

Proposed Budget for 2022/23 and Provisional Budgets for 2023/24 and 2024/25

Date: 15th December 2021

Report of: Chief Officer – Financial Services

Report to: Executive Board

Will the decision be open for call in? Yes No

Recommendation d. will be open for call in. All other recommendations are not eligible.

Does the report contain confidential or exempt information? Yes No

What is this report about?

Including how it contributes to the city's and council's ambitions

- The purpose of this report is to recommend the Council's proposed Budget for 2022/23 for consultation and to note the provisional budgets for 2023/24 and 2024/25.
- There are two reports, considered by the September Executive Board and elsewhere on this agenda, which detail the savings proposals being considered to contribute towards the Council being able to present a balanced budget position for 2022/23 for consultation.
- These budget proposals are set within the context of the [Medium Term Financial Strategy 2022/23-2026/27](#), which was approved by the Executive Board on the 22nd September 2021, and which continues the journey commenced 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.
- The Chancellor of the Exchequer announced the Spending Review 2021 on 27th October 2021, covering the three-year period to the end of the current Parliament, 2022/23 to 2024/25. The Spending Review is at a national level, with the detail of these announcements covered at Appendix 1 to this report. We await further detail at a local authority level of the provisional Local Government Settlement expected in mid-December. It is not yet known whether this year's Settlement will be for multiple years or for one year only, the consequence of which is continued uncertainty regarding future funding for local government which makes financial planning much more difficult.
- The current financial climate for local government continues to present significant risks to the Council's priorities and ambitions and this report has been prepared against the background of uncertainty with regard to the Government's spending plans from April 2022. The Council continues to make every effort possible to protect the front line delivery of services and to avoid large scale compulsory redundancies. It is clear from the size of the estimated budget gap for the period 2022/23 to 2026/27, that this is extremely challenging. It

will therefore be increasingly difficult to maintain current levels of service provision without significant changes in the way the Council operates.

- The forecast position for the financial period to March 2025 recognises the requirement to make the Council's budget more financially resilient and sustainable whilst providing increased resources to support demand-led services within the Council.
- In the Spending Review 2021 the Chancellor announced a new relief scheme for the retail and leisure sectors. There will be new reliefs granting 50% relief to businesses in these sectors up to a maximum of £105,000 per ratepayer. These proposals include an estimate of the cost of these reliefs although uncertainty about where individual ratepayers will claim their maximum reliefs remains. These proposals also assume that local newspaper offices will continue to receive a £1,500 reduction for a further year and public lavatories and certain telecoms infrastructure will, by statute, receive 100% business rates relief. Local authorities will be compensated in full by Government for any resultant loss of income caused by all these reliefs.
- COVID-19 has fundamentally affected the way the Council works. Whilst the impact of COVID-19 has been to reduce the level of resources available to the Council it has also provided the opportunity to consider how its business and services should operate in the future and this is reflected in a number of the budget savings proposals that have been received at Executive Board. This proposed Budget recognises the ongoing impact of COVID on expenditure and income and identifies resources to deal with this impact in 2022/23.
- Changes since the Medium Term Financial Strategy, received by this Board in September, are summarised as follows:
 - The Financial Strategy identified an estimated budget gap of £65.4m for 2022/23.
 - Since that report, £42.9m of corporate measures to reduce this gap have been agreed, including use of reserves, increased partner contributions and greater use of Capital Receipts Flexibilities.
 - Announcements at Spending Review 2021 are estimated to provide £19.1m of additional funding, but also additional expenditure requirements including pay costs of £4.1m relating to the National Living Wage and the Health and Social Care Levy and a £3.3m reduction in the level of Adult Social Care Precept assumed in the Financial Strategy.
 - Other key adjustments, including movements in reserves, creation of a COVID contingency and updated Net Revenue Charge assumptions, create an additional pressure of £5.7m, result in a budget gap before directorate savings of £16.5m.
 - Proposed savings of £17.7m have been presented to this Board in September and on today's agenda, £1.3m of which are included in the corporate measures outlined above. As such the proposed savings are sufficient to balance the 2022/23 budget position.
 - As a consequence of these changes, as set out in Table 12 at Appendix 1 to this report, this proposed Budget assumes that resources have increased by £51.8m, but there has also been a net increase in budget pressures of £7.0m.
 - The Council's established 'Financial Challenge' programme has continued to identify savings to contribute towards closing this gap. In September this Board received budget savings proposals reports totalling £7.0m; further savings proposals for 2022/23 of £10.7m are presented to this Board through the report on today's agenda, 'Revenue savings proposals for 2022/23 to 2024/25'.
 - An additional £3.0m of savings have been identified since publication of the MTFs, including £2.7m of the £4m of proposed procurement savings not yet attributed to directorates, closing the 2022/23 gap.

- The headlines for the 2022/23 proposed Budget when compared to the 2021/22 budget are as follows:
 - An increase in the Settlement Funding Assessment (SFA) of £9.0m (4.8%)
 - Spending Review 2021 announced a core council tax increase of 1.99% and an option to increase the Adult Social Care precept of 1%. In addition, there has been a partial recovery in the council tax base as levels of Council Tax Support required have decreased and growth in the tax base has increased as the impact of COVID lessens. The total contribution of council tax to the Net Revenue Budget is projected to increase by £23.9m in 2022/23.
 - Business rates income has partially recovered in 2021/22, mainly due to the reduction in extended reliefs introduced in 2020/21 as a response to the COVID-19 crisis. At the Spending Review the Government announced further reliefs in 2022/23 for the retail and leisure sectors, which are included in these proposals. The impact of these reliefs is compensated for through Section 31 Grants.
 - Reflecting the above, the Net Revenue Budget for the Council has increased in 2022/23 by £86.2m to £521.4m.

- In respect of the Housing Revenue Account:
 - The application of the Government's formula of annual rent increases being no greater than CPI+1% will see rents for all tenants increase by 4.1% in 2022/23.
 - Service charges will increase by RPI of 4.9%.
 - For the Retirement Life charge there will be full cost recovery for tenants receiving Housing Benefit, the subsidy for self payers will be £1 for stand alone community centres and £1.72 for communal areas.
 - A Sheltered Accommodation Support Charge of £15.62, with full cost recovery for tenants receiving Housing Benefit and a subsidy of £1.62 for self payers who will pay £14. This is a stepped increase of £2 from 21/22.
 - District heating and garage rental rates will increase by RPI of 4.9%.
 - The total increase will be capped at £5 per week.

- Leeds City Council has submitted an application on behalf of the following authorities to form a business rate pool operating under the national 50% scheme in 2022/23: Bradford, Calderdale, Harrogate, Kirklees, Leeds, Wakefield, and York. The advantage of forming a business rate pool is the retention of levy payments within the region that would otherwise have to be made to Central Government. This proposed Budget recognises that Leeds City Council will be required to make a levy payment in 2022/23 to either the new Leeds City Region Business Rates Pool or to Government, depending on the outcome of this application.

How this report contributes to the city's and council's ambitions

- The Best Council Plan is the Council's current strategic plan which sets out its ambitions, outcomes and priorities for the City of Leeds and for the local authority. The City ambitions as set out in the Best Council Plan are that the Council, working in partnership, will continue to tackle poverty and inequalities through a combination of strengthening the economy and doing this in a way that is compassionate and caring. The Authority's internal 'Best Council' focus remains on becoming a more efficient, enterprising and healthy organisation.
- In October, this Board considered the report, 'Leeds 2030: Shaping Our Best City Ambition' which sought agreement in principle to the replacement of the Best Council Plan with a more externally-facing and partnership-focused City Ambition from February 2022. Initial proposals are included elsewhere on today's agenda through the report, 'Best City Ambition

– initial proposals’. These proposals aim to strengthen and better reflect the important role that partnership working across Leeds has in achieving the city’s shared goals. The proposals maintain the Council’s longstanding commitment to tackling poverty and reducing inequalities and the framework of three pillars of Health and Wellbeing, Inclusive Growth and Zero Carbon.

- It is important the Best City Ambition remains rooted in activity on the ground and supports delivery of real progress in this city. For the Council’s part, that means alignment is required behind the ambition and goals outlined in the draft proposals, and the financial and wider resources invested to deliver. As such, these strategic ambitions 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 then provides the framework for the determination of Council’s annual revenue budget for which the proposals for 2022/23 are contained in this report.

Recommendations

Executive Board is recommended to:

- a) Note that the proposed Budget for 2022/23 presented in this report is based on the approval and delivery of £17.7m of directorate savings for 2022/23. These have been brought to this Board through the accompanying reports, ‘Revenue Savings Proposals for 2022/23 to 2024/25’ at its September meeting and elsewhere on this agenda.
- b) Agree to consultation on the proposed Budget for 2022/23. This includes the proposed increases in core Council Tax and the Adult Social Care precept. Further to this, that these budget proposals are submitted to Scrutiny and for wider consultation with stakeholders.
- c) Note the provisional budget position for 2023/24 and 2024/25 and to note that further savings proposals to address the updated estimated budget gaps of £30.6m and £25.6m for 2023/24 and 2024/25 respectively will be reported to future meetings of this Board.
- d) Approve that, should the application to form a 2022/23 Leeds City Region Business Rates Pool be successful, Leeds City Council becomes a member of the proposed Pool and acts as lead authority for it. The establishment of this new Pool will be dependent upon none of the other proposed member authorities choosing to withdraw within the statutory period after designation.

Why is the proposal being put forward?

- 1 Executive Board members are required to recommend a balanced Revenue Budget and Capital Programme for 2022/23 to Full Council in February. The proposed Budget provides a key part of the budget setting process.
- 2 This report presents an update to the financial position reported to this Board in September 2021 in the Medium-Term Financial Strategy for 2022/23 to 2024/25.

What impact will this proposal have?

Wards affected:

Have ward members been consulted?

Yes

No

- 3 The Equality Act 2010 requires the Council to have “due regard” to the need to eliminate unlawful discrimination and promote equality of opportunity. The law requires that the duty to pay due regard be demonstrated in the decision making process. Assessing the potential equality impact of proposed changes to policies, procedures and practices is one of the key ways in which public authorities can show due regard.
- 4 The Council is fully committed to ensuring that equality and diversity are given proper consideration when we develop policies and make decisions. In order to achieve this the Council has an agreed process in place and has particularly promoted the importance of the process when taking forward key policy or budgetary changes. Equality impact assessments also ensure that we make well informed decisions based on robust evidence.
- 5 Equality impact screenings have been carried out on all ‘service review’ savings proposals previously approved by this Board for implementation / consultation at its September meeting and are included with the further service review proposals in the accompanying ‘Revenue Savings Proposals for 2022/23 to 2024/25’ report elsewhere on this agenda. Where appropriate, equality impact assessments will be carried out as part of the Council’s decision-making process.
- 6 The proposals within this report have been screened for relevance to equality, diversity, cohesion and integration (Appendix 4) and a full strategic analysis and assessment will be undertaken on the 2022/23 Revenue Budget and Council Tax report which will be considered by Executive Board and subsequently by Full Council in February 2022. Specific equality impact assessments will also be undertaken on all budget decisions identified as relevant to equality as they are considered during the decision-making process in 2022/23.

What consultation and engagement has taken place?

- 7 The Authority’s financial strategy is driven by its ambitions and priorities as set out in the Best Council Plan. The current Best Council Plan was approved by Council in February 2020 following consultation with members and officers throughout its development, with additional extensive stakeholder consultation carried out on the range of supporting plans and strategies. These arrangements will continue to inform further updates to the strategic plan as it transitions to a new ‘City Ambition’.
- 8 The Council’s Medium-Term Financial Strategy 2022/23 – 2026/27, received at Executive Board in September 2021, was informed by the public consultation exercise carried out between January and February 2021 on the Council’s 2021/22 budget proposals. Whilst the consultation covered the key 2021/22 proposals, it also included the principles of how we should be funded, proposed changes to Council Tax, how we plan to spend the revenue budget, and respondents’ service priorities. Additional areas were explored including: perceptions of the Council, attitudes around our social contract with citizens, and how people are coping and their concerns around the COVID-19 pandemic. This supplemented the ongoing process of consultation through which residents are consulted on a variety of issues throughout the year.
- 9 The approach for the public consultation on the proposed Budget for 2022/23 will follow a similar approach to that taken last year, with the primary method being an online survey. This will be carried out: with the public via the council’s website, social media and the Citizens’ Panel; with staff through the intranet; and with stakeholders, including representatives from the Third Sector and the Business sector. A change from recent years, the consultation will be hosted through an engagement platform (YourVoice), enabling key information and participants’ ideas to be shared in one place. Staff at the council’s customer community hubs will provide support to members of the public requiring assistance to complete the online survey. The consultation will begin once this report is initially agreed by Executive Board and will run for four

weeks, with findings timetabled to be reported at the following meeting, prior to finalisation of the Budget. The Budget public consultation will be delivered in parallel to the Best City Ambition consultation, helping residents and respondents to consider these two important matters together. Efforts will be made to cross-reference and signpost between the two consultations.

- 10 With regard to the individual savings proposals approved by this Board at its September meeting and put forward in the accompanying, 'Revenue Savings Proposals for 2022/23 to 2024/25' report for consideration by the Executive Board elsewhere on this agenda, both senior members and staff have been engaged in their development. Trade unions have also been informed in headline terms of emerging proposals. Where required, further meaningful consultation and engagement has been, and will be, carried out with staff, trade unions, service users and the public as appropriate on the 'Service Review' savings proposals. The outcomes of any consultation will inform the Council's decision-making and, where completed and analysed in time, be incorporated into the 2022/23 Budget Report for consideration at February's Executive Board and Full Council.
- 11 All five Scrutiny Boards will be initially consulted on the savings proposals (both those brought to the Executive Board in September and those put forward elsewhere on this agenda), as relevant to their remits, through working group meetings held during December. Subject to the approval of Executive Board, this proposed Budget report will also be submitted to Scrutiny Boards for consideration and review as part of their formal cycle of meetings in January 2022. The outcome of their deliberations will be reported to the planned meeting of this Board on 9th February 2022.

What are the resource implications?

- 12 The financial position as set out in the Medium Term Financial Strategy which was received at September's Executive Board identified an estimated budget gap of £126.7m for the period 2022/23- 2024/25 of which a gap of £65.4m related to 2022/23. This position took account of the estimated level of resources available to the Council. In addition, it reflected the requirement to make the Council's revenue budget more financially resilient and sustainable over the medium term whilst at the same time recognising increased demand pressures for the services that we deliver.
- 13 Proposals to address this position and ultimately to deliver a balanced budget position for 2022/23 are contained within Appendix 1 of this proposed Budget report.
- 14 The provisional budgets for 2023/24 and 2024/25 have been updated and the estimated budget gaps are now £30.6m and £25.6m for the respective years. Details are contained within Appendix 1 of this proposed Budget report.

What are the legal implications?

- 15 This report has been produced in compliance with the Council's Budget and Policy Framework. In accordance with this framework, the proposed Budget, once approved by the Board, will be submitted to Scrutiny for their review and consideration. The outcome of their review will be reported to the February 2022 meeting of this Board at which proposals for the 2022/23 budget will be considered prior to submission to Full Council on the 23rd February 2022.
- 16 The proposed Budget will, if implemented, have implications for Council policy and governance and these are explained within the report. The budget is a key element of the Council's budget and policy framework, but many of the proposals will also be subject to separate consultation and decision making processes, which will operate within their own defined timetables and be managed by individual directorates.

- 17 In accordance with the Council's Budget and Policy Framework, decisions as to the Council's budget are reserved to Full Council. As such, recommendations a., b. and c. are not subject to call in, as the budget is a matter that will ultimately be determined by Full Council. The report referred to in Recommendation a., 'Revenue Savings Proposals for 2022/23 to 2024/25', which appears elsewhere on today's agenda, is separately subject to call-in.
- 18 However, recommendation d., regarding the Council's participation in the 2022/23 50% Leeds City Region Business Rates Pool, is a decision of the Executive Board and as such is subject to call-in.
- 19 With regard to the individual savings proposals considered at the September meeting of this Executive Board and additional proposals put forward in the accompanying, 'Revenue Savings Proposals for 2022/23 to 2024/25' report elsewhere on this agenda, decisions giving effect to the Business as Usual proposals can be taken by the relevant Director or Chief Officer in accordance with the Officer Scheme of delegation (Executive functions) and will be subject to the Executive and decision – making procedure rules. Notice of any decision which is "Key" will be published on the list of forthcoming decision not less than 28 clear calendar days in advance of the date of the proposed decision.
- 20 Decisions giving effect to the Service Reviews will be made following the outcome of consultation having regard to representations made. Decisions will be taken by the relevant Director or Chief Officer, save where the Leader or the relevant Portfolio Holder has directed or the Director considers that the matter should be referred to Executive Board for consideration.

What are the key risks and how are they being managed?

- 21 The proposed Budget 2022/23 and the provisional budgets for 2023/24 and 2024/25 need to be seen in the context of significant inherent uncertainty for the Council in terms of future funding and spending assumptions.
- 22 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, in that the Council cannot balance its Revenue Budget, is identified as one of the Council's corporate risks, as is the Council's financial position going into significant deficit in the current year resulting in reserves (actual or projected) being less than the minimum specified by the Council's risk-based reserves policy. Both these risks are subject to regular review and reporting.
- 23 Failure to address these issues will ultimately require the Council to consider even more difficult decisions that will have a far greater impact on front-line services including those that support the most vulnerable and thus on our Best Council Plan ambition to tackle poverty and reduce inequalities.
- 24 Financial management and monitoring continues to be undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget that are judged to be at risk, for example the implementation of budget action plans, those budgets which are subject to fluctuating demand, key income budgets, etc. This risk-based approach will continue to be included in the in-year financial reports brought to Executive Board.
- 25 In addition, risks identified in relation to specific proposals and their management will be reported to relevant members and officers as required.
- 26 Specific risks relating to some of the assumptions contained within this proposed Budget are identified at Appendix 1 to this report.

