Sustainable Development - £0.9m through an estimated reduction in planning and building fee income.
- Markets and City Centre - £2.2m from a reduction in rental and advertising income.
- Highways and Transportation - £0.74m through a reduction in chargeable fees and recovery of overheads, mainly in the Highways DLO.

Whilst the impact of COVID-19 on City Development is mostly on income some additional costs are also being incurred. A sum of £0.5m for the year is currently projected across the Directorate. The impact of non-realisation of savings to fund the additional cost of the higher pay award is estimated at £0.37m.

The projected position includes anticipated staff savings of £2.06m on non-chargeable vacant posts net of the additional costs of the higher pay offer. Savings of £1.01m have also been included for reduced spend on general running costs and travel and subsistence.

3.8.4 **Communities & Environment –** the overall position for the directorate at provisional financial outturn is a projected overspend of £23.7m.
Of this, £26.7m relates to the impact of COVID-19 which takes into account the estimated impact of the latest lockdown period. There still remains a degree of uncertainty around income projections and these continue to be kept under review.

The main areas of variation in respect of COVID-19 are estimated as follows:

- Loss of car parking and enforcement income £8.1m
- Loss of Parks & Countryside income £5.1m. This includes income from visitor attractions, cafes, bereavement services, chargeable works within Parks Operations and Landscaping teams and the cancellation of planned events.
- Loss of Electoral and Regulatory Services income £1.7m. This includes Registrars, Entertainment Licensing, Land and Property Searches, Taxi & Private Hire and Environmental Health activities. These income losses are partially offset by £0.3m savings resulting from the cancelled May 2020 local elections.
- Waste Management – net additional expenditure £6.9m. This includes the cost of providing additional crews and vehicles to deal with increased volumes of waste, the cost of disposing of the additional waste and the cost of providing staffing cover and PPE equipment across the service as well as income losses at Household Waste sites.
- Welfare & Benefits – additional expenditure of £0.7m in respect of the estimated net cost of Housing Benefit claims for the vulnerable homeless in emergency accommodation.
- Estimated cost to LCC of providing a temporary mortuary facility £0.9m - created as part of the Council's emergency planning arrangements to deal with a potential increase in mortality rates over and above current capacity for Leeds and Wakefield.
- Additional cost of the local government pay award £0.7m. This represents an additional 0.75% over the amount budgeted and the COVID-19 situation will impact on the ability to deliver the savings required to mitigate this additional cost.
- Other areas of income loss/additional expenditure across the directorate £2.9m. This includes estimated income losses from community centres, libraries/community hubs, bulky waste collections and from environmental enforcement. It also includes additional costs of providing PPE/Cleaning/Social distancing measures and software/equipment to support home working. It also includes the cost of providing for a city wide mailout and other staffing related costs in support of the Council's response to the crisis.

The overall position for the directorate also includes forecasts around other net expenditure savings totalling £3.1m. These include estimated savings from the implementation of tighter controls on recruitment and the part year impact of staff leaving the authority before 31st March 2021 under the Council's Early Leaver scheme (£2.1m) and net savings on other expenditure budget headings across the directorate (£1.0m).

3.8.5 **Resources & Housing –** Based on the estimated impact of COVID-19 in the directorate, an overspend of £12.8m is forecast at provisional financial outturn, a reduction of £0.6m from Month 10 and in the main reflects a reduction in projected spend on PPE.

In total £17.5m of pressures are COVID related, broadly summarised into the following areas across the Directorate's services:-

• Trading shortfall within Leeds Building Services (LBS)	£5.5m
• Additional PPE (LCC wide)	£4.3m
• Homelessness accommodation costs (net of grant)	£0.8m
• Catering income & emergency meals	£2.5m
• Other income reductions (capital / court fees)	£3.2m
• Delays to budget action plans	£0.3m
• Savings from Working home/buildings/car allowances - net	(£0.2m)
• Non-realisation of savings to fund additional pay award	£1.1m

The recruitment freeze, savings in non-essential spend, additional grant income and the impact on staffing costs of the ELI leavers in November and December (£1.1m) are forecast to deliver around £4.8m of savings to the directorate's bottom line projections.

3.8.6 **Strategic & Central Accounts -** At provisional financial outturn, the Strategic & Central accounts projection is for an overspend of £26.8m, of which £32.2m is COVID related, before taking into account proposals to balance the 2020/21 budget. The £26.8m overspend includes a forecast £3.4m debit for the contribution to reserves of net non-COVID related underspends across directorates. This projection recognises the potential for an overspend of £27.9m in MRP, as a result of a reduced level of capital receipts being available to repay debt as a consequence of the impact of COVID-19. There is considerable uncertainty over how quickly the property market will recover, and the position will continue to be reviewed and updated. This projected overspend is partly offset by savings of £1.3m in the remainder of the debt budget.

A projected underspend of £2.1m has been included for a reduction in the expected business rates levy payable, as a result of reduced business rates income for the year. The position also reflects an additional projected £75.9m of S31 grants in relation to business rate reliefs awarded due to the impact of the pandemic. These grants will need to be carried forward in an earmarked reserve, as they are required to fund the 2020/21 Collection Fund deficit which will impact on the revenue position in 2021/22.

Following the government spending review, additional New Homes Bonus grant of £2.2m has been recognised.

Potential pressures of £1.3m have been recognised across the target budgets for general capitalisation and schools capitalisation, as overall restrictions on spending have reduced the potential for capitalisation.

Proposals to deliver a balanced budget position are also reflected in the Month 11 Strategic position and the appended dashboard and are discussed below.

Proposals to Balance

3.8.7 Directorate dashboards highlight a projected COVID-19 overspend of £120.3m which combined with other corporate pressures which includes a variation in the Collection Fund, pension strain and the cost of severance results in a projected overspend of £183.1m.

3.8.8 In order to manage this overspend a range of proposals have been identified which are detailed in Table 2 below.

	Month 11	Mitigation- Savings including Salary	Use of Reserves	Total
Directorate/Service	**£m**	**£m**	**£m**	**£m**
Adults & Health	10.614	0.000	-3.500	7.114
Children & Families	8.092	0.000		8.092
City Development	25.180	-3.154		22.026
Communities & Environment	26.724	-3.065		23.659
Resources & Housing	17.546	-4.758		12.788
Strategic & Central	32.154	-5.400	-16.872	9.882
Directorate dashboards	**120.31**	-16.38	-20.37	83.56
Corporate pressures:				
CT/BR Income Losses	49.89			49.89
Cost of Severance	11.68			11.68
Pension Strain	1.26			1.26
	62.83			62.83
Total General Fund Impact	**183.14**	**-16.38**	**-20.37**	**146.39**

	Month 11	Mitigation- Savings including Salary	Use of Reserves	Total
	£m	**£m**	**£m**	**£m**
Total General Fund Impact	**183.14**	**-16.38**	**-20.37**	**146.39**
Government Funding	-69.57			-69.57
Government Support for Income Losses	-26.93			-26.93
Net Position	**-96.50**			-96.50
Total GF Impact 2020/21	**86.64**	**-16.38**	**-20.37**	**49.89**
Council Tax/Business Rates	-49.89			-49.89
COVID-19 Funding Gap 2020/21	**36.75**	**-16.38**	**-20.37**	**0.00**

3.8.9 The level of non-COVID savings, including those resulting from the deletion of posts resulting from staff exiting the Council through the Early Leaver's Initiative is £16.4m and this contributes towards addressing the estimated budget gap.

3.8.10 As referenced in the addendum to November's Executive Board the Council has identified a number of one off resources that contribute towards addressing the identified estimated budget gap in 2020/21. One off resources include the planned application of an additional £16.4m of capital receipts which have become available through recognising the capital distribution from the pre-payment of rent at Merrion House as a capital receipt rather than as deferred income on its balance sheet.

3.8.11 In order to facilitate the upgrade of Merrion House, the Council entered into a series of linked agreements with the Town Centre Securities (TCS) Group who own the freehold to the building. Under these agreements, the council entered into a 50:50 limited liability partnership (LLP). During 2018/19 the Council made a prepayment of rent under the 25 year lease at a discounted rate, which was immediately distributed to the two partners of the LLP. The Rent Advance agreement that was entered into resulted in a prepayment of rent of £54m which was followed immediately by a distribution of capital of £27m to each of the LLP members.

3.8.12 In 2018/19, and in the absence of the first set of LLP accounts reflecting the rent advance and its distribution to partners, the Council determined to hold the £27m on its balance sheet as a receipt in advance. This approach was discussed and agreed with Grant Thornton prior to the closure of the 2018/19 accounts.

3.8.13 The Council has now reconsidered its approach in the light of the LLP's 2018/19 accounts which were published in June 2020. The LLP's accounts show the capital distribution to members as an immediate transfer of net worth from the LLP to its members.

3.8.14 Consequently, the Council has held further discussions with its external auditors over the treatment of the £27m distribution it received. As a result it will now recognise the transfer of net worth by reducing the value of its investment in the LLP and instead recognising the balance of £25.65m which was previously shown as deferred income in its accounts as a capital receipt during 2018/19. This will result in an increase in the level of the Usable Capital Receipts Reserve carried forward into 2019/20.