Does this proposal support the council's three Key Pillars?

Inclusive Growth

Health and Wellbeing

Climate Emergency

27 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 Three Pillars of inclusive growth, health and wellbeing and the climate change emergency underpin this vision and these 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 provides the framework for the determination of the Council's annual revenue budget, with this report being the initial proposals for the 2022/23 Budget.

Options, timescales and measuring success

What other options were considered?

28 Not applicable.

How will success be measured?

29 Not applicable.

What is the timetable for implementation?

30 Not applicable.

Appendices

- 31 Appendix 1: Proposed Budget for 2022/23 and Provisional Budgets for 2023/24 and 2024/25
Appendix 2: Net Managed Budget by Directorate 2022/23
Appendix 3: The 10 Year Capital Programme
Appendix 4: Equality, Diversity, Cohesion and Integration Screening

Background papers

32 None.



Appendix 1:

Proposed Budget for 2022/23 and Provisional Budgets for 2023/24 and 2024/25



1. Introduction

- 1.1 This report details the proposed Budget for 2022/23, set within the context of the Medium Term Financial Strategy approved by Executive Board in September 2021, the Spending Review 2021, and proposed Budget savings reports, received at Executive Board in September and December, that contribute towards bridging the estimated budget gap for 2022/23.
- 1.2 Subject to the approval of the Executive Board, this proposed Budget for 2022/23 will be submitted to the respective Scrutiny Boards for their consideration and review, with the outcome of their deliberations to be reported to the planned meeting of this board on the 9th February 2022. These budget proposals will also be made available to other stakeholders as part of a wider and continuing process of engagement and consultation.
- 1.3 This report also provides an update on the provisional budgets for 2023/24 and 2024/25 and the Executive Board are asked to note these revised positions.

2. The national context and Spending Review 2021

COVID-19 and a new operating context

- 2.1. 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 has resulted in the Council needing to consider closely how its business and services should operate and any ongoing impact of the pandemic will be one of the elements shaping services 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.
- 2.2. However, the longer-term impact remains unclear. The economy is recovering following the relaxation of lockdown restrictions and the country's labour market has proved more resilient than expected, with employment rates higher than estimated. As a result whilst the proposed Budget for 2022/23 recognises the ongoing impact of COVID-19 in specific services, it is assumed that from 2023/24 the Council will not be incurring additional expenditure as a result of COVID-19 and that income from sales, fees and charges will have recovered to pre-pandemic levels.

EU Exit

- 2.3. On January 31st 2020 the UK left the EU. While Leeds is prepared 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). As a member of the European Union, the UK

received structural funding worth about £2.1 billion per year, used for boosting aspects of economic development, including support for businesses, employment and agriculture. To replace it, the Government has announced the establishment of the Shared Prosperity Fund, to “reduce inequalities between communities”, to be launched in April 2022. £220 million has been allocated to pilot schemes for the new fund in 2021/22, with Government indicating that funding will increase to £1.5 billion a year. The Spending Review 2021 indicated that the Fund would be worth £2.6bn between 2022/23 and 2024/25, with £560m being allocated to a new programme to boost adult numeracy skills and improve employment prospects. There remains uncertainty about the detailed operation of the scheme, how funds will be allocated and concerns that funding will not reach ESIF levels in the early years.

Levelling Up

- 2.4. One of Government’s flagship policies, levelling up is intended to “level up opportunities across all parts of the United Kingdom, supporting jobs, businesses and economic growth and addressing the impact of the pandemic on public services.”¹ A Levelling Up Fund was announced at the 2020 Spending Review and has now been established, initially making £4.8bn available for UK local infrastructure through a competitive bidding process, with this funding to be delivered through local authorities. Government intends to publish a White Paper on its ‘levelling up’ strategy later in the year and to provide further detail on how the Fund will operate from 2022-23 onwards. In the view of the Local Government Association, “The White Paper presents an opportunity to reset the relationship between central and local government and put councils at the heart of delivering a Government’s ambitious programme to improve opportunities in all parts of the country.”² The first £1.7bn of funding allocations have been announced alongside Spending Review 2021, with £20m allocated to Leeds for ‘Connecting West Leeds’, a new transport infrastructure scheme focusing on travel and environmental improvements to the Outer Ring Road between Horsforth and Pudsey.

HS2

- 2.5. The Government have announced their intention to not build the Eastern leg of the HS2 high speed rail line to Leeds. The impact of this decision along with the implications of the announced integrated rail plan upon the city’s economy are as yet unclear.

NHS integration and Adult Social Care Reform

- 2.6. The Health & Care Bill was introduced into Parliament on the 6th July 2021. The Bill will ensure each part of England has an Integrated Care Board and an Integrated Care Partnership responsible for bringing together local NHS and local government, such as social care, mental health services and public health advice, to deliver joined up care for its local population.

¹ Prime Minister’s Office, Queen’s Speech 2021, 11 May 2021

² The Levelling Up agenda, House of Commons, LGA Briefing, 15 June 2021

Details around future funding will become clearer later in the financial year and updates provided accordingly.

- 2.7. In September 2021 Government announced £5.4bn of funding for adult social care reform over the next three years, to be funded by a new Health and Social Care Levy. The Spending Review 2021 confirmed that £1.7bn of this funding would be for major improvements across the adult social care system. Government published the “People at the Heart of Care: adult social care reform”³ white paper on 1st December 2021, setting out how some of this money will be spent, including investment in housing and home adaptations, technology and digitisation, workforce training and wellbeing support, support for unpaid carers, innovation and improvement. The proposals do not directly address the existing local government social care funding gap. The better integration of health and social care is also not addressed, however a further white paper addressing NHS integration is expected.

West Yorkshire Devolution

- 2.8. At a local and regional level 2021 has seen some major changes. Following the agreement of a devolution deal between the Government and West Yorkshire Leaders in spring 2020, a West Yorkshire metro mayor was elected in May 2021 with devolved powers across adult education, skills and transport, and with access to a range of new funding streams from government. The presence of a new regional body with significant funding will naturally impact on how services are delivered regionally.

2021 Spending Review

- 2.9. The Chancellor announced Spending Review 2021 and the Autumn Budget on 27th October 2021 in which he set out the Government’s spending plans until the end of this Parliament in 2024/25. The three-year plan saw a headline increase in funding for local government of £4.8 billion over three years. The announcement includes additional costs for the sector of £0.3bn. providing a net increase of £4.5 billion, with £1.5 billion provided in the first year and remaining approximately constant for the following two years. These proposals assume that this additional funding will be split equally between an increase in general revenue support through Settlement Funding Assessment and additional grant funding. It is assumed that the funding through SFA will be allocated to authorities in line with the profile of the current distribution of SFA, which is estimated to result in Leeds receiving an additional £9 million. Similarly if the additional funding were to be distributed on the same basis as current Adult Social Care funding the estimate is that Leeds will receive £10.1m, making Leeds total share of the additional funding identified from the Spending Review documents £19.1 million.
- 2.10. Although the delivery of a three-year Spending Review raises hopes that the next Local Government Finance Settlement in December 2021 will be a multi-year settlement for local government, there is also a new ministerial

³ [People at the Heart of Care: adult social care reform - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/people-at-the-heart-of-care-adult-social-care-reform)

team at the Department for Levelling Up, Housing and Communities (DLUHC), leading to speculation that the settlement may again be for a single year, i.e. 2022/23.

2.11. The headline announcements in the Spending Review 2021 are as follows:

- Local government's Core Spending Power (CSP) will increase by £3.3bn (6.5%) in 2022/23. We await further details at the provisional Settlement.
- An up to 2% increase in "core" council tax plus a further 1% increase in the Adult Social Care (ASC) precept. The impact on the Leeds budget is an increase of £7.2m for the core increase, plus £3.6m for the ASC precept. This is further discussed at paragraph 4.6.
- The business rates multiplier will be frozen at the 2021/22 rate (49.9%). Local authorities will receive full compensation for the loss of income they will experience, for which the Government has set aside £450m.
- No additional funding was announced to support local authorities in dealing with the ongoing impact of COVID-19.
- The National Living Wage will increase by 6.6% from £8.91 to £9.50 an hour effective from 1st April 2022. The Council's proposed Budget provides for an increase to £9.90 per hour to meet the recently announced Real Living Wage requirement.

As referenced above, we expect further detail and local authority allocations at the Provisional Local Government Settlement in mid-December. As such this proposed Budget is based on the announcements made during the Spending Review 2021 and Autumn Budget, and previous Government announcements relating to social care funding.

2.12. At the time of the Spending Review 2021, the Office for Budget Responsibility (OBR) also published its independent economic and fiscal forecasts. The OBR have noted an improvement in their economic forecasts, which allowed the Chancellor to announce significant increases in spending, as set out below:

- the OBR's forecasts for nominal GDP growth averages 5.3% a year between 2021 and 2025, up from 4.4% on the forecast in March 2021.
- Real GDP is expected to grow by 4.2% in 2022/23, 1.7% in 2023/24 and 1.4% in 2024/25.
- The OBR estimates that inflation (CPI) will remain at 4.6% over the next year before falling back to 3.2% in 2023/24 and 2.8% in following two years.
- The economic scarring as a result of COVID-19 has also improved with OBR predicting that long-term damage to economic growth will be 2% rather than the 3% assumed in March 2021.
- Rates of unemployment are peaking at a significantly lower level than forecast in March 2021, at 5.2% rather than the estimated 12%.

- Average earnings are forecast to grow by 5.2% in 2021/22, 4.0% in 2022/23 before falling back to 2.5% in 2023/24 and 2.3% in 2024/25.
- 2.13. The latest Indices of Multiple Deprivation (IMD) were released in September 2019 following the previous 2015 update. The IMD is the official measure of relative deprivation in England and ranks each Lower Super Output Area (LSOA: a small area with a population of around 1,500 people) from the most deprived (1) to least deprived (32,844). The ranking is based on 39 separate indicators organised across seven distinct domains of deprivation, which are combined and weighted to calculate the overall IMD. With a range of resources and analysis on the IMD publicly available on the Leeds Observatory [here](#), key headlines for Leeds include:
- 24% of Leeds' LSOAs fall within the most deprived 10% nationally, compared with 22% in 2015 which highlights some increase in relative deprivation.
 - Leeds ranks 33 out of 317 (where 1 is most deprived and 317 is least deprived) local authorities when looking at proportions of LSOAs in the most deprived 10% nationally.
 - The most deprived areas are concentrated in the inner east and inner south of the city.
 - 12 LSOAs in Leeds have been ranked in the most deprived 1% nationally compared to 16 in 2015.
- 2.14. COVID-19 has compounded these deep-rooted inequalities, with young people, low earners and women in the labour market 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. While holistic analysis of the pandemic's effects is not yet possible in many respects, overall it is clear that the national narrative of exacerbated inequalities, disproportionate impact on older people, and emerging mental health challenges across all ages are reflected in Leeds.
- 2.15. In December 2017, the Government launched its Fair Funding Review of Local Government finance, to refresh the methodology on which local authority needs and resources are assessed and levels of government funding are determined. It was expected that both the Fair Funding Review and 75% Business Rates Retention would be announced as part of the Spending Review 2021 and the Chancellor's Autumn Budget. Recently the Secretary of State for the Department for Levelling-Up, Housing and Communities (DLUHC) expressed the opinion that the introduction of 75% Retention was, in his view, not compatible with the Levelling-Up agenda as it would tend to reward those areas with already high taxbases. The outcome of the Fair Funding Review also remains highly uncertain as does the timing of a business rates reset. It is for these reasons that this proposed Budget does not include any assumptions about the implementation of these reforms.

2.16. In the context of budget setting and financial planning the increase in relative deprivation shown in the IMD 2019 is significant as deprivation is expected to be reflected to a greater or lesser extent in the Fair Funding formula being developed. If and when work on the new funding formula resumes the Council will re-engage with consultation on this. These budget proposals do not currently assume any impact of the increase in relative deprivation as sufficient detail is not yet known.

3. Developing the 2022/23 Budget and Medium Term Financial Strategy with the Best Council Plan/Best City Ambition

3.1. Between the 2010/11 and 2021/22 budgets, the Council's core funding from Government has reduced by around £263m. 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 2,875 FTEs up to 31st October 2021.

3.2. Through targeting resources into preventative services the Council has ensured that the implications of demand and demographic pressures that have resulted in significant cost pressures in other local authorities have been contained within Leeds. This is reflected in service areas such as the number of people registered in Temporary Accommodation where Leeds benchmarks favourably against most Core Cities and our Regional and Statistical neighbours. In respect of Children Looked After, Leeds City Council's rate per 10,000 is below those local authorities as having similar characteristics which are identified through CIPFA's nearest neighbour statistical analysis.

3.3. The Best Council Plan is the Council's current strategic plan which sets out its ambitions, outcomes and priorities for the City of Leeds and for the local authority. The City ambitions as set out in the Best Council Plan are that the Council, working in partnership, will continue to tackle poverty and inequalities through a combination of strengthening the economy and doing this in a way that is compassionate and caring. The Authority's internal 'Best Council' focus remains on becoming a more efficient, enterprising and healthy organisation.

3.4. In October, this Board considered the report, 'Leeds 2030: Shaping Our Best City Ambition' which sought agreement in principle to the replacement of the Best Council Plan with a more externally-facing and partnership-focused City Ambition from February 2022. Initial proposals are included elsewhere on today's agenda through the report, 'Best City Ambition – initial proposals'. These proposals aim to strengthen and better reflect the important role that partnership working across Leeds has in achieving the

city's shared goals. The proposals maintain the Council's longstanding commitment to tackling poverty and reducing inequalities and the framework of three pillars of Health and Wellbeing, Inclusive Growth and Zero Carbon.

- 3.5. It is important the Best City Ambition remains rooted in activity on the ground and supports delivery of real progress in this city. For the Council's part, that means alignment is required behind the ambition and goals outlined in the draft proposals, and the financial and wider resources invested to deliver. As such, these strategic ambitions 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 then provides the framework for the determination of Council's annual revenue budget for which the proposals for 2022/23 are contained in this report.
- 3.6. Inevitably, managing the £263m 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.
- 3.7. Looking ahead, and as detailed in the Council's Medium Term Financial Strategy, the Council is facing an estimated budget gap of £146.5m for the period up to and including 2026/27. The financial challenge now facing the Council is to manage these pressures alongside the significant impact brought about by COVID-19. The needs of the communities serviced by Leeds City Council have already increased and will continue to do so, and the various funding streams that support local government are affected by the longer-term economic scarring as a result of the virus.
- 3.8. In recognition of the financial challenge the Council has embarked on a programme of service reviews which when combined with business as usual savings and cross-cutting reviews, contribute towards closing the estimated revenue budget gap and enable the Authority to present a balanced budget position in 2022/23. As detailed in the Council's Medium Term Financial Strategy, it is becoming 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 impacts upon the delivery of the Council's ambitions as detailed in our strategic plan and will have significant implications for directly provided services and those commissioned by the Local Authority, impacting upon staff, partners and service users. In order to deliver the Council's ambitions of tackling poverty and reducing inequalities, consideration may have to be given to stopping, delivering differently or charging for those services that are no longer affordable and are a lesser priority than others. This will be achieved through a continuing process of policy and service reviews across the Council's functions and ongoing consultation and engagement.

4. **Estimating the Net Revenue Budget for 2022/23**

4.1. **Settlement Funding Assessment – increase of £9.0m**

4.1.1. Settlement Funding Assessment is essentially the aggregate of core government grant and business rate baseline funding for a local authority.

4.1.2. In the last two financial years, local government has received single-year settlements, making financial planning more difficult. Despite there being a three-year Spending Review in 2021, it remains unclear whether there will be a one-year or multi-year Settlement for local government in 2021 as there is a new ministerial team in place at the DLUHC. This has led to speculation that there will only be a single year settlement for 2022/23.

4.1.3. Table 1 below sets out the Council’s estimated Settlement Funding Assessment for 2022/23, which is based on an assessment of what the Council may expect to receive from announcements at the Autumn Budget and Spending Review 2021. This represents an increase of £9.0m compared to 2021/22 and is based on a number of assumptions. Although the Government announced an increase in funding for local government of £4.8 billion over three years, £0.3 billion of this increased funding appears to be specific grants that require increased expenditure by the sector. The net increase in funding is therefore estimated to be around £1.5 billion a year and this proposed Budget assumes that this increased funding will be split 50:50 between increased funding for Social Care and increased general expenditure through the Settlement Funding Assessment. Assuming that core funding will be distributed following the same profile as current allocations, Leeds’ share of this funding received as Settlement Funding Assessment would be around £9.0m. The Government announced at the Spending Review 2021 that the business rates multiplier would be frozen in 2022/23, and therefore the Business Rates Baseline, which increases in line with the multiplier, will also be frozen. As such this £9.0m will be received through Revenue Support Grant (RSG).

Table 1 – Settlement Funding Assessment

	2021/22	2022/23	Change
	£m	£m	£m
Revenue Support Grant	28.4	37.4	9.0
Business Rates Baseline	158.4	158.4	0.0
Settlement Funding Assessment	186.8	195.8	9.0

4.1.4. The business rates element of the Settlement Funding Assessment is determined by taking the 2021/22 baseline business rates amount and uplifting it by the same percentage increase as the small business rates multiplier, which the Government announced would be frozen in 2022/23. This is then reduced by the tariff the Authority has to pay to Government because it is assessed as collecting more business rates than it requires for its spending needs, known as its baseline funding level. The tariff would ordinarily increase in line with any increase in the multiplier from its 2021/22 amount, however, as with the business rates baseline, this will be frozen in

2022/23. Local authorities will receive full compensation for the freezing of the business rates baseline and the tariff in 2022/23 although there remains some uncertainty whether this will be compensated with reference to CPI or RPI. This proposed Budget assumes the compensation will be at the lower CPI rate.