3.8.15 In changing the accounting treatment in this manner there is now a requirement to identify provision in the MTFS of £1.1m which would originally have been amortised from the deferred income balance, which will be required from 2022/23 to resource the annual lease payments for Merrion House. This £1.1m revenue pressure will be met in 2020/21 and 2021/22 by applying additional capital receipts to redeem debt, thus enabling an equivalent reduction in the MRP charge to revenue. This will reduce the balance of additional capital receipts available to £23.4m.

3.8.16 It is proposed that of this additional usable capital receipt £16.4m is applied to address the estimated budget gap identified above, replacing some of the capital receipts which were originally forecast to be generated during the year, with the remainder carried forward.

3.8.17 It is also proposed to utilise £3.5m of earmarked reserves with Adults and Health whilst £0.5m remains from the £1.5m set aside through the flexible use of capital receipts for transformational expenditure and this can be used to fund ELI payments.

3.8.18 As a result of the above proposals the Directorate overspend reduces to £83.6m which combined with a Corporate pressure of £62.8m reduces the overall level of overspend down to £146.4m.

3.8.19 To date the Council has received £72.2m of Government funding towards the costs of COVID-19, of which £2.64m has been applied in 2019/20, leaving £69.57m available. An estimated £26.93m Government contribution to lost income is also reflected, pending confirmation of the final amount. Application of this £96.5m of grant in 2020/21 reduces the COVID financial pressure to £49.9m.

3.8.20 Since the Collection Fund income shortfall of £49.9m does not impact on the revenue position until 2021/22, when it can be spread over 3 years, it is forecast that a balanced budget position will be delivered in 2020/21.

3.8.21 The reported position does not reflect the potential impact of any further local or national lockdown arrangements not yet introduced, which could impact on these financial projections, most likely by increasing projected income losses which can only be recovered in part through the Government's Sales, Fees and Charges compensation scheme.

3.9 Other Financial Performance

3.9.1 Council Tax

The Council Tax in-year collection rate at the end of February was 92.11% which is 0.88% lower than performance for the same period last year. This lower collection rate will in part reflect the impact of agreed payment deferrals. When setting the 2020/21 budget the target collection rate for the year was assumed to be 96.11%, in line with previous years. If the forecast were achieved this would collect some £374.1m of income. In light of the potential impact of COVID-19, it is currently estimated that in year collection could be 94.1%, achieving £366.3m of income. The collection rate will continue to be closely monitored.

3.9.2 Business Rates

The budgeted collection rate for business rates is to achieve an in-year collection target of 97.7%, collecting £363.2m of business rates income billed at 1st April. However, the Board will be aware that in response to the COVID-19 pandemic Government awarded significant additional business rates reliefs, reducing the income to be collected directly from business to £228.0m. These reliefs will be funded in full by Government through Section 31 grants. Whilst this reduces the risk to the Authority regarding non-collection of business rates income, the business rates collection rate at the end of February 2021 was 86.52% which is 7.79% behind performance in 2019/20. This lower collection rate will in part reflect agreement to defer payments.

The total rateable value of business properties in Leeds has reduced from £935.2m at 1st April 2020 to £928.6m at the end of February 2021, a decrease of £6.6m. To calculate Leeds' actual income from business rates this total rateable value is multiplied by the national business rates multiplier (49.9p in the pound). After reliefs and adjustments this amount is then shared between Leeds City Council (49%), Central Government (50%) and West Yorkshire Fire Authority (1%). After allowing for the business rates deficit brought forward, Leeds' share of projected business rates income is in the region of £75.1m, which is £108.5m below budgeted expectations. However much of this shortfall is accounted for by the Government's new extended reliefs for the retail and leisure sectors and children's nurseries. This results in grant funding associated with business rates some £75.9m above that forecast in the Council's budget. The Government has also announced that it will provide 75% compensation to local authorities for their 'irrecoverable losses' in business rates income. Although further guidance has been released about the definition of 'irrecoverable losses', areas of uncertainty do remain, but it is estimated this local tax income guarantee will contribute around £8.04m to the deficit that has to be repaid to the collection fund in 2021/22.

In light of the current situation we expect to see losses of business rates income through non-payment and reduction in rateable value where businesses may cease to trade or revise their business model to reduce business rates and other costs. Business rates income continues to be closely monitored and reported to the Board in these monthly financial health reports.