- 4.1.5. Prior to 2013/14 when the Business Rates Retention Scheme was introduced, business rates were paid to central government and redistributed as general grant according to relative needs and resources. In 2013/14, in addition to general grant, a number of other funding streams were rolled into the Settlement Funding Assessment. However since 2014/15 Settlement Funding Assessment has been adjusted without reference to these individual grants and therefore it is not possible to identify how much of the total amount of funding relates to each constituent part. These funding streams include early intervention, homelessness prevention, lead local flood authorities and learning disability & health reform funding. A list of these individual funding streams is included in Table 2.

Table 2 – Grants Rolled in to the Settlement Funding Assessment

	2022/23
	£m
Settlement Funding Assessment	195.80
Which includes:	
General funding	
Redistributed Business Rates	
Formula Grant	
Specific grants rolled in with tailored distributions	
Council tax freeze grant 2011/12	
Council tax freeze grant 2013/14	
Early intervention grant	
Preventing homelessness	
Lead local flood authority grant	
Learning disability & health reform grant	
Local welfare provision	
Care act funding	
Sustainable drainage systems	
Carbon monoxide & fire alarm grant	

4.2. **Business Rate Retention**

- 4.2.1. Leeds has the most diverse of all the UK's main employment centres and has seen the fastest rate of private sector jobs growth of any UK city in recent years. Yet this apparent growth in the economy has not translated into business rate growth; in fact the income from business rates available to the Council declined from 2015/16 to 2017/18, only returning to 2014/15 levels in 2018/19 with the introduction of the 100% retention pilot. The effect of the present coronavirus crisis has reversed this growth again with in-year income levels from the Business Rates Retention (BRR) Scheme (i.e. excluding the exceptional effects of the Collection Fund deficits from 2020/21 and 2021/22) declining below 2015/16 levels in 2021/22 and not

projected to recover to budgeted 2020/21 levels, set before the impact of the COVID-19 crisis, until 2024/25.

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

	£m
Rateable Value in Leeds projected to 31 March 2022	920.72
multiplied by business rates multiplier	0.499
Gross business rates based on projected rateable value	459.44
Estimated Growth	1.25
equals gross business rates to be collected in Leeds	460.69
less: -	
Mandatory Reliefs	-78.32
Discretionary Reliefs	-26.50
Transitional Adjustments (year 4)	0.00
equals net business rates paid by ratepayers	355.86
less adjustments for: -	
Bad debts and appeals	-25.00
Cost of collection	-1.26
Projected Enterprise Zone and renewable energy projects yield	-1.66
Transitional Adjustments repaid to Government	0.00
equals non-domestic rating income in Leeds	327.94
Split into shares: -	
Leeds City Council (49%)	160.69
<i>West Yorkshire Fire Authority (1%)</i>	3.28
<i>Central Government (50%)</i>	163.97
less deductions from operation of business rates retention scheme: -	
Leeds City Council's tariff from Local Government Finance Settlement	-14.36
Leeds City Council's share of deficit from 2021-22	-18.90
Adjustment for spreading the 'exceptional deficit' from 2020-21 over 3 years	-12.23
Leeds City Council 's 2022-23 income from business rates	115.20

4.2.2. The total projected rateable value of businesses in Leeds as at 31st March 2022 is £920.7m which would generate gross business rates income of £459.4m. It is projected that there will be some modest growth in gross business rates of £1.2m in 2022/23 after two years of decline due to the impact of COVID-19, although this is only 25% of normal rates of growth prior to the crisis. As shown in Table 3, the impact of a range of business rate reliefs (see paragraph 4.3) and statutory adjustments reduces this to a net income figure of £327.9m.

4.2.3. Under the projected 50% BRR scheme, Leeds City Council's share of this income is £160.69m (49%). The Authority then pays a tariff of £14.4m to Government because Leeds is assessed to generate more business rates income than it needs.

4.2.4. Leeds must also meet its share of the business rates deficit created in 2021/22, which totals £31.1m. The unusually large deficit from 2021/22 comprises a number of components. The first is the part of the deficit generated by the continued reliefs introduced by the Government as a response to the COVID-19 lockdown for which the Council receives full compensation (see section 4.3 and paragraph 5.5.20). The Council will hold the funding it receives in excess of expectations in the 2021/22 budget in its General Fund reserves to meet this part of the deficit in 2022/23. The

second part of the deficit is the second one third payment of the 'exceptional deficit' that occurred in 2020/21 which the Government said local authorities must spread repayment to the Collection Fund over three years. This second payment will be £12.2m.

- 4.2.5. As shown above, business rates income is shared between local and central government. Under the 50% BRR scheme local authorities experiencing business rates growth are able to retain 49% of that growth locally, but also bear 49% of the risk if business rates fall or fail to keep pace with inflation, although a safety net mechanism is in place to limit losses in-year.
- 4.2.6. In particular, BRR exposes local authorities to risk from reductions in rateable values. The system allows appeals if ratepayers think rateable values have been wrongly assessed or that local circumstances have changed. One major issue is that successful appeals are usually backdated to the start of the relevant valuation list, which means that for every £1 of rateable value lost on the 2010 list, growth of £6 would be necessary to fund the cost. The 2010 list is however closed for new appeals and the backlog of appeals has reduced greatly. At the end of October 2021 there were 164 outstanding appeals against the 2010 ratings list in Leeds although many of these appeals are for properties with high Rateable Values, such as supermarkets. The Council holds significant provisions of £6.0m against the risk that these will result in reductions.
- 4.2.7. Until the beginning of 2020/21 and the introduction of nationwide restrictions across the UK, the 2017 ratings list was proving to be less susceptible to challenge than the previous 2010 list. The 2010 list was based on rental values in 2008, just before the 'financial & economic crisis' but came into effect after that crisis, when property values had greatly reduced. Appeals submitted against the new 2017 list can be backdated to 1st April 2017, and, together with the impact of the new 'check, challenge, appeal' appeals process, which was also introduced on 1st April 2017, had appeared to reduce business rate appeals and volatility going forward. However, following the introduction of national restrictions in response to the coronavirus crisis, the number of checks submitted to the Valuation Office Agency, the first stage in the new appeals system, rose from an average of 150 per month to, during the months of May, June and July 2020, over 1,000 per month. The ratepayers sought reductions in their Rateable Values as a consequence of the lockdowns in 2020 claiming a Material Change in Circumstances, one of the grounds for appeals. The Council made provisions for these appeals and they were included in the deficit declared in 2020/21. Subsequent to this Government announced that it would retrospectively legislate to ensure these appeals would not be successful stating that generalised changes in circumstances affecting the whole economy were not the purpose of appeals based on a Material Change of Circumstance but should be rectified at a Revaluation. Legislation is now in Committee Stage in the House of Lords and the Council has therefore no longer provided for these appeals. This has improved the deficit to be paid in 2022/23.

4.2.8. Since 2013/14 the total amount repaid by way of business rate appeals is £174.9m, at a cost to the Council's general fund of £91.3m. The provision for business rate appeals within the collection fund has been reviewed and recalculated to recognise new appeals and the settlement of existing appeals. The 2022/23 proposed Budget provides for an additional £2.3m contribution from the general fund to fund this provision.

4.3. **Small Business Rates Relief and other mandatory reliefs**

4.3.1. From April 2017, Government increased the rateable value threshold for small businesses from £6,000 to £12,000 and the threshold above which businesses pay the higher national business rates multiplier from £18,000 to £51,000. As a result an additional 3,300 small businesses in Leeds immediately paid no business rates at all. Before the pandemic almost 12,600, about 30%, of business properties in Leeds paid no business rates. Of these businesses just over 9,600 receive 100% Small Business Rates Relief. Whilst Small Business Rates Relief and other threshold changes reduce the business rates income available to Leeds, the Authority recovers 69.1% of the cost of the relief through Government grant. A fixed grant of £0.8m is paid by the Government for the changes to the multiplier threshold and a further £8.9m is recovered through the ratepayers in more valuable properties who still pay rates based on the higher business rates multiplier. The overall proportion any individual authority recovers depends on the mix of large and small businesses in that area.

4.3.2. Unlike Small Business Rates Relief, in 2022/23 Leeds will bear 49% of the cost of other mandatory business rate reliefs such as mandatory charity relief and empty rate relief, but has no control over entitlement and no powers to deal with their use in business rates avoidance. Costs of mandatory reliefs have increased significantly since the introduction of BRR, further reducing Leeds's retained business rates income: in real terms mandatory charity relief alone has increased by almost 30%, from approximately £22.6m in 2012/13 to a projected £28.8m in 2021/22 costing the Council an estimated £3.0m more in lost income under 49% retention in 2021/22.

4.3.3. In 2020/21 the Government announced a 100% relief from business rates for all retail, leisure and child-care facilities forced to close during the 2020 lockdowns. In the Autumn Budget 2020 no mention of a continuation of these reliefs was mentioned and the Council's Budget was set accordingly. However before the beginning of 2021/22 the Government announced that these businesses would receive additional relief in 2021/22 as a response to the continuing lockdowns in the winter months. Businesses in these sectors were given 100% relief for three months followed by relief of 66% for the remainder of the year. However ratepayers that could remain open were limited to a maximum of £105,000 whereas businesses that were closed during the lockdown were given a limit of up to £2,000,000. This cost this authority's collection fund £64.8m, with Leeds' General Fund share being £31.8m. This cost has been fully compensated by Government

through a section 31 grant, which the Council will hold in general reserve to meet the cost of the resulting deficit in 2022/23.

- 4.3.4. In the Spending Review of 2021 the Government announced that a further relief scheme would be introduced in 2022/23. This scheme would see retail, hospitality and leisure businesses receive a 50% relief against their 2022/23 business rates liability up to a maximum of £110,000 per business. Local authorities will receive full compensation for losses to their business rates income for this measure. Although it is currently somewhat uncertain, because businesses can choose where to receive their relief across England, these proposals estimate that this will cost the Collection Fund something in the order of £25.0m for which the Council will receive full compensation. It is also assumed that local newspaper offices will continue to receive a £1,500 reduction for a further year and that public lavatories and certain telecoms infrastructure will receive a new statutory 100% relief against business rates. Local authorities receive a government grant to compensate them for any resultant loss of income.

4.4. **Business Rate Retention and the Proposed Budget**

- 4.4.1. In terms of the proposals in this proposed Budget, it is estimated that the local share of business rates funding in 2022/23 will be £160.7m, as set out in Table 3. As per Table 4, the proposed Budget recognises business rate decline below the baseline of £12.1m, a decrease of £7.5m from the 2021/22 budget. This is a significant decline in the city's locally generated revenue below the baseline (4.5%) largely caused by the new reliefs introduced by the Government to support business after the lockdowns of 2020/21 and 2021/22. The elements of this decline are set out in paragraphs below.

Table 4 – Business Rates, Estimated Growth/(Decline) to the Baseline

	2021/22	2022/23	Change
	£m	£m	£m
Business rates local share	168.18	160.69	(7.49)
Less: business rates baseline	172.79	172.79	0.00
Growth above baseline	(4.61)	(12.10)	(7.49)

- 4.4.2. Table 5 sets out the main changes in business rates income that results in this £7.49m decline in growth above the baseline. The single largest element (-£12.3m) is the introduction of the extended Retail and Leisure Relief announced by the Government at the Spending Review 2021, for which the Council will be fully compensated by section 31 grant. There are some further costs that are expected due to reliefs due to an increased demand for Mandatory Charity Relief (-£0.7m) and the new Telecoms and Public Toilet reliefs (-£0.2m). The cost of the latter two new reliefs will also be fully compensated by Government grant.
- 4.4.3. It is now projected that these additional costs will be partly netted off by a number of improved elements of business rates income as the economy

continues to recover from COVID-19. They include a slowdown in the reduction to the taxbase in Leeds in 2021/22 (£1.7m), a reduction in the requirement for bad debt provisions (£1.5m), a modest amount of growth in 2022/23 (£0.6m) and a slight reduction in the demand for Empty Rate Relief (£0.2m) as demand for business property slowly increases again. In the forecasts for 2021/22 a higher than usual requirement for provisions for appeals cost was assumed because many ratepayers had appealed their Rateable Value in reaction to the various lockdowns, however retrospective legislation is currently before Parliament that states these appeals will not be successful. Therefore this higher than average cost of provisions can be reversed for 2022/23, a gain to business rates income of £1.9m. The forecast for the cost of Small Business Rates Relief was also increased in 2021/22 because of a trend for large shared offices being split into individual, small units attracting the relief. However this trend seems to have levelled off in the last few months at a lower than forecast level representing a saving of £0.3m. There are numerous smaller adjustments, mainly to other reliefs funding by section 31 grants, that represent an additional cost to income of £0.4m.

Table 5 – Changes in Growth above the baseline between the 2021/22 and 2022/23 Budgets and later years

	2022/23	2023/24	2024/25	2025/26	2026/27
	Indicative	Indicative	Indicative	Indicative	Indicative
Leeds share of growth above the baseline	49%	49%	49%	49%	49%
Growth above baseline assumed previous year (£m)	-4.6	-12.1	3.1	7.0	11.6
Cost of extended Retail Relief and Leisure relief (£m)	-12.3	12.3	0.0	0.0	0.0
Change in cost of Mandatory Charity Relief (£m)	-0.7	0.0	0.0	0.0	0.0
Introduction of Telecoms relief and Public Toilet reliefs (£m)	-0.2	0.0	0.0	0.0	0.0
Change in cost of provisions for appeals (£m)	1.9	0.0	0.0	0.0	0.0
Slowdown in reduction in current taxbase in 2021/22 (£m)	1.7	0.0	0.0	0.0	0.0
Change in cost of bad debt provisions (£m)	1.5	1.0	1.1	1.2	0.0
In-year growth of business rates yield (£m)	0.6	1.2	1.9	2.7	2.7
Change in cost of Small Business Rates Relief (£m)	0.3	0.0	0.0	0.0	0.0
Change in cost of empty rate relief (£m)	0.2	0.8	0.8	0.6	0.0
Other changes in the tax base (£m)	-0.4	-0.2	0.1	0.1	0.2
Growth above baseline assumed current year (£m)	-12.1	3.1	7.0	11.6	14.5

- 4.4.4. The £160.7m local share of business rates funding is then reduced by a £14.4m tariff payment and £31.1m deficit on the collection fund to reduce the funding available to the Council to £115.2m as shown in Table 6.
- 4.4.5. When compared to the £158.4m Business Rates Baseline (the Government's assessment of what it expects a local authority to collect before any local growth is taken into account), the funding available to the Council of £115.2m represents a deficit of £43.2m. Compared to the exceptional budgeted deficit in 2021/22 of £96.5m this is a net improvement to the Net Revenue Charge of £53.2m. However in both years the Council received funding from central government for the reliefs awarded to the retail, leisure and childcare sectors as a response to the Coronavirus crisis. In 2020/21 the Council was able to hold £75.5m of this funding in reserve to apply to the deficit in 2021/22, reducing the net impact on the General Fund

in 2021/22 to £26.3m. In 2021/22 the reliefs offered to ratepayers were more restricted and therefore the Council received far less compensation from the Government. At £31.7m, the amount held in reserve to apply in 2022/24 is £43.8m lower than in the previous year meaning the net impact of Business Rates Retention in 2022/23 is an improvement of only £9.4m.

Table 6 – Business Rates Retention 2021/22 to 2022/23

	2021/22 £m	2022/23 £m
Business rates baseline (including tariff)	158.4	158.4
Projected growth above the baseline to March	(4.6)	(12.7)
Estimated growth in the year	0.0	0.6
Total estimated growth	(4.6)	(12.1)
Estimated provision for appeals	(6.6)	(2.3)
Additional cost of transitional arrangements and provision for bad debts	(9.7)	2.9
Expanded Retail, Leisure and Childcare Reliefs	(75.5)	(31.8)
Estimated total year-end Collection Fund deficit (Leeds Share)	(91.9)	(31.1)
Estimated Business Rates Funding	62.0	115.2
Increase/(reduction) against the Business Rates baseline	(96.5)	(43.2)
Business Rates Retention - Impact on General Fund Income		53.2
Change in the funding available for previous years' reliefs		(43.8)
Net impact of Business Rates Retention on the 2022/23 General Fund		9.4

4.4.6. In 2021/22 the Council is a member of the Leeds City Region Business Rates Pool, with 50% business rates retention. The Council has submitted an application on behalf of Leeds City Region Authorities to form a 50% retention Business Rates Pool in 2022/23, with a view to retaining levy payments in the region that would otherwise be paid to central government. Leeds City Council expect to hear whether this application is successful at the provisional Local Government Financial Settlement in December 2021. Section 4.5 of this proposed Budget report gives more detail on 50% retention and pooling in the region.

4.5. Leeds City Region application to pool 50% Business Rate Retention

4.5.1. In December 2020, Government announced that a Leeds City Region Business Rates Pool application to pool 50% Business Rates Retention in 2020/21 had been successful. The Leeds City Region Pool (LCR Pool) was established on the 1st April 2021.

4.5.2. Following discussions within Leeds City Region authorities it was agreed that the Pool should continue into 2022/23 and the following have agreed to submit an application for a business rates pool in 2022/23: Bradford, Calderdale, Harrogate, Kirklees, Leeds, Wakefield and York. The LCR Pool submitted a renewed application to Government on the 8th October 2021 and we expect to be informed as to whether it has been successful at the provisional Financial Settlement.

- 4.5.3. Under the 50% scheme the advantage of forming a business rate pool is the retention of levy payments within the region that would otherwise have to be made to central government. We estimate the gains to the region would be around £5.1 million if such a pool was designated and income from the Business Rates Retention Scheme remains at current projections. Leeds City Council’s financial commitment would be in the region of £0.9m, whether as a levy to the Pool or to Central Government. This proposed Budget recognises that Leeds City Council will be required to make a levy payment in 2022/23.
- 4.5.4. The application itself is not binding. Any member of the proposed pilot Pool will still be able to withdraw during the statutory 28-day window after Government designates the new pilot Pool, as set out in the Local Government Finance Act 2012. It must be noted however that, should any member withdraw, not only would the pilot Pool be revoked but there would be no opportunity to fall back on existing pooling arrangements.
- 4.5.5. This report asks Executive Board to agree that, should the application for a 2022/23 business rates pool at 50% retention be successful, Leeds should become a member of this new Business Rates Pool and should act as lead authority for it. Notwithstanding this decision, the continuation of the Pool will be dependent upon none of the other member authorities choosing to withdraw within the statutory period after designation.

4.6. **Council Tax**

- 4.6.1. The 2021/22 budget was supported by a 4.99% increase in the level of council tax, 3% of which was attributable to the adult social care precept. Leeds council tax remains the 2nd lowest of the English core cities and mid-point of the West Yorkshire districts, as detailed in Table 7.

Table 7 – 2021/22 Council Tax Levels (Figures include Police and Fire Precepts)

Core Cities	Band D £:p	West Yorkshire	
		Districts	Band D £:p
Nottingham	2,225.76	Kirklees	1,926.59
Bristol	2,163.65	Calderdale	1,904.08
Liverpool	2,129.49	Leeds	1,799.75
Newcastle	2,022.29	Bradford	1,777.57
Sheffield	1,991.42	Wakefield	1,775.57
Manchester	1,805.84		
Leeds	1,799.75		
Birmingham	1,748.19		

- 4.6.2. The 2022/23 proposed Budget recognises a projected gain of £10.9m (7,145 band D equivalent properties) due to both increases in tax-base

growth during the 2021/22 financial year and a decrease in the number of Council Tax Support claimants as employment has recovered following the relaxation of restrictions during the lockdowns. It also recognises a decrease in the projected deficit on the collection fund of £2.3m. The £2.3m is made up of a budgeted £13.2m collection fund deficit in 2020/21 offset by an adjustment of £9.0m to spread the deficit over three years as required by Government, decreasing to a surplus of £2.6m in 2021/22, offset by payment of the second instalment of £4.5m of the three-year spread of the deficit from 2020/21.

- 4.6.3. In 2021/22 the Government allowed local authorities to increase their core council tax charge by up to, but not including, 2% before having to submit their proposed increase to a local referendum. The Council decided to increase its core council tax by 1.99%. During the Spending Review 2021 the Government intimated that the limit for core council tax would remain the same for 2022/23. These proposals therefore include a 1.99% increase in the Council's core council tax, however, the final decision on council tax remains with Full Council.
- 4.6.4. At the Spending Review 2020 the Chancellor announced that local authorities with social care responsibilities would be able to increase their ASC precept by up to 3% over two years beginning in 2021/22. In 2021/22, the Council decided to increase its ASC precept by 2.99%. At the Spending Review 2021 the Government stated that its expectation would be that authorities would be permitted to increase the ASC precept by up to 1% per year over the Spending Review period before requiring the authorities to submit their proposals to a local referendum. These budget proposals therefore include a 1.0% increase to the Council's ASC precept. As with the core increase, a final decision on this will be taken by Full Council.
- 4.6.5. The impact of the proposed core and ASC increases on the Leeds share of the council tax charge by band is as shown at Table 8. The Leeds council tax charge will be presented to the Full Council for approval in February 2022.

Table 8 – Proposed 2022/23 Leeds Council Tax

BAND A	BAND B	BAND C	BAND D	BAND E	BAND F	BAND G	BAND H
£ p	£ p	£ p	£ p	£ p	£ p	£ p	£ p
1044.50	1218.59	1392.67	1566.76	1914.92	2263.09	2611.26	3133.52

- 4.6.6. Table 9 sets out the estimated total council tax income in 2022/23; recognising the £10.9m estimated increase in the council tax base, a general £7.2m increase in the council tax rate, and a £3.6m increase due to the ASC precept. Table 9 also recognises the additional £2.6m estimated surplus on the collection fund wholly offset by an £4.5m adjustment to spread the 2020/21 council tax deficit over three years.

Table 9 – Estimated Council Tax Income in 2022/23

	2021/22	2022/23
	Baseline	Forecast
	£m	£m
Previous year council tax funding	333.7	344.9
Change in tax base - increase / (decrease)	(2.7)	10.9
Increase in council tax level	6.6	7.2
Adult Social Care precept	10.0	3.6
Council Tax Funding before surplus/(deficit)	347.6	366.6
Surplus/(Deficit) 2019/20	(1.6)	
Surplus/(Deficit) 2020/21	(13.2)	(13.2)
Surplus/(Deficit) 2021/22		2.6
Council Tax Adjustment for spreading over three years	9.0	9.0
Council Tax Adjustment for spreading over three years		(4.5)
Change in collection fund contribution - increase/(decrease)	(2.6)	2.3
Total - Council Tax Funding	344.9	368.9
Increase from previous year		23.9
4.6.7.	<p>Spending Review 2020 included £762m to fund 75% of “irrecoverable loss of council tax and business rates revenues in 2020-21”. “Irrecoverable losses” were not defined formally until after the Council’s 2021 Budget was approved, but the Council is now estimated to receive some £2.2m from this fund for losses experienced from reduced Council Tax revenues in 2020/21. It is proposed that this funding be held in reserve to assist the Council in meeting the final instalment of the deficit from 2020/21, which will become due in 2023/24.</p>	
4.6.8.	<p>In total the level of Council Tax receivable by the Council in 2022/23 is projected to increase by £23.9m when compared to that receivable in 2021/22.</p>	
4.6.9.	<p>The Settlement Funding Assessment includes an element to compensate parish and town councils for losses to their council tax bases arising as a result of Local Council Tax Support (LCTS). As this amount is not separately identifiable it is proposed, as in previous years, that LCTS grant should be pro-rated in line with the assumptions for Leeds’s overall change</p>	

in the Settlement Funding Assessment. The value of this increase will be confirmed at the provisional Settlement.

4.7. **Adult Social Care Precept**

4.7.1. At the Spending Review 2021, the Chancellor stated that the Government had the expectation that the Adult Social Care precept would increase by around 1% over the lifetime of the next Spending Review, that is 2022/23 to 2024/25. This expectation should be considered alongside the announcement in September 2021 of the new funding package for Health and Social Care announced by the Government, which appeared to intimate that additional pressures on Adult Social care services in future years would not be funded in the earlier years of the reforms by the 1.25% increase National Insurance rates but instead by efficiencies, council tax and the Adult Social care precept.

4.7.2. Based on these statements, these budget proposals and financial plans in future years have assumed a 0.99% increase in the Adult Social Care precept for the years 2022/23 to 2024/25. However any final decision on such a levy remain that of Full Council.

4.8. **The Net Revenue Budget 2022/23**

4.8.1. After taking into account the anticipated changes to the Settlement Funding Assessment, business rates and council tax, the Council's overall net revenue budget is anticipated to increase by £86.2m or 19.8% from £435.3m to £521.4m, as detailed in Table 10 and at **Appendix 2**. This includes a significant reduction in the business rates deficit of £60.7m.

Table 10 – Estimated Net Revenue Budget 2022/23 compared to the 2021/22 Net Revenue Budget

	2021/22 £m	2022/23 £m	Change £m
Revenue Support Grant	28.4	37.4	9.0
Business Rates Baseline	158.4	158.4	0.0
Settlement Funding Assessment	186.8	195.8	9.0
Business Rates Growth	(4.6)	(12.1)	(7.5)
Business Rates Deficit that will not be spread	(79.6)	(18.9)	60.7
Business Rates Deficit: One-third of 'exceptional balance'	(12.2)	(12.2)	0.0
Council Tax (incl. Adult Social Care Precept)	349.1	370.7	21.6
Council Tax Surplus that will not be spread	0.3	2.6	2.3
Council Tax Adjustment: One-third of 'exceptional balance'	(4.5)	(4.5)	(0.0)
Net Revenue Budget	435.3	521.4	86.2

4.8.2. Table 11 analyses this £86.2m estimated increase in the net revenue budget between the Settlement Funding Assessment and locally determined funding sources.

Table 11 – Increase in the Funding Envelope

Funding Envelope	2022/23 £m
Government Funding	
Settlement Funding Assessment	9.00
Sub-total Government Funding	9.00
Locally Determined Funding	
Council Tax (incl tax base growth)	23.95
Business Rates	53.24
Sub-total Locally Determined Funding	77.18
Increase/(decrease) in the Net Revenue Budget	86.18

- 4.8.3. The estimated increase in the 2022/23 net revenue budget compared to 2021/22 cannot be properly understood without considering changes in general fund income streams associated with the collection fund. In 2020/21 the Government funded exceptional reliefs against business rates for the retail and leisure sectors which was forwarded to local authorities to meet the resultant deficit in 2021/22. In 2021/22 the Government announced further reliefs but at a much reduced level, the funding for which will also be held in reserve to meet the smaller resultant deficit in 2022/23. This means that although the net revenue budget due to business rates has increased by £53.2m because the business rates deficit has reduced, the reduction in funding held in reserve to meet this deficit is £43.8m. As can be seen in Table 6 the net result of this is that business rates revenue to the Council has only increased by £9.4m.
- 4.8.4. Council tax is projected to increase by £23.95m because of a number of reasons detailed below. Since the 2021/22 council budget was estimated the level of applications for council tax support has reduced as unemployment has reduced, which has the effect of increasing the council tax base. Growth in the council tax base, with new homes being completed in the city, has also markedly improved as construction resumed following the lockdowns in 2020/21. Finally the Government announced at the Spending Review 2021 that it expected core council tax to rise up to 2% and the adult social care precept to rise by up to 1% in 2022/23. These proposals assume, subject to the approval of Full Council, that this will be the increase in Leeds. This is further discussed at section 4.7.

5. The Proposed Budget 2022/23

Table 12 – Summary of Changes in Resources, Cost Increases and Savings Proposals in the Proposed Budget 2022/23 and comparison with the position at the Medium Term Financial Strategy

	MTFS £m	Changes since MTFS £m	Proposed Budget 22/23 £m
Resources			
Increase in Net Revenue Charge	(83.4)	(2.7)	(86.2)
Change in contribution to/(from) General Reserve	(4.0)	0.0	(4.0)
Change in contribution to/(from) Earmarked Reserves	(22.7)	(7.0)	(29.7)
COVID-19 Grants (business rates reliefs)	47.5	(3.6)	43.8
COVID-19 Grants	33.8	0.0	33.8
Increases in Other Specific Grant	10.7	(10.5)	0.2
Other Non-Collection Fund Business Rates Movements	(2.4)	(15.4)	(17.8)
Other Contributions	0.0	(12.4)	(12.4)
	(20.5)	(51.8)	(72.3)
Pressures			
Pay Inflation	17.7	(3.4)	14.3
Health and Social Care Levy	0.0	2.9	2.9
General Inflation	16.3	1.1	17.4
COVID Pressures	(8.1)	5.9	(2.2)
Other incl. Debt	60.1	0.5	60.6
	86.0	7.0	93.1
Total Resources and Cost Pressures	65.5	(44.7)	20.8
Existing Actions to Reduce the Budget Gap	£m	£m	£m
Business As Usual	1.0	(0.2)	0.8
Service Reviews	(1.1)	0.0	(1.1)
Total Existing Savings	(0.2)	(0.2)	(0.4)
Gap Remaining After Existing Savings	65.4	(44.9)	20.5
Additional Savings 2021	£m	£m	£m
<u>Directorate Savings</u>			
<i>September 2021</i>			
Business As Usual	0.0	(6.7)	(6.7)
Service Reviews	0.0	(0.4)	(0.4)
<i>December 2021</i>			
Business As Usual	0.0	(9.2)	(9.2)
Service Reviews	0.0	(1.5)	(1.5)
Total Additional Directorate Savings	0.0	(17.7)	(17.7)
<u>Procurement Savings</u>			
Business As Usual	0.0	(2.7)	(2.7)
Gap Remaining After Additional Savings	65.4	(65.4)	(0.0)

5.1. This section provides an overview of the changes in resources, including specific grants (section 5.5), and cost increases (paragraphs 6.1 to 6.20) which the Council is facing in 2022/23 and concludes with savings proposals (paragraphs 7.1 to 7.7) which contribute towards balancing the

2022/23 budget to the estimated available resources. Table 12 provides a high level summary of these changes.

- 5.2. There are three categories of savings shown in Table 12:
- existing savings which are the later year effects of proposals already agreed, already included in the September Medium Term Financial Strategy;
 - further savings identified by directorates which have already been agreed by Executive Board at its meeting in September 2021 and approved for consultation;
 - additional directorate savings proposals included in the '*Revenue Savings Proposals for 2022/23 to 2024/25*' report for Executive Board's consideration on today's agenda.

Changes since the Medium Term Financial Strategy

- 5.3. Table 12 also shows the movement between the estimated budget gap of £65.4m for 2022/23 reported in the Medium Term Financial Strategy and the proposed balanced budget position for 2022/23 contained in this report.
- 5.4. The savings are discussed in summary at paragraph 7 of this report and in more detail in the '*Revenue Savings Proposals for 2022/23 to 2024/25*' reports for Executive Board's consideration at its September 2021 meeting and on today's December agenda. The identified level of gross savings may contribute towards mitigating funding changes and cost pressures detailed in sections 5 and 6 of this report. Where appropriate, for the final Budget report to be received at this Board in February 2022 these will be netted off related funding changes or cost pressures.

5.5. Decreases/(Increases) in Resources

- 5.5.1. Changes in both the Settlement Funding Assessment (SFA) of (£9.0m increase) and local funding (£77.2m increase), a net increase of £86.2m, are detailed in sections 4.1.3, 4.8.2 and 4.8.1 respectively.

Changes in Reserves (£33.7m)

- 5.5.2. **Changes in contributions to/(from) the General Reserve (£4.0m)** – The opening General Reserve position in 2021/22 stood at £27.8m with the opening position for 2022/23 estimated to be £31.7m, reflecting a budgeted contribution of £4.0m in 2021/22. Whilst this proposed Budget doesn't incorporate a budgeted contribution to the General Reserve the 2022/23 budget incorporates the fallout of the 2021/22 budgeted contribution (£4m) from the base. From 2023/24 onwards the planned budget assumes a £3m contribution to the Council's General Reserve.

- 5.5.3. **Changes in contributions to/(from) Earmarked Reserves (£29.7m)** – Overall the measures in this proposed Budget apply a net contribution to the revenue position of £29.7m from Earmarked Reserves. Opening earmarked reserves for 2021/22 stood at £153.6m.

- 5.5.4. This total included £24.3m of **Strategic Contingency** reserve, which was established in 2020/21 to fund future unforeseen budget pressures and to ensure the Council becomes more financially resilient. The 2021/22 budget provided a further net contribution of £6.2m to this reserve, leaving a projected balance of £30.5m at the 31st March 2022. The proposed 2022/23 Budget assumes net use of £3.2m of this reserve to contribute to achieving a balanced budget position. As such the Strategic Contingency reserve is projected to hold £27.3m at the end of 2022/23. Use of a further £15m is proposed for 2023/24. Base budget contributions of £6.2m in 2021/22 fall out in 2022/23, benefitting the revenue budget position.
- 5.5.5. The 2021/22 approved budget allowed for the creation of an earmarked reserve for **COVID** pressures. £16.7m of funding received from Government was placed in a reserve to manage the ongoing financial impact of COVID and this funding is currently projected to be applied in full to address pressures arising in 2021/22 and which have been incorporated into the Financial Health reports received at this Board. These base budget contributions of £16.7m in 2021/22 fall out in 2022/23, benefitting the revenue budget position. The proposed Budget also reflects planned contributions of £4.2m to this reserve in 2021/22 which will be utilised in 2022/23 alongside a further £1.4m of resources so that £5.6m in total will be available to address the ongoing impact in the forthcoming financial year.
- 5.5.6. There is a further contribution of £1.6m to the **Energy** reserve which was first established in 2021/22, to provide contingency funding should energy costs exceed the provision within this proposed Budget.
- 5.5.7. A net increase in contribution of £0.6m to the **Investment** reserve is provided for. This additional funding will support a range of transformational activities across the authority where they are identified as generating future savings, supporting the delivery of the Financial Strategy and improving the financial resilience of the Authority.
- 5.5.8. The proposed Budget provides £0.5m for the establishment of a **Staffing and Management Support** reserve which will provide a resource to support HR initiatives.
- 5.5.9. Movements across a range of **other earmarked reserves** provide for a net contribution of (£2.1m) to the revenue budget in 2022/23. These include a contribution of £2.3m from Adults and Health reserves which is a reduction of £0.4m when compared with 2021/22. Other variations totalling (£2.5m) reflect the fallout of 2021/22 budgeted contributions to reserves in respect of Post 16 funding (£1.0m); the fallout of use of the Individual Electoral Registration (IER) grant reserve £0.3m, repayment of savings to the Investment reserve in respect of the implementation of 'Channel Shift' £0.2m; and the one-off application of Highways Commuted Sums (£2.0m).