3.9.3 **Business Rates Appeals**

The opening appeals provisions for 2020/21 are £27.8m, made up of £8.7m relating to appeals received against the 2010 ratings list and £19.1m estimated costs in relation to the 2017 ratings list. Under 50% Business Rates Retention, Leeds' budget is affected by 49% of any appeals provision made in this year. Provisions brought forward from 2019/20 were made at 74%.

On the 28th February 2021, there were 626 appeals outstanding against the 2010 ratings list with 9.8% of the city's total rateable value in the 2010 list currently subject to at least one appeal. During February 2021 99 appeals have been settled, of which only 4 have resulted in changes to rateable values. No new appeals have been received in February.

Only two appeals have been received to date against the 2017 list. However, since the imposition of national lockdowns the number of ratepayer claims entering the first two stages of the new Check, Challenge, Appeal process, introduced on the 1st April 2017, has increased significantly. Currently there are 317 Checks outstanding but this first stage is only where the Valuation Office Agency and the ratepayer's agent seek to clarify the facts relating to a particular property. Very few of these Checks have resulted in a reduction to the ratepayer's Rateable Value. However since September 2020 an increasing number of these claims are returning to the process as Challenges, the second stage of the new process. At this stage the Valuation Office Agency and the ratepayer discuss whether the facts are being applied correctly as a matter of law. At 28 February 2021 there are 1,314 Challenges outstanding, up from 365 as at 30th April 2020. Of the current Challenges 1,010 relate specifically to the period since the first national lockdown restrictions were brought into force and therefore the impact is limited because they are backdated by only one year. The remainder are assumed to relate to entire lifetime of the ratings list and therefore can be backdated to 1st April 2017. There has been speculation in the press that a general reduction in Rateable Values is to be implemented in response to the economic downturn caused by the restrictions on commercial activity, however the Valuation Office Agency has issued a statement denying that any such generalised reduction has been agreed. The situation with the increased numbers of Challenges and any announcement about general reductions in Rateable Values is being closely monitored and the level of appeals provisions is being adjusted accordingly. As at the 28th February 2021 £40.8m in provisions is projected to be held by the Council against losses due to changes in Rateable Value on the 2017 ratings list by the end of the financial year.

3.9.4 **Impact of COVID-19 on the Collection Fund**

It remains very complex to estimate the ultimate impact of COVID-19 on council tax and business rates income. The Council declared the deficit on the Collection Fund, which is an estimate of what the deficit will be at year-end, at December 2020, the position at that point being an unfunded loss of £49.9m on the Collection Fund: £13.2m in Council Tax and £36.7m in business rates. This is the position reflected in the Council's 2021/22 budget. As at February, the Council Tax projected outturn variance for 2020/21 is £12.8m and the Business Rates deficit is £36.7m. The impact of any variance between the declared deficit and the outturn is accounted for in 2022/23 and will not impact on the 2021/22 budget.

Any Collection Fund income shortfall in 2020/21 would normally impact on the Council's financial position in 2021/22. However, in response to Collection Fund income losses arising due to COVID Government are allowing phased repayment of 2020/21 Collection Fund deficits over three years, spreading the revenue impact. Further detail was provided following the provisional Local Government Finance Settlement and any projected 2020/21 Collection Fund deficits must be spread over the years 2021/22, 2022/23, 2023/24. These deficits will be adjusted for prior years and any other requirements of the legislation.

Further, these same announcements indicated that Government would fund 75% of irrecoverable Council Tax and Business Rates losses from 2020/21. Details of the calculation have been provided and Leeds expect to receive compensation of around £31m. This is expected to be received and utilised in future years and will not impact on the 2020/21 Collection Fund.

4. Housing Revenue Account (HRA)

4.1 At provisional financial outturn the HRA is projecting an underspend of £14.0m, primarily due to the reduction in the revenue contribution required to support its capital programme (RCCO). £9.6m of this underspend will be transferred to the Major Repairs Reserve at year end to maintain future levels of capital investment; and savings in repairs of £4.2m, and it is proposed to set aside most of this year's underspend for use in 2021-22 by means of a repairs reserve

4.2 The projected saving in the RCCO is around £14.8m, however £5.2m of this saving is required to fund other in year pressures arising in the HRA as outlined below.

4.3 There is a forecast reduction in total income of £4.4m. Rental income is forecast to be £1.7m lower, mainly due to a temporary increase in the number of void properties due to COVID-19. £2m of income is impacted by forecast lower staff charges to capital from vacant posts and also due to the reduced capital programme for 2020-21. A small reduction in commercial rent income of £0.2m is also projected, and a reduction of fee income from Right to Buy sales of £0.3m

4.4 Total tenant arrears are £11.8m, approximately £0.5m below the equivalent period last year and rent collection remains high 96.1% compared with last year's position at 96.4%. However, it is prudent to project for an increase in the provision for doubtful debts given the future uncertainty on the impact of COVID on rental income. An additional £0.2m is projected; but this will be subject to a year end review of the arrears position.