Changes in Grant Funding £60m

- 5.5.10. **Specific Grant Funding Changes – Adults and Health (£0.0m).** The final 2021/22 Local Government Finance Settlement confirmed Government's intention to roll forward all social care grants that had been receivable in 2020/21, including Improved Better Care Fund, the Winter Pressures Grant and the Social Care Support Grant, with an additional injection of £300 million of new Social Care grant funding in 2021/22 for adults and children's services. Leeds received an allocation of £4.5m of this funding in 2021/22. This Strategy assumes that all existing social care grants continue to be protected, including the 2020/21 Social Care grant allocation and these allocations have been rolled forward in 2022/23 proposed Budget and beyond.
- 5.5.11. As discussed at paragraph 4.6.4, the proposed Budget assumes a 1% uplift in the Adult Social Care Precept as permitted at Spending Review 2021. Should this proposal be approved, this additional Precept income will provide further funding for Adult Social Care services of almost £3.6m for Leeds in 2022/23. This continues the trend in recent years whereby social care provision is increasingly funded by local taxation.
- 5.5.12. **Specific Grant Funding Changes – Children and Families Directorate (£0.0m).** The final 2021/22 Local Government Finance Settlement confirmed the Government's intention to roll forward all social care grants receivable in 2020/21. This Strategy assumes a continuation of the roll forward of all existing Children's Social Care grants, including the 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 budgets accordingly.
- 5.5.13. 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 2022/23 budget for the Children and Families Directorate included the third tranche of additional grant of £1.6m. The remaining year of funding and the fallout of this grant are reflected in the provisional budgets for 2023/24 and 2024/25 respectively.
- 5.5.14. As such, the proposed Budget assumes no increase in these rolled forward Children's Social Care resources over the period 2022/23 to 2026/27 and reflects the fallout of the £1.6m per annum Strengthening Families grant in 2024/25.
- 5.5.15. **Specific Grant Funding Changes – Communities, Housing and Environment £0.2m.** The Housing Benefit and Local Council Tax Support Administration Subsidy grants are anticipated to continue to reduce by £0.2m in 2022/23 and by a further £0.4m over the life of the current Medium Term Financial Strategy, reflecting the continuing reductions in the national quantum of funding allocated to Local Authorities. This is an

indicative assessment at this stage as the final allocations for 2022/23 will not be made until late 2021/early 2022. No other grant funding changes are assumed.

- 5.5.16. **Specific Grant Funding Changes – Strategic and Central Accounts (£10.1m).** At Spending Review 2021, the Government announced £4.8 billion of additional funding for the Local Government Sector, £0.3bn of which was for specific grants to meet new burdens. The remaining £4.5 billion is allocated equally across the three years covered by the Spending Review at £1.5 billion per annum. Therefore the allocation is front loaded in 2022/23 with no further increases anticipated in 2023/24 and 2024/25. No detail has yet been provided about individual local authority allocations. This proposed Budget assumes that this increased funding will be split 50:50 between increased funding and increased general expenditure through the Settlement Funding Assessment. Assuming that funding will be distributed following the same profile as current allocations, Leeds' estimated share received as Settlement Funding Assessment would be around £9.0m, as discussed at paragraph 4.1.3, and additional funding is estimated at £10.1m, based on the Adult Social Care formula used in 2020/21. It is not yet known whether this additional funding will be ringfenced to any specific services, therefore for the purposes of this proposed Budget it has been shown in the Strategic and Central Accounts. Confirmation of the final amount and conditions of use are expected at the provisional Settlement.
- 5.5.17. **Specific Grant Funding Changes – New Homes Bonus £0.0m** Government introduced the New Homes Bonus in 2011 to encourage housing growth: initially councils received grant for six years for each net additional property added to the tax base each year. This grant is funded by top slicing Revenue Support Grant. In 2016/17 Government made some changes, including gradually reducing the number of years 'legacy payments' are receivable from six to four years and imposing a 0.4% growth baseline on new allocations before any Bonus is paid. From 2020/21 New Homes Bonus has been paid for that year only and given rise to no further legacy payments. In February 2021 the Government published a consultation on the future of New Homes Bonus with increasing speculation that the scheme in its current form would be phased out. The consultation gave further options on how to refine the scheme in an attempt to distinguish housing growth brought about by a local authority's actions and that growth that occurred outside of the authority's control. The Council responded to this Consultation and is currently awaiting the Government response. In order to remain prudent amidst this uncertainty these proposals only recognise a final legacy payment from 2018/19 to be accounted for in 2021/22 and no further benefit to be received in future years. The position for 2022/23 should become clearer at the time of the Provisional Financial Settlement in December 2021.
- 5.5.18. **Specific Grant Funding Changes – COVID-19 related grants £33.8m.** In both 2020/21 and 2021/22 Government provided local authorities with additional funding to meet both expenditure pressures and income losses

related to the impact of COVID. No further specific support for 2022/23 or later years has been announced by Government to date. These budget proposals reflect the fallout of £24.6m of one-off COVID Support Grant and £9.2m of COVID-related Local Council Tax Support Grant. This proposed Budget sets aside resources of £5.8m to fund anticipated ongoing COVID pressures in 2022/23, discussed at paragraph 6.15.

- 5.5.19. **Specific Grant Funding Changes – Collection Fund COVID-19 Grants £43.8m.** In 2020/21 the Government awarded unprecedented reliefs to retail, leisure and childcare establishments in Leeds. These reliefs added to the Council's collection fund deficit for which the authority received full compensation. However the deficit did not have to be paid until 2021/22 and therefore the £75.5m was held in reserve and applied in 2021/22. In 2021/22 the Government awarded reliefs to these sectors again, although at a lower level. Once again the Council will hold this funding, £31.7m, in reserve to apply to the collection fund deficit that becomes due for payment in 2022/23.
- 5.5.20. **Other Non-Collection Fund Business Rates and Council Tax Movements £7.7m.** Section 31 grants are allocated to local authorities to compensate them for changes made by Government to the business rates system. An authority's allocation depends on the level of business rates yield in that authority's area, the extent to which it awards certain reliefs mandated by Government and its share of any losses resulting from these.
- 5.5.21. At the Spending Review 2021 the Government announced that it would award relief to retail and leisure businesses in recognition of continuing challenges for these sectors after the pandemic. These businesses will receive 50% relief against their business rates liabilities up to a maximum of £110,000 per business. There has not been detailed guidance on how these reliefs will be administered and uncertainties persist about where businesses with many properties in different billing authority areas will claim their maximum relief of £110,000. In these proposals an allowance for this relief against business rates income of £25.0m has been assumed, attracting additional section 31 compensation of £13.2m.
- 5.5.22. The Government also announced at the Spending Review 2021 that the Small Business Rates Multiplier and higher National Multiplier would be frozen at its 2021/22 level instead of increasing by CPI as would normally be the case. Local authorities also receive compensation from Government for the loss of income this entails. It is estimated that this increased compensation will amount to £3.6m. It is also assumed that due to the introduction of the new statutory reliefs for public toilets and certain telecoms infrastructure, the Council will receive £0.1m in additional compensation. These proposals also include the continuation of the special relief for local newspapers. In total section 31 compensation for business rates reliefs is expected to increase by £16.7m
- 5.5.23. In addition to these movements in section 31 grants the Council will have to pay a levy on any growth in the total of retained business rates income and

section 31 income either to the Leeds City Region Business Rates Pool or to the Government. Current estimates are that the Council will have to pay a levy payment of £0.9m in 2021/22, an increase of £0.4m on the budgeted amount for 2021/22 due to slow recovery in business rates income in the city.

- 5.5.24. At the Spending Review 2020 the Chancellor announced that £762m was to be used to provide support to local authorities for 'irrecoverable losses' in business rates in 2020/21 that authorities would have to repay to the collection fund in 2021/22, 2022/23 and 2023/24. The definition of irrecoverable losses was confirmed in May 2021 and the Council estimates that it will receive £15.1m in total, although final allocations have not yet been confirmed. In 2021/22 £8.6m was applied to the deficit to be repaid in year. These proposals assume that none of the remaining funding will be applied in 2022/23 but held in reserve to apply to the final instalment of the 2020/21 deficit in 2023/24.

Other Changes in Resources (£12.4m)

- 5.5.25. This proposed Budget for 2022/23 provides for the receipt of £3m of Gain Share from West Yorkshire Combined Authority. This resource will make a contribution in supporting the delivery of the West Yorkshire Mayor's priorities in respect of Transport, Skills and Jobs, Culture, Housing and Sustainability.
- 5.5.26. The proposed Budget position also reflects the fallout of a one-off receipt of £1.7m of Gain Share from WYCA in 2021/22 in respect of the West Yorkshire Devolution Deal.
- 5.5.27. In the final Local Government Finance Settlement for 2021/22, which was published in February 2021, the Government extended the regulations whereby capital receipts can be used flexibly to fund expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. In 2022/23 planned additional expenditure of £6.1m relating to transformational work that meets this criteria will be funded through the Government's flexible use of capital receipts regulations.
- 5.5.28. Additional contributions of £5m from the NHS are proposed, to support the cost of council services where there are shared pathways of care. In Adults and Health this includes services that support the timely discharge of patients from hospital, the costs of which continue to grow due to demand and market pressures. In Children and Families there is a substantial focus on preventative work which has close links with health services, including support for mental health and trauma. The Council and NHS are also looking at further opportunities for joint working, with a focus on preventative investment that reduces demand and costs across shared pathways of care.

6. Projected Cost Increases

6.1. Table 13 summarises the projected cost increases in the 2022/23 proposed Budget.

Table 13 - Cost Increases 2022/23

	2022/23
	£m
Pay - Leeds City Council	14.3
Health and Social Care Levy	2.9
Employer's LGPS contribution	0.0
Fall-out of capitalised pension costs	(1.6)
Capitalised Pension Costs (New ELI scheme 2020)	(0.7)
Wage costs - commissioned services	8.8
Inflation: General	7.5
Inflation: Electricity and Gas Tariffs	1.1
Demand and demography - Adult Social Care	7.2
Demand and demography - Children Looked After	6.1
Demand and demography - Other	0.2
Financial Sustainability	9.0
IDS Restructuring	3.5
Leeds 2023	0.9
Income pressures	0.2
Debt - external interest / Minimum Revenue Provision	30.4
COVID Pressures	(2.2)
Other Pressures/Savings	5.5
Cost Increases	93.1

6.2. **Pay Inflation** - the proposed Budget allows for £14.3m of pay inflation in 2022/23. Spending Review 2020 indicated a public sector pay freeze in 2021/22. However, it is now assumed that a pay award will be required in 2021/22. The increase of £14.3m therefore provides for two elements: £5.7m which reflects the Employer's final offer for 2021/22 and which had not been provided for in the 2021/22 base budget and £8.6m for an assumed 2022/23 pay award incorporating the recently announced Real Living Wage of £9.90 at pay scale points 1 and 2 and a 2% pay award for all other staff.

6.3. **Health and Social Care Levy** – The 2021 Spending Review confirmed plans to increase funding for health and social care over the next three years through the introduction of a new tax, the Health and Social Care Levy. The Levy will initially take the form of a 1.25% increase in National Insurance contributions (NICs), which are paid by employees, employers and the self-employed. The proposed Budget for 2022/23 allows for a cost to the Authority of £2.9m. The Spending Review also announced that the cost to the Local Government sector would be funded. It is currently assumed that this funding forms part of the additional grant referenced at paragraph 5.5.11. The adult social care reform white paper, published on 1st December, sets out how some of the funding generated by the Levy will

be spent.

- 6.4. **Employers Local Government Pensions Contributions** - The most recent actuarial valuation showed that the West Yorkshire Pension Fund is in a surplus position. As a result, 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. The Medium Term Financial Strategy reflected concerns that the 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, assuming a short term increase in the employer's contribution to 16.1% in 2022/23 and a return to 15.9% in 2023/24. However, at the time of writing these concerns have not materialised so the additional costs resulting from this assumed increase have been reversed, and no increase is shown in the proposed Budget.
- 6.5. The fall out of **capitalised pension costs** associated with staff who have left the Council under the Early Leaver's Initiative (ELI) to 2020 will save an estimated £1.6m in 2022/23.
- 6.6. The Council relaunched its ELI scheme and a range of other voluntary options to reduce the wage bill in July 2020. In 2022/23 the net costs of this relaunched scheme will reduce by an estimated £0.7m, with further net savings in the later years of the Council's financial strategy as pension strain costs fall out.
- 6.7. **National Living Wage for commissioned services and the Ethical Care Charter** - in respect of services commissioned from external providers by both Adults and Health and Children and Families directorates, provision of £8.8m has been included in the proposed Budget for 2022/23. This is consistent with the national minimum wage assumptions for 2022/23. 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 in 2022/23 continues to consolidate this position.
- 6.8. The increased costs associated both with paying our staff the Real Living Wage and ensuring that the services we commission pay their staff the national minimum wage have been resourced by the Council.
- 6.9. The proposed Budget allows for **net price inflation** of £7.5m. It provides inflation where there is a contractual commitment but anticipates that the majority of other spending budgets are cash limited. An inflationary uplift on fees and charges is assumed where they can be borne by the market. Specific energy increases for **gas and electricity** of £1.1m (5%) have been incorporated into these proposals: work continues to estimate the impact of planned asset rationalisation and new ways of working on energy budgets and any changes will be incorporated into the final Budget report. In addition, an assessment of current and projected energy prices indicates there may be an additional pressure in 2022/23, in response to which

£2.7m has been placed into reserve, as discussed in paragraph 5.5.6, and will be applied as required.

- 6.10. The proposed Budget recognises the increasing **demography** and consequential **demand pressures** for services in Adults and Health and Children and Families. Within Adults and Health, the population growth forecast assumes a steady increase from 2020 in the number of people aged 85-89 between 2020 and 2026. These increases of 2.8%, 1.8%, 2.6%, 0.9% and 0% 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 2026. The Learning Disability demography is expected to grow by 1.0% (based on ONS data) over the period. It should be noted that the high cost increase in this area of service is primarily a combination of increasingly complex (and costly) packages for those entering adult care, as well as meeting the costs of the increasing need for existing clients whose packages may last a lifetime. A sum of £7.2m has been built into this proposed Budget for 2022/23 to deal with this demand and demographic growth.
- 6.11. 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 proposed Budget for 2022/23 provides £6.1m for the projected demand in the 0-19 year old population and the impact this will have on transport costs, Children Looked After (CLA) and financially supported non-CLA budgets. Financially supported non-CLA budgets include arrangements that prevent children from becoming looked after, such as special guardianship orders.
- 6.12. Based on **demand pressures** due to assumed housing growth, provision of £0.2m has been made for the increased disposal costs of waste to the Recycling and Energy Recovery Facility (RERF).
- 6.13. The proposed Budget includes further measures to improve **financial sustainability**. The 2022/23 proposed Budget allows for an additional £5.0m to reduce reliance on capitalisations and £4.0m for internal charging. This is in addition to reducing the Authority's reliance on capital receipts, referenced in paragraph 6.17.
- 6.14. An additional £3.5m will be invested in **IDS** for 2022/23 to allow for the creation of and recruitment to new posts which will largely be used to support delivery of key Council priority 1 projects and a programme of work to rationalise software applications. The new posts will be a combination of

Solution Architects, Integration Specialists, Technical Leads, Project Managers, Business Architects and Business Analysts. Priority 1 projects are those which: bring a significant saving; prevent a critical service failure; are a legislative requirement; a major unforeseen event (e.g. COVID 19); prevent reputational damage and/or; have a deadline that must be delivered in the next 6-9 months. The application rationalisation programme will reduce the number of applications supported thereby reducing the support and maintenance costs and simplifying business processes.

- 6.15. **Leeds 2023** – the proposed Budget currently provides for £0.9m to fund additional costs as we approach the City’s celebration of culture. Alternative funding sources are being investigated to mitigate the requirement for this funding.
- 6.16. **Income variations** of £0.2m are included in this proposed Budget, the majority of which relates to a projected reduction in local land charges.
- 6.17. This proposed Budget provides for a £30.4m increase in the cost of debt. Changes approved at Full Council in 2017 to previous years’ **Minimum Revenue Provision Policy (MRP)**, based on the fact that MRP had been overprovided for between 2008/09 and 2014/15, enabled the Council to benefit from reduced MRP payments for the three years 2017/18 to 2019/20. However from 2020/21 this position started to unwind and MRP will increase by £28.9m in 2022/23. Other Debt variations total £1.5m, and include providing £5.0m for reduced reliance on capital receipts, a £0.3m increase in prudential borrowing costs and a £1.8m increase in respect of PFI lifecycle costs. However this position is netted down by £5.6m of Treasury Management savings.
- 6.18. At Spending Review 2020, Government announced a further £1.55bn of national funding for additional **COVID** related expenditure pressures in 2021/22. The Leeds allocation was anticipated to be £24.6m and utilised in the 2021/22 budget. This is now fully utilised and has been used to offset additional COVID expenditure pressures in 2021/22 as reported through the monthly Financial Health reports to this Board. As such the proposed budget reflects the fallout of £8.1m of this funding applied to COVID in the 2021/22 budget.
- 6.19. Whilst no further financial support is expected from Government to fund the economic impact of COVID, this proposed Budget for 2022/23 makes provision for a £5.8m continued impact on the Council’s income and expenditure, specifically:
- £5.4m for car parking and waste services income losses
 - £0.4m for additional Planning expenditure to deal with backlogs,
 - £0.07m for Registrars
- 6.20. **Other Pressures and Savings** Other net budget pressures of £5.5m have been identified for 2022/23. These include:
- An additional £1.0m for Microsoft licences as the Authority moves towards a cloud-based system;

- An additional payment to the West Yorkshire Combined Authority of £1.0m which recognises the cessation of a previously received rebate;
- £0.3m is provided for the revenue costs associated with Highways maintenance;
- £0.3m is provided for the revenue costs of additional grounds maintenance including those associated with new capital schemes;
- £0.5m is provided for repayment of schools balances;
- £0.2m contribution to the rent costs of the Coroners Court;
- £0.6m to recognise the impact of Universal Credit on budgeted overpayment income;
- £0.4m to fund investment in the waste strategy;
- £0.4m income relating to housing enquiry services;
- £0.6m for pressures within LBS.
- The net effect of other pressures across all Directorates is £0.2m.

7. The Budget Gap – Savings Options

- 7.1. After allowing for changes to funding and identified pressures that are described in this report, there still remains an estimated budget gap of £20.8m. The extensive savings programme in 2021/22 included a number of savings which impacted in later years of the period covered by the Council's Medium Term Financial Strategy. Overall the net full year effect of these prior year savings plans is to reduce the 2022/23 estimated budget down gap to £20.5m.

Table 14 Budget Gap And Savings Options

	Proposed Budget 2022/23	
	£m	£m
Total Resources and Cost Pressures		20.8
Existing Actions to Reduce the Budget Gap		
Business As Usual		0.8
Service Reviews		(1.1)
Total Existing Savings		(0.4)
Gap Remaining After Existing Savings		20.5
Additional Savings 2021		
Directorate Savings		
<i>September 2021</i>		
Business As Usual		(6.7)
Service Reviews		(0.4)
<i>December 2021</i>		
Business As Usual		(9.2)
Service Reviews		(1.5)
Total Additional Directorate Savings		(17.7)
Procurement Savings		
Business As Usual		(2.7)
Gap Remaining After Additional Savings		(0.0)

Bridging the Revised Gap – the Corporate & Directorate Savings Programme

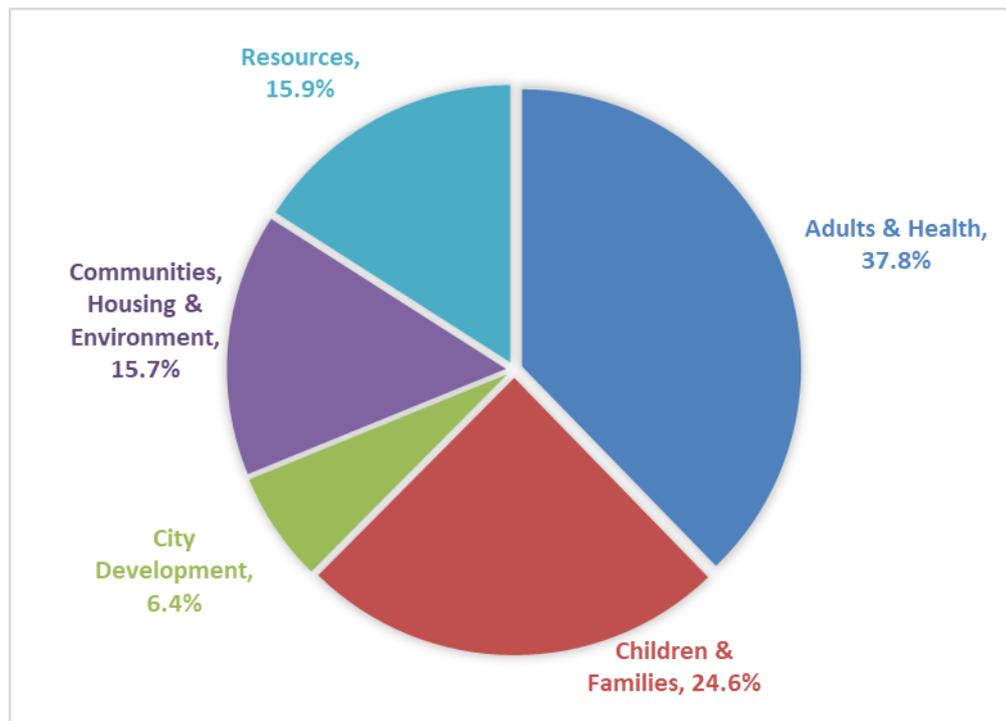
- 7.2. The Medium Term Financial Strategy 2022/23 – 2026/27, approved at September's Executive Board, reported an estimated budget gap of £65.4m in 2022/23.
- 7.3. Building on the Financial Challenge savings programme carried out last year which resulted in £56m of budgeted savings and contributed to the setting of a balanced budget for 2021/22, the council has established a new Financial Challenge savings programme focused on identifying robust and sustainable savings not just to help close the gap for 2022/23 but for the following years 2023/24 and 2024/25 too. This approach enables the authority to take a longer-term view of its savings options, recognising that major change often requires one- to two-years' lead time to implement. As such, the savings proposals set out in the *'Revenue Savings Proposals for 2022/23 to 2024/25'* reports for Executive Board's consideration at its September 2021 meeting and on today's December agenda span the next three financial years.
- 7.4. The Financial Challenge programme continues to aim to protect services that support the most vulnerable whilst ensuring that the organisation becomes more financially resilient and sustainable for the future. Reviews have been carried out across all council services: some cross-cutting (such as procurement), others focused on specific services or activities. The cross-council senior officer group established in 2020 to provide support and ensure a co-ordinated, consistent approach across the Financial Challenge programme, has been reconvened. Further support and challenge is again being provided by Scrutiny Board working groups.
- 7.5. These reviews have led to proposals which are categorised as either 'Business as Usual' (BAU) or 'Service Reviews'. BAUs do not require consultation to implement: for example, they relate to improving the efficiency of the service, are cost reduction measures with no impact on service users or, where there are budgeted staffing reductions, these are anticipated to be met through deletion of vacant posts or voluntary means, as has been collectively agreed. Where voluntary measures have a modest and/or residual impact on the workforce, local / BAU consultation would be expected. 'Service Review' proposals are of more significance and therefore may require meaningful consultation with staff, trade unions, service users and the public as appropriate prior to any decisions being taken.
- 7.6. With regard to 2022/23, in September the Board considered savings proposals totalling £7.0m. A further £10.7m are presented for the Executive Board's consideration. Should these be approved, total directorate savings approved by this Board for 2022/23 will be £17.7m. As noted above, for further detail, please see the accompanying, *'Revenue Savings Proposals for 2022/23 to 2024/25'* reports considered at the Executive Board meeting in September 2021 and a further report on this agenda.

7.7. In 2021/22 Council spent c.£650m in revenue procuring external goods and services. Through a combination of reviewing both contract usage and contract specifications targeted procurement saving of £4.0m has been incorporated into this 2022/23 proposed Budget, £1.3m of which has been identified within the directorate savings discussed at paragraph 7.6 and a further £2.7m which is currently shown in Strategic and Central Accounts, but which will sit within directorate positions when the detail is finalised.

Summary Budget By Directorate

7.8. The pie chart below shows the proposed share of net managed expenditure between directorates for 2022/23 based on this proposed Budget. Net managed expenditure represents the budgets under the control of individual directorates and excludes items such as capital charges, pensions adjustments and allocation of support costs in directorate budgets.

Share of Net Managed Expenditure 2022/23 (Proposed Budget)



7.9. It should be noted that these resource allocations may be subject to amendment as we move through the budget setting process.

8. Impact of proposals on employees

8.1. The Council has operated a voluntary retirement and severance scheme since 2010/11 which has already contributed significantly to the reduction in the workforce since this time. Whilst there are other elements that will impact on the fluctuation of the workforce numbers such as natural attrition and turnover there has been an overall reduction of around 2,875 full time

equivalents (FTEs) or 3,730 headcount up to the 31st October 2021.

- 8.2. Budget savings proposals to date received at September's Executive Board, and the budget savings proposals that are considered elsewhere on today's agenda, result in an estimated potential reduction of 26 FTEs. Offsetting these reductions there is a growth of 148 FTEs (13 FTEs relate to the HRA) across Directorates. Therefore there is a net increase of 122 FTEs (13 HRA) when the 2022/23 proposed Budget is compared to the approved 2021/22 budget.
- 8.3. However given the context of the estimated budget gaps for 2023/24 and 2024/25, £30.6m and £25.6m respectively, budget savings proposals to bridge these gaps will be required to be identified and these could result in a reduction in the number of budgeted FTE posts. In the context of the potential reduction of FTE posts the Council intends to issue a further section 188 notice in February 2022 following approval of the 2022/23 Budget at Full Council.
- 8.4. The Council remains committed to doing everything it can to try to avoid compulsory redundancies through natural turnover, continuing the voluntary early leaver scheme, staff flexibility, reviewing and reducing both agency and overtime spend and continuing the positive consultation and joint working with the trade unions.

9. **General Reserve**

- 9.1. Under the 2003 Local Government Act, the Council's Statutory Financial Officer is required to make a statement to Council on the adequacy of reserves as a part of the annual budget setting process. It is also good practice for the Authority to have a policy on the level of its general reserve and to ensure that it is monitored and maintained.
- 9.2. The purposes of the general reserve policy are to help longer-term financial stability and 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.
- 9.3. The general reserve policy encompasses an assessment of financial risks both within the Medium Term Financial Strategy and also in the annual budget. These risks should include corporate/organisation wide risks and also specific risks within individual directorate and service budgets. This analysis of risks should identify areas of the budget which may be uncertain and a quantification of each "at risk" element. This will represent the scale of any potential overspend or income shortfall and will not necessarily represent the whole of a particular budget heading. Each assessed risk will then be rated and scored in terms of impact and probability.
- 9.4. The proposed Budget for 2022/23 assumes a general reserve balance of

£31.7m will be brought forward from 2021/22, with no contribution to the reserve proposed in 2022/23.

- 9.5. Whilst the Council maintains a robust approach towards its management of risk and especially in the determination of the level of reserves that it maintains, it is recognised that our reserves are lower than those of other comparable local authorities of a similar size. However the Council has made provision over the life of the Medium Term Financial Strategy to address this position while having minimum impact on front line services.
- 9.6. 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 2020 noted that "the Council should consider the adequacy of its reserves going forward and the appropriate level of balances which should be linked to the approved MTFs and which should be reviewed each year." The current MTFs approved in September 2021 by the Board provides for a £3m annual contribution to the General Reserve from 2023/24 onwards. As a result the balance on the General Reserve is projected to be £37.7m by 31st March 2025 as shown in Table 15.

Table 15 - General Reserve

General Reserve	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Brought Forward 1st April	27.8	31.7	31.7	34.7
Budgeted Contribution/(Use) in-year	4.0	0.0	3.0	3.0
Repayment of Treasury Management Savings	0.0	0.0	0.0	0.0
Additional Contribution in-year	0.0	0.0	0.0	0.0
Carried Forward 31st March	31.7	31.7	34.7	37.7

- 9.7. As stated above, whilst the pressures faced by the Authority continue to make the current financial climate challenging, we will continue to keep the level of the Council's reserves under review to ensure that they are adequate to meet identified risks.

10. Provisional Revenue Budgets 2023/24 and 2024/24

- 10.1. At its meeting in September 2021 Executive Board received the updated Medium Term Financial Strategy and agreed the revisions to the Council's forecast budget gap for 2022/23 to 2026/27. The reported forecast gap was £126.7m of which £48.1m and £13.3m related to 2023/24 and 2024/25 respectively. The report received at Executive Board in September recognised that savings would be required to be identified in order that a balanced budget position could be delivered in 2023/24 and 2024/25.
- 10.2. In the context of the Spending Review on 27th October and other variations identified during the determination of the proposed Budget for 2022/23 (and later year impact of 2022/23 savings), the financial projections for 2023/24

and 2024/25 have been refreshed to reflect these latest assumptions. However, it should be stressed that under the Council's Constitution the decision to set the annual council tax base and rate of council tax can only be taken by Full Council each year and therefore the provisional budgets for 2023/24 and 2024/25 are for information and planning purposes only and the decisions will continue to be made as part of the Council's annual budget setting process.

- 10.3. Following a statement from the Secretary of State for the Department for Levelling Up, Housing and Communities, it is understood that the move to 75% business rates retention is not consistent with the Government's levelling up agenda and that other mechanisms for redistributing funding would be looked for. Therefore, the strategy for 2024/25 has been revised to reflect this. It is uncertain what impact this may have on the proposed business rates reset and the implications of the outcome of the Government's Fair Funding review. As such, it is assumed these will be revenue neutral upon the Council with any impacts being addressed through transitional arrangements. For calculating SFA no increases have been assumed for either 2023/24 or 2024/25.
- 10.4. In the determination of the revised financial projections for both 2023/24 and 2024/25 significant areas of uncertainty remain as to the Council's financial position in respect of both funding and spending assumptions, compounded by the ongoing impact of COVID-19. Specifically the implications of the Government's future spending plans remain unclear. Whilst the high-level Spending Review announced on 27th October covered the three year period to 2025, there is uncertainty whether the more detailed provisional Settlement (expected mid-December) will cover the same period, or just one year.
- 10.5. After taking account of the funding assumptions outlined in 10.2 to 10.4 above and the variation in pressures and savings that have been identified in the determination of the 2022/23 proposed Budget proposals, the provisional positions for 2023/24 and 2024/25 are detailed in Table 16.
- 10.6. As can be seen in Table 16, the estimated budget gap has been revised to £30.6m in 2023/24 and to £25.6m in 2024/25. The main changes since the Medium Term Financial Strategy are as follows:
 - **Changes to Funding:** In 2023/24 the strategy no longer assumes that the Government will be offering reliefs against business rates to businesses, which the Council receive as compensating grants. Conversely, we assume this will be offset by the resulting increase in rates, increasing the Net Revenue Charge assumptions.
 - **Revised Pressures:** changes in pensions assumptions in 2022/23, specifically the revised assumption since the MTFs that no increase will be required in the employer's contribution to the West Yorkshire Pension Fund, resulting in a decrease in pressures in 2022/23 of £2.1m, with a corresponding debit in 2023/24. Changes in

assumptions around the ongoing impact of COVID in later years reduces other pressures by £5.4m in 2023/24.

- **Revised Savings:** the changes largely reflect the later year impacts of the 2022/23 savings proposals, noted at paragraph 7 and set out in the 'Revenue Savings Proposals for 2022/23 to 2024/25' reports for Executive Board's consideration at its September 2021 meeting and elsewhere on this agenda.

Table 16 - Provisional Revenue Budget 2023/24 and 2024/25

	2023/24	2024/25
	£m	£m
MTFS September 2021	48.1	13.3
Changes to Funding		
Net Revenue Charge Assumptions	(16.4)	(0.8)
Contribution to General Reserve	0.0	0.0
Changes in Earmarked Reserves	(1.0)	15.8
Grants	15.7	7.2
Other Contributions	0.0	0.0
	<u>(1.6)</u>	<u>22.2</u>
Revised Pressures		
Pay and Pensions	2.6	0.1
Capitalised Pensions (ELI)	0.0	0.0
Debt	(0.0)	(0.0)
Other	(5.2)	0.0
	<u>(2.6)</u>	<u>0.2</u>
Revised Savings		
Directorate Savings	(11.6)	(8.4)
Procurement Savings	(1.7)	(1.7)
	<u>(13.3)</u>	<u>(10.0)</u>
Revised Gap - Provisional Budget	<u>30.6</u>	<u>25.6</u>

10.7. The position set out above contains a number of assumptions, as set out in paragraphs 10.2 to 10.6 for which updated information would alter the projected financial position and any such changes in these assumptions will be incorporated into an updated Medium Term Financial Strategy that will be presented to a future meeting of this Board.

11. Schools Budget

11.1. The Dedicated Schools Grant (DSG) for 2022/23 is funded in four separate blocks for early years, high needs, schools and central schools services.

11.2. A National Funding Formula (NFF) was implemented from April 2018 for high needs, schools and central schools services. The schools formula was initially a "soft" formula to allow local authorities some limited flexibility and this remains the case for 2022/23.

- 11.3. The Early Years block funds 15 hours per week of free early education for 3- and 4-year-olds and the early education of eligible vulnerable 2-year-olds. There is an additional 15 hours per week provision for working families of 3- and 4-year-old children. The funding hourly rate has not yet been confirmed for 2022/23, but in 2021/22 the hourly rates were £5.36 for 2-year-olds and £4.95 for 3- and 4-year-olds. The grant received will continue to be based on participation. The actual grant received during 2021/22 depends on pupil numbers in the 2021 and 2022 January censuses. The early years pupil premium is also included in this block and is payable to providers for eligible 3- and 4-year-olds. The hourly rate for 2022/23 for this element has also not yet been announced but was £0.53 per hour for 2021/22. In addition, there is a Disability Access Fund which was £615 per eligible child per year in 2021/22. The grant value shown below is based on the actual pupil numbers in January 2020 as the final January 2021 pupil numbers have not yet been confirmed.
- 11.4. The High Needs Block supports places and top-up funding in special schools, resourced provision in mainstream schools and alternative provision; top-up funding for early years, primary, secondary, post-16 and out of authority provision; central SEN support and hospital & home education. An indicative allocation under the NFF calculation has been published though the final allocation will not be issued until December 2021. The value in Table 17 is before any deductions are made by the Education and Skills Funding agency (ESFA) in respect of funding for academies, free schools and post-16 places. The High Needs Block is facing a number of financial pressures nationally and in recognition of this the national allocation has increased again for 2022/23. For Leeds the indicative allocation is an increase of £11.061m for 2022/23 although there is still a cap on gains within the national funding formula and this has been applied to the funding allocation to Leeds to the value of £1.903m. Despite the increase in funding for 2022/23 the anticipated increase in special school places and pupils eligible for additional top-up funding means that there is expected to be on going funding pressures for the High Needs Block which will need managing within the overall available funding. As part of managing the funding pressures it is proposed to transfer funding from the Schools Block as outlined below.
- 11.5. The Schools Block funds the delegated budgets of primary and secondary schools for pupils in reception to year 11. The grant for 2022/23 will be based on pupil numbers (including those in academies and free schools) as at October 2021. The pupil numbers from this census are not yet available. Schools have been consulted on options for the local formula in 2022/23 and on proposals to transfer funding to the High Needs Block. The results of the consultation have been presented to Schools Forum to enable further discussion with a final decision on the local formula being made by the Director of Children and Families in early 2022. As part of the consultation the majority of schools which responded supported a proposal to transfer 0.5% (approximately £3.069m) from the Schools Block to the High Needs Block. A Schools Forum meeting on the 18th November approved this transfer. The majority of schools who responded to the consultation also

supported a proposal for maintained schools to contribute funding of £150k towards severance costs. Schools Forum also approved this contribution.