4.5 Staffing costs are forecast to underspend by around £1.4m, with the recruitment freeze being the main reason for this. This saving also assumes the HRA funds severance costs of those staff exiting the Authority on ELI in 2020/21.

4.6 With respect to the repairs budget, it is now projected that a saving of approximately £4.2m will be made in year due to the impact of COVID. It is proposed to set aside some of the in year underspend for use in 2021-22 by means of a repairs reserve.

4.7 Housing disrepair costs remain a pressure and risk, with an additional £2.1m being estimated as needed for the provision in year.

4.8 An additional £136k is required to fund works associated with exiting Navigation House as part of the Council's asset rationalisation programme, although other premises related costs in the offset these costs.

4.9 The HRA capital programme has been reduced for 2020-21 only to circa £60m from £80m. As referenced above, the saving from the reduced revenue contribution is helping to offset in year pressures and the balance of any savings are planned to be transferred to the Major Repairs Reserve to support an ongoing programme of around £80m from 2021-22 onwards.

5. Corporate Considerations

5.1 Consultation and engagement

5.1.1 This is a factual report and is not subject to consultation.

5.2 Equality and diversity / cohesion and integration

5.2.1 The Council's revenue budget for 2020/21 was subject to Equality Impact Assessments where appropriate and these can be seen in the papers to Council on 26th February 2020.

5.3 Council policies and the Best Council Plan

5.3.1 The 2020/21 budget targeted resources towards the Council's policies and priorities as set out in the Best Council Plan. This report comments on the financial performance against this budget, supporting the Best Council ambition to be an efficient and enterprising organisation.

5.4 **Climate Emergency**

5.4.1 Since this is a factual report detailing the Council's financial position for 2020/21 there are no specific climate implications.

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

5.5.1 This is a revenue financial report and as such all resources, procurement and value for money implications are detailed in the main body of the report.

5.6 **Legal implications, access to information, and call-in**

5.6.1 There are no legal implications arising from this report.

5.7 **Risk management**

5.7.1 The reported budget position is considered in the context of risk to both the in year financial position and the potential impact on the Council's Medium Term Financial Strategy. Both of these risks are included on the Council's corporate risk register.

5.7.2 Budget management and monitoring is undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget judged to be at risk such as the implementation of budget action plans, those budgets which are subject to fluctuating demand and key income budgets. To reinforce this approach, specific project management based support and reporting around the achievement of key budget actions plans is in place for 2020/21.

6. Conclusions

6.1 This report informs the Executive Board of the provisional financial outturn position for the Authority in respect of the revenue budget which currently projects a COVID-19 related overspend of £170.2m. Additional budget pressures of £12.9m arise due to severance and pension strain costs relating to staff exiting the authority in 2020/21 under the new ELI scheme, increasing the budget gap to £183.1m.

6.2 This report then details a range of proposals which would result in a forecast balanced budget position being delivered in 2020/21. This reported position does not reflect the potential effects of any further local or national lockdown arrangements not yet introduced which could impact on these financial projections.

6.3 Largely as a result of non-COVID savings and the application of one funding resources the projected overspend can be reduced to £146.4m.

6.4 To date the Council has received £72.2m of Government funding towards the costs of COVID-19, of which £2.6m has been applied in 2019/20, leaving £69.57m available. An estimated £26.93m Government contribution to lost income is also reflected, pending confirmation of the final amount. Application of this £96.5m of grant in 2020/21 would reduce the COVID financial pressure to £49.9m. Since the Collection Fund income shortfall of £49.9m does not impact on revenue in 2020/21, but instead must be spread over the years 2021/22, 2022/23 and 2023/24, this means that a balanced budget position is forecast in 2020/21.

6.5 The Housing Revenue Account is forecast to underspend by £14m, of which around £9.6m will be transferred to the Major Repairs Reserve for use in future years to support ongoing investment in the Housing stock and approximately £4m relating to the in year underspend on repairs to a repairs reserve.

7. Recommendations

7.1 Executive Board are asked to:

a) Note the projected provisional financial outturn for the Authority and note the projected impact of COVID-19 on that position;

b) Note that for 2020/21 the Authority is forecasting a balanced budget position.

8. Background documents[1]

8.1 None.

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