- 11.6. As part of the NFF, the Central School Services block (CSSB) was created from the DSG funding that is held by the local authority for central services. This includes the funding which was previously delivered through the retained duties element of the Education Services Grant (ESG) along with ongoing responsibilities and historic commitments. A draft allocation under the NFF calculation has been published, though the final allocation will not be issued until December 2021. The funding for the historic commitments element has been reduced by 20% in 2022/23.
- 11.7. At the end of 2021/22 it is projected that there will be a deficit balance of £4.923m on DSG compared to a deficit balance of £2.002m at the end of 2020/21. The deficit balance will be carried forward into 2022/23 and proposals to address the deficit will need to be incorporated into the medium term financial plan for the High Needs Block and DSG funding. The conditions of grant for the Dedicated Schools Grant requires that any local authority with an overall deficit on its DSG account at the end of 2019/20 financial year must be able to present a plan to the DfE for managing their future DSG spend. The initial DSG management plan has been presented to Schools Forum and this will be regularly updated with termly updates presented to future Schools Forum.
- 11.8. Funding for post-16 provision is allocated by the ESFA. Funding for high need post-16 pupils is no longer to be part of this grant and is now included in the DSG High Needs Block totals. Funding for 2022/23 will be based on 2021/22 lagged student numbers.
- 11.9. Pupil Premium grant is paid to schools and academies based on the number of eligible Reception to year 11 pupils on the school's roll in January each year. The rates for 2022/23 have not yet been confirmed but are expected to remain at: primary £1,345, secondary £955, for each pupil registered as eligible for free school meals (FSM) at any point in the last 6 years and £310 for children of service families. The pupil premium rate for children looked after and children who have ceased to be looked after by a local authority because of adoption, a special guardianship order, a child arrangements order or a residence order is also expected to remain the same at £2,345.
- 11.10. The PE and Sport premium for primary schools grant will be paid in the 2021/22 academic year to all primary schools at a rate of £16,000 plus £10 per pupil. It is expected that these rates will remain the same for 2022/23.
- 11.11. A grant for the universal provision of free school meals for all pupils in reception, year 1 and year 2 was introduced in September 2014. Funding for the 2021/22 academic year is based on a rate of £2.34 per meal taken by eligible pupils, giving an annual value of £444.60. Data from the October

and January censuses will be used to calculate the allocations for the academic year.

- 11.12. Since 2021/22 the funding for the additional teachers' pay costs from 1st September 2018 and September 2019 has been paid to schools and high needs settings through the National Funding Formula (NFF) instead of being paid as separate grants. However mainstream academies continued to receive the teachers' pay grant for April to August 2021, as they did not receive their 2021/22 NFF allocations until September 2021. This grant is now fully assumed within the NFF for all settings with the exception of school nursery and sixth form provision from 1st April 2021.
- 11.13. A further grant in relation to additional costs incurred in respect of increases in the teacher's pension scheme from September 2019 is also now being paid to schools and high needs settings through the National Funding Formula (NFF) instead of being paid as separate grants. However mainstream academies continued to receive the teachers' pension grant for April to August 2021, as they did not receive their 2021/22 NFF allocations until September 2021. This grant is now fully assumed within the NFF for all settings with the exception of school nursery and sixth form provision from 1st April 2021.
- 11.14. In 2020/21 and 2021/22 the Government announced a range of funding streams to support children and young people to catch up following the disruption as a result of coronavirus (COVID-19). For the financial year 2021/22 this was made up of the following elements:
- A one-off universal £650 million catch-up premium for the 2020 to 2021 academic year. Schools allocations were calculated on a per pupil basis with each mainstream school receiving £80 for each pupil in years reception to 11. Special, alternative provision and hospital schools received £240 per place.
 - A School-led tutoring grant for the academic year 2021 to 2022 was introduced to allow schools to fund locally sourced tutoring provision for disadvantaged pupils. The calculation of this grant is based on pupils eligible for pupil premium.
 - A summer schools programme was introduced and funding made available to secondary schools based on the number of year 7 entry pupils, this was for 2021 only.
 - A Covid Recovery Premium was introduced for the academic year 2021/22 again based on pupil premium eligibility to further support pupils through evidence-based approaches.
- 11.15. The amounts in Table 17 are the provisional allocations based on the October 2020 census. The final grant will be based on the October 2021 census.

11.16. Schools funding summary

Table 17 – the Estimated Schools Budget

	2021/22 Current £m	2022/23 Estimate £m	Change £m
DSG - Schools Block	601.90	613.71	11.81
DSG - Central Schools Services Block	5.16	5.10	-0.06
DSG - High Needs Block	97.57	108.46	10.89
DSG - Early Years Block	60.95	60.95	0.00
ESFA Post 16 Funding	22.85	23.96	1.11
Pupil Premium Grant	43.99	43.99	0.00
PE & Sports Grant	4.32	4.33	0.01
Universal Infant Free School Meals Grant	9.11	9.01	-0.10
Teachers Pay Grant	1.96	0.74	-1.22
Teachers Pension Grant	5.56	2.09	-3.47
Coronavirus Catch Up Grant	4.03	0.00	-4.03
School Led Tutoring	2.50	1.79	-0.71
Covid Summer School	2.27	0.00	-2.27
Covid Recovery Premium	3.11	2.22	-0.89
	<u>857.40</u>	<u>872.34</u>	<u>14.94</u>

12. Housing Revenue Account

12.1. 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 ringfenced account. The key movements in 2022/23 are detailed in Table 19.

Income

12.2. In 2019, the Government confirmed a return to allowing up to a CPI+1% rent increase for five years from 2020/21. An increase in accordance with the Government's rent formula of CPI (3.1% as at September 2021) +1% is therefore proposed. This overall 4.1% rise equates to approximately £8.6m in additional rental income.

12.3. A reduction in the qualifying period after which tenants are able to submit an application to purchase a council house through the Government's Right to Buy (RTB) legislation continues to sustain an increase in the number of sales with a subsequent reduction in the amount of rent receivable. Based on latest sales, a further 610 sales are forecast in 2022/23. The impact of these RTB sales, along with other stock reductions in year for demolitions, (partly offset by an anticipated additional 44 stock through the Right of First Refusal process, 168 new build and 11 off the shelf homes), will cost the

HRA around £1.5m in lost rental income in 2022/23. A review of the void rate from 0.8% to 1.0% following the impact of the pandemic will cost the HRA an additional £0.5m Therefore the total net expected increase in rental income year on year is estimated at £6.6m.

- 12.4. Tenants in multi-storey flats and in low/medium-rise flats receive additional services such as cleaning of communal areas, staircase lighting and lifts. It is proposed to increase these charges by an inflationary increase of RPI of 4.9%. In 2022/23 this will generate an additional £196k compared to 2021/22. In 2021/22 a retirement life charge was introduced for the provision of additional services linked to communal areas. In 2022/23 for self payers this charge will be subsidised for the second year of three (£1.72 subsidy for communal areas and £1 subsidy for standalone community centres).
- 12.5. Housing Leeds manages a number of district heating schemes including the Leeds PIPES scheme. In 2022/23 a 35p/wk change in the standing charge is proposed for Leeds PIPES as a step towards full cost recovery. An RPI increase of 4.9% is proposed for all other District Heating Schemes.
- 12.6. Currently tenants in sheltered accommodation receiving a support service are charged £15.14 per week for this service. This charge is eligible for Housing Benefit. In 2016/17 a nominal charge of £2 per week was introduced for those tenants who benefited from the service but did not pay. This was increased to £4 a week in 2017/18, £6 in 2018/19, £8 in 2019/20 and £10 in 2020/21, £12 in 2021/22 and it is proposed to continue to increase this charge by a further £2 per week in 2022/23 to £14 per week. A review of the Sheltered Charge has been undertaken for 2022/23 to take into account pay award and other cost changes. The sheltered charge full cost is estimated at £15.62 per week and is eligible for Housing Benefit.
- 12.7. An analysis of the impact on tenants of increasing rents by 4.1% and implementing the proposed charges outlined above has been undertaken. These figures are based on average rents for different categories of tenants as individual levels will vary.
- 12.8. With a return to a rental increase of CPI+1, all tenants will pay more in 2022/23 than in 2021/22 as outlined in Table 18 below. The vast majority of tenants (94%) will pay between £2.81 and £3.49 per week more. The 2.3% of tenants whose average weekly increase is the highest relates to tenants who are self-payers in Sheltered Accommodation. These tenants would have faced between £4.97 and £6.71 per week average increase, however it is proposed to cap any overall increase to £5 per week.

Table 18 – Average rental increase per week 2022/23

% of Tenants	Numbers of Tenants	Average Increase £/per week
94.4	51,145	2.81-3.49
3.3	1,791	3.50-3.75
2.3	1,252	4.97-6.71

These increases will be funded through Housing Benefit for eligible tenants or tenants eligible for Universal Credit (UC) will receive payments for this increase. Approximately 38% of tenants are in receipt of Housing Benefit with a further 26% in receipt of UC, a total of 64%. For those in Sheltered Accommodation, this figure rises to 71%.

Expenditure

- 12.9. The proposed staffing budget has increased by £1m, assuming a pay award of 2% for 2022/23 plus the recently announced 1.25% NI levy. The impact of the current pay award offer of 1.75% pay award for 2021-22 has also been budgeted for.
- 12.10. The repairs to dwellings budget has initially been increased in line with inflation, but adjusted to reflect an anticipated reduction of 1% in housing stock as a result of Right to Buy. The proposed Budget for 2022/23 is therefore a £941k increase to £45.8m.
- 12.11. Provision will be made for costs and inflationary uplifts for the PFI contractor and contributions to the Private Finance Initiative sinking fund will decrease by £0.35m within the agreed model.
- 12.12. In addition to the cost of increasing the repairs budget by CPI, inflation will cost the HRA £0.7m (specifically c.£400k on energy and c.£300k on PFI) and pay award inflation on recharges will be £1m in 22/23.
- 12.13. The service continue to invest over £120m in the stock, be this through responsive repairs (see 12.10 above) or the annual investment programme (see 12.15 below). However, despite this investment and reflecting an ongoing nationwide issue, it is necessary to provide for an additional sum to cover the cost of disrepair claims. The provision for disrepair budget is therefore proposed to be increased by £1m to reflect the increase in the number of claims for disrepair that the service is receiving.
- 12.14. The proposed management fee payable to Belle Isle Tenant Management Organisation (BITMO) is an increase of £61k to £3.2m to reflect the approach to changes in the staffing and repairs budgets within Housing Leeds as outlined above. The BITMO management fee is adjusted each year by an agreed formula.
- 12.15. The Council remains committed to prioritising resources to meet the capital investment strategy and to replace homes lost through Right to Buy by the planned investment in new homes. The costs associated with servicing the HRA's borrowing include the planned increase in borrowing to support the £337m Council's Housing Growth programme which will see 168 new build, 11 off-the-shelf and 44 homes through the Right of First refusal process planned to be delivered in 2022/23. Forecast additional borrowing costs from the capital spend on the Council House Growth Programme are £2m, including c.£0.6m for repayment of debt specifically relating to new builds, in line with the agreed viability assessments. This is to ensure that in the

event of future sales of these new properties that the HRA is not left with significant outstanding debt on an asset it no longer holds and enables the maximum allowable RtB receipts to be reinvested back into future programmes.

- 12.16. Even though the net stock numbers are decreasing, the Council aims to maintain a consistent level of investment in the HRA capital programme. This will help ensure the overall condition of the stock is improved and help mitigate any further disrepair pressures. The total draft capital programme for the HRA is in excess of £80m in 2022/23. Most of the capital programme is provided for by contributions from the revenue budget. The revenue contribution to the capital programme required in 2022/23 is £62.2m, an increase of £1m including £0.3m added for sheltered housing schemes.
- 12.17. It is proposed that the existing £2.3m Sheltered Housing Reserve be transferred into the Major Repairs Reserve to support the funding of the capital programme, as the Major Repairs Reserve which had been used as a source of funding for many years is forecast to be fully utilised next year. Sheltered Housing works will still take place over the medium term as planned but will in future be funded from the mainstream capital programme.
- 12.18. The use of the Efile reserve, which resources the digitisation of Housing Management paper files, and reducing the contribution to the general reserve will result in additional funds of £0.4m for 2022/23.

Table 19 – Housing Revenue Account Pressures and Savings

	22/23
Income	
Rental Increase	(8.61)
Reduction in rental income due to stock reduction and void rate review	1.97
Review of staff charges to capital	(0.27)
Increase in service charges	(0.23)
External Income	<u>(0.11)</u>
Total	(7.25)
Expenditure	
Pay pressures (1.75% 2021-22 plus 2% 2022-23 plus NI 1.25% levy)	2.19
Price pressures (CPI/RPI) inc PFI contract	0.69
Repairs (CPI plus Stock adjustment)	0.94
Change in provisions for disrepair	1.00
Payments to BITMO	0.06
RCCO and Financing (includes PFI financing)	3.12
Use of Reserves (including PFI)	<u>(0.75)</u>
Total	7.25

13. Capital Programme

Table 20 - Revised Capital Programme

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m	£m
Major Programmes	509.0	359.6	196.8	165.9	12.4	1243.7
Annual Programmes	86.7	87.6	71	67.6	63.3	376.2
	595.7	447.2	267.8	233.5	75.7	1619.9

- 13.1. The Council's 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 Best Council Plan objectives.
- 13.2. Capital investment needs are assessed on an annual basis under the direction of the cross-council senior officer group Best Council Team: Strategic Investment 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 throughout the year and are subject to a robust business case approval. Schemes funded by external resources can also come forward throughout the year.
- 13.3. A detailed review of the whole capital programme was undertaken in the lead up to the Capital Programme being approved by Executive Board and Full Council in February 2021, identifying reductions in the programme over a number of years to deliver substantial savings to the revenue debt budget. A key principle of that review was to replace borrowing with external funding sources where possible and that principle continues in the current year where the focus has been on supporting the delivery of savings proposals to address the current Financial Challenge. These proposals are reviewed to ensure that any interdependencies between capital and revenue are given due consideration.
- 13.4. **Appendix 3** details the 10-year capital programme (annual programmes), identifying increased investment proposals to be agreed as part of the 22/23 Budget.
- 13.5. These proposals include:
- additional investment under capital receipt flexibilities for the following:
 - Revenue transformational change costs, therefore supporting the Financial Challenge - £1.8m in 21/22, £5.0m pa from 22/23; and
 - £1.14m pa from 22/23 to fund IDS costs linked to transformational change projects; and
 - additional corporate borrowing to address the following pressures:

- increases to the Highways Maintenance Annual Programme - £3.0m pa from 22/23; and
 - the reinstatement of the Highways Bridges & Structures Annual Programme - £2.0m pa from 22/23.
- 13.6. The revenue base budget for debt will be increased by £280k per annum to fund the additional £5m per annum of corporate borrowing, and this has been incorporated into the proposed Budget position reported here.
- 13.7. An injection from the CIL Strategic Fund / an allocation from general contingencies will be made to the Learning Places Programme to assist in cashflowing the expected programme of works during 2022/23 to address the current projected deficit.
- 13.8. The implementation of the proposals outlined above have been factored into the revised capital programme position summarised in Table 20.
- 13.9. The proposed Budget provides for a £30.4m increase in the cost of debt and capital financing for 2022/23. This assumes that the remaining borrowing is taken at an average rate of 1.75% interest for the remainder of 2021/22 and at an average of 2.25% in 2022/23. Interest rate projections will be kept under review.
- 13.10. The Council recovers VAT on expenditure (capital and revenue) relating to the Council's statutory functions and on activities which are charged for at the standard rate of VAT. VAT incurred on expenditure relating to activities which are charged for and which are exempt from VAT is only recoverable if the amount of such VAT does not exceed 5% of the Council's total VAT on expenditure in any one year. Examples of exempt activities are sport, culture, land & property transactions, and crematoria. If the Council's VAT on expenditure relating to its exempt activities exceeds the 5% limit, all VAT on expenditure attributable to exempt activities is irrecoverable. This would create an additional cost to the Council of at least £7m per annum. In addition, the Council would have to bring into account a proportion of any VAT incurred in the prior 10 years which was attributable to exempt activities and recovered in full at the time. Future schemes will only be allowed to progress once the full impact of the VAT implication has been assessed.

14. Management of Key Risks

14.1. Risk management

- 14.1.1. 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, in that the Council cannot balance its Revenue Budget, is identified as one of the Council's corporate risks, as is the Council's financial position going into significant deficit in the current year resulting in reserves (actual or projected) being less than the minimum specified by the

- Council's risk-based reserves policy. Both these risks are subject to regular review and reporting.
- 14.1.2. Failure to address these issues will ultimately require the Council to consider even more difficult decisions that will have a far greater impact on front-line services including those that support the most vulnerable and thus on our Best Council Plan ambition to tackle poverty and reduce inequalities.
 - 14.1.3. Financial management and monitoring continues to be undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget that are judged to be at risk, for example the implementation of budget action plans, those budgets which are subject to fluctuating demand, key income budgets, etc. This risk-based approach will continue to be included in the in-year financial reports brought to Executive Board.
 - 14.1.4. In addition, risks identified in relation to specific proposals and their management will be reported to relevant members and officers as required. Specific risks relating to some of the assumptions contained within this proposed Budget are identified below.
 - 14.1.5. The impact of COVID-19 upon the Council's revenue budget in 2020/21 and 2021/22 has been significant and the receipt of specific financial support from the Government has been necessary to deliver balanced budget positions. Whilst the proposed Budget for 2022/23 provides for the ongoing impact of COVID within both the Waste Management and Car Parking services, any ongoing impact of COVID within other services is not specifically budgeted for. This position assumes that there will not be a requirement for further lockdowns and therefore the Council will not be required to incur, with the exception of Waste Management in 2022/23, specific additional expenditure relating to COVID-19. In addition it is assumed that income realisable from sales, fees and charges, with the exception of car parking income in 2022/23, return to pre-COVID levels. However if the ongoing impact of COVID is greater than budgeted for, and no further government support is forthcoming, then there will be a requirement for contingency actions to be identified and implemented.
 - 14.1.6. As detailed in the 'Revenue savings proposals for 2022/23 to 2024/25' reports considered by this Board at its September meeting and today, the proposed Budget for 2022/23 assumes the delivery of £17.7m of budget savings proposals, including some that are subject to consultation. There remains a risk that there is slippage in the implementation of these proposals or that the assumptions contained in these proposals change as a result of the consultation exercises. This could lead to a variation in the assumed level of savings. Should this be the case, in accordance with the Revenue Budget principles agreed at Executive Board in July 2019 through the ['Medium-Term Financial Strategy 2020/21 to 2024/25'](#) report, directors would need to identify budget savings options to mitigate the directorate from going into an overspend position.

Risks to Funding

- 14.1.7. The Government's current Spending Review covers the three years until the end of this Parliament in March 2025. Whilst the Spending Review on

the 27th October 2021 provided details of the Government's spending intentions for this three year period, these have not yet been ratified by Government through the annual budget process.

- 14.1.8. Further to this, we await the Provisional Local Government Finance Settlement which is anticipated to be published in mid-December. Whilst the Spending Review 2021 provided details of the Government's spending plans for 2022/23 to 2024/25, the provisional Local Government Finance Settlement in each year will confirm these details. There remains a risk that the more detailed funding assumptions contained in the provisional Settlement are different to the assumptions contained in the Spending Review and this could have implications for the level of resources available to the Council in 2022/23.
- 14.1.9. The 2022/23 budget submission contains a number of assumptions about the level of resources receivable through some specific grants. Where the Government has yet to announce or finalise how much grant will be receivable in 2022/23 then a number of assumptions will be made in the determination of the budgeted figures receivable. Where the grant received is less than assumed in the Budget then, as per the Revenue Budget Principles approved at Executive Board in June 2019, the directorate concerned will need to manage the reduction in both expenditure and income through the identification and implementation of an exit.
- 14.1.10. 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.
- 14.1.11. The level of business rates appeals continues to be a risk. Although the 2010 ratings list is now closed and only limited scope remains for ratepayers to challenge that list, this is the final year of the 2017 ratings list being in force which tends to result in a higher than normal number of appeals to be submitted by ratings agents on behalf of their clients. Provision will have to be made for these appeals. However, the 2017 ratings list has proven to be unusually robust compared to the 2010 ratings list, although the impact of COVID-19 on the commercial property market may have implications for the business rates tax base in 2023/24 when the new ratings list will be introduced following the 2023 Revaluation.
- 14.1.12. Subject to its application to government being approved, for 2022/23 Leeds will again be part of the Leeds City Region Business Rates Pool. As with previous years' Pools, there remains a risk that if a member authority becomes entitled to a safety net payment, because its retained income has fallen dramatically, then that safety net payment will no longer be received

from the Government but will have to be met by other members of the Pool. This will represent a loss of income to the region.

14.1.13. The level of council tax collected could be affected by: the increase in the council tax base being less than assumed; collection rates being below budgeted assumptions; Council Tax Support claimant requirements being greater than budgeted; or a mixture of the above.

14.1.14. Business rates and Council Tax income continues to be a significant risk, however, 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.

Key risks to cost and income assumptions

14.1.15. Demographic and demand pressures, particularly in Adult Social Care and Children's Services, could be greater than anticipated and this will impact upon the assumptions made in the 2022/23 proposed Budget.

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

14.1.17. Inflation including the pay award and energy costs could be higher than that assumed in this report. In addition this proposed Budget makes a number of assumptions about the costs associated with managing the Council's debt. Whilst the Council has benefited from converting some of its shorter term borrowing into longer term borrowing at record low interest rates, it still has debt as short term rates which means that it is exposed to any upward movement in rates which would result in an increase in costs to the Council.

14.1.18. The Council's and City's economic and fiscal position is clearly impacted upon by the wider national economic context. The impact of the UK's withdrawal from the EU is still largely unclear and combined with the economy recovering from the impact of the COVID pandemic there remains a significant degree of uncertainty as to how this will impact upon the pound, increase inflation, reduce domestic and foreign direct investment and impact upon borrowing costs. All of this has implications for the level of resources available to the Council and the level of demand for the services that it provides.

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

15. Conclusions

- 15.1. The proposed Budget for 2022/23 and the projected budgets for 2023/24 and 2024/25 need to be seen in the context of inherent uncertainty for the Council in respect of future funding and spending assumptions. Whilst the Government's future spending plans with regard to local government and other areas of the public sector were outlined in the Chancellor's Autumn Budget Review and Spending Review Statement to Parliament on October 27th, and further details will be provided in the Provisional Local Government Finance Settlement in mid-December, these spending plans will continue to be influenced by the performance of the economy following the UK's withdrawal from the European Union, the recovery of the economy following the COVID-19 pandemic and the Government's ongoing response to the significant increase in borrowing that has been undertaken in response to the COVID-19 pandemic.
- 15.2. As a result of the pandemic the Council incurred additional expenditure in both 2020/21 and 2021/22, 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. Whilst the estimated ongoing impact of COVID-19 upon the Council's financial position has been incorporated into the proposed Budget for 2022/23 it is assumed in 2023/24 and 2024/25 that there will be no further expenditure incurred as a result of COVID-19 and that level of income receivable from sales, fees and charges return to pre-COVID levels. However if the ongoing impact of COVID is greater than budgeted for, and no further government support is forthcoming, then there will be a requirement for contingency actions to be identified and implemented.
- 15.3. In addition, and to compound the uncertainty over the period covered by the Medium Term Financial Strategy, the Secretary of State for the Department for Levelling Up, Housing and Communities (DLUHC) recently announced that the move to 75% business rates retention was not consistent with the Government's levelling up agenda and that instead the government would now look at the mechanism for redistributing funding to the authorities most in need. It is unclear how this mechanism would operate, how it impacts upon any reset of business rates baselines and whether it will include elements of any outcomes from the Government's Fair Funding review of the methodology by which funding is allocated, which determines current funding baselines and is based on an assessment of relative needs and resources. The timing of all these changes to the local government finance system remain uncertain and whether they will be introduced alongside further reforms of the business rates system as a tax. An early resolution with regard to the future structure of local government finance would have the advantage of adding some stability to the funding system over the medium-term. Whilst the Government's White Paper for Adult Social Care, published on 1st December 2021, provides proposals for system reform and the use of funding generated by the Health and Social Care Levy, it does not address

- the wider financial sustainability of the sector or the issue of better integration with the NHS. A further white paper is expected.
- 15.4. The Council Tax section of this proposed Budget includes a 1% increase in the Adult Social Care precept, in line with the Spending Review 2021 announcements. Should this proposed increase be reduced below the anticipated precept amount, any shortfall will require identification of proposals to balance this reduction. This could include using one-off funding from the Adults and Health reserves.
 - 15.5. In the determination of the proposed Budget for 2022/23 and the forecast position for 2023/24 and 2024/25 a number of assumptions have been made as to the level of resources available to the Council. These assumptions are under constant review to reflect any changes in circumstances or if further information emerges in respect of known risks.
 - 15.6. The Spending Review 2021 indicated that there would be additional net funding for local government in 2022/23 of around £1.5bn. Most commentators assume that this will be split between general revenue support and adult social care. These proposals assume that this will be split equally and that the resources will be allocated between authorities in line with the current distribution. Such an outcome would see Leeds receive £9.0m in additional funding through Settlement Funding Assessment for general revenue support and £10.1m in further funding. There are inherent risks that either the Government does not distribute the funding assumed without adding new duties or that a new allocation methodology is used or that the balance between general revenue support and specific grant is different.
 - 15.7. The Council's Medium Term Strategy which was received at Executive Board in September identified a funding gap of £65.4m for 2022/23. Following the receipt of budget savings proposals at September's Executive Board and further proposals that can be found elsewhere on this agenda, the announcement of additional resources in October's spending review, the review of Council Tax and Business Rates along with the use of the Council's Strategic Contingency reserve a balanced position for the forthcoming financial year, 2022/23, can be presented in this report.
 - 15.8. The initial budget positions for 2023/24 and 2024/25 identify estimated budget gaps of £47.8m and £15.3m respectively. The revised gaps for these two years take into account the directorate savings proposals brought to this Board in September and elsewhere on today's agenda through the reports, 'Revenue Savings Proposals for 2022/23 to 2024/25'. Further budget savings proposals to reduce the estimated gaps for 2023/24 and 2024/25 will be brought to this Board for consideration.
 - 15.9. As set out in both the Medium Term Financial Strategy 2022/23-2026/27, and this proposed Budget report for 2022/23, the budget proposals detailed in this report need to be viewed within the context of the longer term approach to increase the financial sustainability, robustness and resilience

of the Council's financial position. Specifically this is to reduce reliance upon one funding sources to fund revenue expenditure e.g. capital receipts, and to reduce the Council's expenditure base so that it is affordable with the level of resources that are available to the Council in line with the Council's MTFS.

2022/23

	Adults & Health	Children & Families	City Development	Communities, Housing & Environment	Resources	Strategic & Central	Total Net Revenue Budget
	£m	£m	£m	£m	£m	£m	£m
Net managed budget (2021/22) - RESTATED	195.21	117.02	31.02	75.53	77.39	(60.92)	435.26
Pay - Leeds City Council	1.83	3.27	1.96	2.62	4.65		14.34
Health and Social Care Levy	0.38	0.68	0.40	0.54	0.93		2.93
Employer's LGPS contribution	0.00	0.00	0.00	0.00	0.00		0.00
Fall-out of capitalised pension costs	(0.24)	(0.12)	(0.09)	(0.29)	(0.88)		(1.61)
Capitalised Pension Costs (New ELI scheme)	(0.02)	(0.07)	(0.17)	(0.26)	(0.15)		(0.67)
Wage costs - commissioned services	8.06	0.72					8.78
Inflation: General	1.75	2.65	2.17	0.77	0.20		7.54
Inflation: Electricity and Gas Tariffs	0.03	0.04	0.84	0.09	0.13		1.12
Demand and demography - Adult Social Care	7.18						7.18
Demand and demography - Children Looked After		6.10					6.10
Demand and demography - Other				0.20			0.20
Income pressures				0.00	0.18		0.18
COVID Pressures newly provided for 2022/23	0.00	0.00	0.00	0.00	0.00	5.85	5.85
COVID Pressures including fall out of 2021/22						(8.09)	(8.09)
Financial Sustainability						9.00	9.00
IDS Restructuring					3.46		3.46
Leeds 2023			0.90				0.90
Other Pressures	0.01	0.50	0.26	1.63	1.33	1.79	5.52
Debt - external interest / Minimum Revenue Provision			0.28			30.08	30.36
COVID Grants reduction						33.77	33.77
COVID Grants (Council Tax & Business Rates)						43.84	43.84
Business Rates Levy						0.38	0.38
S31 Business Rate and Council Tax Grants						(16.70)	(16.70)
Additional Funding notified at Spending Review 2021 (est.)						(10.10)	(10.10)
Integration Grant				0.02			0.02
Housing Benefit Admin Grant				0.20			0.20
Additional Contribution from WYCA						(3.00)	(3.00)
Capital Receipt Flexibilities						(5.00)	(5.00)
IDS Restructuring - Capital Receipt Flexibilities					(1.14)		(1.14)
Gainshare fall out			1.70				1.70
NHS/CCG Income	(5.00)						(5.00)
Changes in Strategic Grants						8.61	8.61
Contribution to / (from) General Reserve						(3.96)	(3.96)
Change in Use of Earmarked Reserves	0.35		(2.00)	0.33	0.20	(28.59)	(29.70)
Total - cost and funding changes	14.33	13.77	6.25	5.85	8.92	57.88	107.00
Budget savings proposals							
Savings identified for the 2021/22 savings strategy	(0.41)	(0.08)	0.20	0.43	(0.50)	0.00	(0.36)
Savings identified for the 2022/23 savings strategy	(10.00)	(0.90)	(3.70)	(1.21)	(1.93)	(2.73)	(20.46)
Total - Budget savings proposals	(10.41)	(0.98)	(3.50)	(0.78)	(2.43)	(2.73)	(20.82)
2022/23 Submission	199.14	129.82	33.77	80.60	83.88	(5.77)	521.44
Increase/(decrease) from 2021/22 £m	3.92	12.80	2.75	5.07	6.49	55.15	86.18
Increase/(decrease) from 2021/22 %	2.01%	10.94%	8.88%	6.71%	8.38%	(90.53%)	19.80%

TOTAL FUNDING AVAILABLE (Forecast Net Revenue Charge)

521.44

GAP

0.00

Equality, Diversity, Cohesion and Integration Screening

As a public authority we need to ensure that all our strategies, policies, service and functions, both current and proposed have given proper consideration to equality, diversity, cohesion and integration.

A **screening** process can help judge relevance and provides a record of both the **process** and **decision**. Screening should be a short, sharp exercise that determines relevance for all new and revised strategies, policies, services and functions.

Completed at the earliest opportunity it will help to determine:

- the relevance of proposals and decisions to equality, diversity, cohesion and integration.
- whether or not equality, diversity, cohesion and integration is being/has already been considered, and
- whether or not it is necessary to carry out an impact assessment.

Directorate: Resources	Service area: Corporate Financial Management
Lead person: Victoria Bradshaw	Contact number: 88540

1. Title: Proposed Budget for 2022/23 and Provisional Budgets for 2023/24 and 2024/25

Is this a:

Strategy / Policy

 Service / Function

 Other

If other, please specify

2. Please provide a brief description of what you are screening

The Council is required to publish its proposed Budget two months prior to approval of the Budget by Full Council in February 2022. The proposed Budget report for 2022/23 sets out the Executive's plans to deliver a balanced budget within the overall funding envelope. It should be noted that the Budget represents a financial plan for the forthcoming year and individual decisions to implement these plans will be subject to equality impact assessments where appropriate.

Appendix 4

3. Relevance to equality, diversity, cohesion and integration

All of the council's strategies/policies, services/functions affect service users, employees or the wider community – city-wide or more local. These will also have a greater/lesser relevance to equality, diversity, cohesion and integration.

The following questions will help you to identify how relevant your proposals are.

When considering these questions think about age, carers, disability, gender reassignment, race, religion or belief, sex, sexual orientation. Also those areas that impact on or relate to equality: tackling poverty and improving health and well-being.

Questions	Yes	No
Is there an existing or likely differential impact for the different equality characteristics?	X	
Have there been or likely to be any public concerns about the policy or proposal?	X	
Could the proposal affect how our services, commissioning or procurement activities are organised, provided, located and by whom?	X	
Could the proposal affect our workforce or employment practices?	X	
Does the proposal involve or will it have an impact on <ul style="list-style-type: none"> • Eliminating unlawful discrimination, victimisation and harassment • Advancing equality of opportunity • Fostering good relations 	X X X	

If you have answered **no** to the questions above please complete **sections 6 and 7**

If you have answered **yes** to any of the above and;

- Believe you have already considered the impact on equality, diversity, cohesion and integration within your proposal please go to **section 4**.
- Are not already considering the impact on equality, diversity, cohesion and integration within your proposal please go to **section 5**.

4. Considering the impact on equality, diversity, cohesion and integration

If you can demonstrate you have considered how your proposals impact on equality, diversity, cohesion and integration you have carried out an impact assessment.

Please provide specific details for all three areas below (use the prompts for guidance).

- **How have you considered equality, diversity, cohesion and integration?**
(think about the scope of the proposal, who is likely to be affected, equality related information, gaps in information and plans to address, consultation and engagement activities (taken place or planned) with those likely to be affected)

Appendix 4

The proposed Budget identifies a savings requirement of £20.5m due to unavoidable pressures such as inflation and demand/demography and the ongoing impact of COVID-19. Savings proposals to bridge this gap will affect all citizens of Leeds to some extent. The Council has consulted on its priorities in recent years and has sought to protect the most vulnerable groups. However, the cumulative effect government funding reductions and these unavoidable pressures means that protecting vulnerable groups is becoming increasingly difficult. Where consultation is required and has not already commenced with regard to the specific proposals contained in this report this will be carried out before the final budget for 2022/23 is agreed.

• Key findings

(think about any potential positive and negative impact on different equality characteristics, potential to promote strong and positive relationships between groups, potential to bring groups/communities into increased contact with each other, perception that the proposal could benefit one group at the expense of another)

The budget proposals will impact on all communities and protected characteristics but those who have been identified as being at the greatest potential risk include:

- Disabled people
- BAME communities
- Older and younger people and
- Women
- Low socio-economic groups

The proposed Budget has identified the need for staffing savings in all areas of the Council which may impact on the workforce profile in terms of the at-risk groups. There may be some impact on our partners, for example through commissioning, which may have a knock on effect for our most vulnerable groups.

• Actions

(think about how you will promote positive impact and remove/ reduce negative impact)

Equality screening has already been carried out for all of the relevant budget savings proposals included in the position set out in this report. An overall strategic equality impact assessment of the budget will be undertaken prior to its approval in February 2022.

There will also be equality impact assessments on all key decisions as they go through the decision making process in 2022/23.

5. If you are **not already considering the impact on equality, diversity, cohesion and integration you **will need to carry out an impact assessment.****

Date to scope and plan your impact assessment:	
Date to complete your impact assessment	

Appendix 4

Lead person for your impact assessment (Include name and job title)	
--	--

6. Governance, ownership and approval Please state here who has approved the actions and outcomes of the screening		
Name	Job title	Date
Victoria Bradshaw	Chief Officer Financial Services	6.12.21
Date screening completed		6.12.21

7. Publishing	
<p>Though all key decisions are required to give due regard to equality the council only publishes those related to Executive Board, Full Council, Key Delegated Decisions or a Significant Operational Decision.</p> <p>A copy of this equality screening should be attached as an appendix to the decision making report:</p> <ul style="list-style-type: none">• Governance Services will publish those relating to Executive Board and Full Council.• The appropriate directorate will publish those relating to Delegated Decisions and Significant Operational Decisions.• A copy of all other equality screenings that are not to be published should be sent to equalityteam@leeds.gov.uk for record. <p>Complete the appropriate section below with the date the report and attached screening was sent:</p>	
For Executive Board or Full Council – sent to Governance Services	Date sent: 6.12.21
For Delegated Decisions or Significant Operational Decisions – sent to appropriate Directorate	Date sent:
All other decisions – sent to equalityteam@leeds.gov.uk	Date sent: