Report author: Victoria Bradshaw

Tel: 88540

# The Medium Term Financial Strategy 2023/24-2027/28

Date: 21st September 2022

Report of: Chief Officer – Financial Services

Report to: Executive Board

Will the decision be open for call in? ☒ Yes ☐ No

Does the report contain confidential or exempt information? ☐ Yes ☒ No

## Brief summary

This report provides Executive Board with an update of the Council's Medium Term Financial Strategy for the period 2023/24 to 2027/28. The attached Medium Term Financial Strategy (MTFS) provides a robust, consistent and sustainable approach to establishing and maintaining a stable and prudent financial basis on which the Council's services are delivered.

The Medium Term Financial Strategy is one of the key strategies of the Council and is a five year strategy which sets out the Council's commitment to provide services that meet the needs of people locally, that the Council is financially resilient, stable and sustainable for the future and that the use of resources represent good value for money.

This report sets out both the context and the factors that influence the shape of this financial plan. In addition, not only does it provide an update on the level of resources available to the Council over the five year period of the Strategy, but it also details both the impact of budgetary pressures upon the Council's revenue budget position and provides an update on the Financial Challenge savings programme which will contribute towards the Council being able to present a balanced revenue budget for 2023/24.

This Medium Term Financial Strategy for 2023/24-2027/28 identifies an estimated General Fund budget gap of £182.6m for the five year period of which £63.6m relates to 2023/24.

For the Housing Revenue Account (HRA) there is a cumulative deficit of £38.8m to 2027/28 of which £12.4m relates to 2023/24.

This Medium Term Financial Strategy also incorporates both a ten year Capital Programme and a five year projection with regard to the level of resources available through the DSG (Dedicated Schools Grant).

There are a number of risks to the assumptions in the MTFS. The global energy and fuel crisis has resulted in a cost of living crisis and high inflation, meaning that estimates of budgetary pressures are made in a highly volatile environment. This, combined with uncertainty around Government funding and the political landscape means that not only is the Council looking at significant budget gaps in future years, but also that there is no certainty around economic recovery or Government support. The MTFS makes significant additional provision for energy and fuel in 2023/24, based on current inflation projections in light of the global energy crisis.

Another key driver of the budgetary pressures the Council is facing is Adult and Children's Social Care. The Strategy reflects the increased cost of commissioned services for Adults and provides for the ongoing impact of demand and demography in social care.

Provision of 2% for pay awards has been made in each of the years covered by this Medium Term Financial Strategy. If future pay awards are greater than this assumption, including acceptance of the National Employer's offer in 2022/23, then this will add a significant additional pressure to this Strategy and the requirement to identify additional income or savings in order to balance the budget in each of these years.

Recognising the challenge of bridging the estimated budget gaps for the period of the Strategy, whilst at the same time seeking to ensure that the Council's budget is robust, resilient and sustainable, another savings programme has been established. Reviews are underway across the Authority to identify opportunities to continue to modernise and improve services, reduce costs and generate additional income. This work will lead to a number of savings proposals for consideration by Executive Board during the Autumn of 2022. Those approved for implementation, or consultation as required, will subsequently be built into the 2023/24 Budget and Provisional Budgets for 2024/25 and 2025/26.

The MTFS aims to improve the Council's financial sustainability in order that the Council can withstand economic shocks in the future. The Strategy proposes to use reserves in 2023/24 to support the Council to deal with the pressures faced due to the cost of living crisis. However, the use of one-off funding, such as reserves, to support ongoing budgetary pressures is not financially sustainable. As such, the Strategy provides for a base budget increase to the General Reserve from 2023/24 to improve future financial resilience.

The Strategy reflects the limitations on the ability of local authorities to raise local funding. The Council is currently restricted to a 2% increase on core Council Tax, before the requirement for a city-wide referendum. Should referendum limits be increased by Government this could help to meet the reported budget gap. Likewise, the MTFS makes prudent assumptions about the level of multiplier cap compensation, whereby local authorities are compensated for the Government's decision not to increase business rates by inflation. Should compensation be paid at the current high levels of inflation, this will help to meet the reported budget gap.

**Recommendations**

Executive Board is recommended to:

a) Note the updated Medium Term Financial Strategy for 2023/24 to 2027/28.

**What is this report about?**

1 Executive Board members are required to recommend a balanced Revenue Budget and Capital Programme for 2023/24 to Full Council in February 2023. The Medium Term Financial Strategy provides a key part of the budget setting process.

2 This report presents an updated Medium Term Financial Strategy for 2023/24 to 2027/28 and the budget assumptions underlying that Strategy for Executive Board to note.

**What impact will this proposal have?**

3 The Medium Term Financial Strategy informs the annual budget process. The 2023/24 budget proposals will be presented to Executive Board and to Full Council in February 2023.

**How does this proposal impact the three pillars of the Best City Ambition?**

☒ Health and Wellbeing ☒ Inclusive Growth ☒ Zero Carbon

4 The Best City Ambition is the Council's strategic plan which sets out the 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.

5 This report needs to be seen in the context of the requirement for the Council to be financially sustainable and to be able to set a balanced budget for 2023/24.

**What consultation and engagement has taken place?**

| | | |
|---|---|---|
| Wards affected: | | |
| Have ward members been consulted? | ☐ Yes | ☒ No |

6 The Authority's Financial Strategy is driven by its ambitions and priorities as set out in the Best City Ambition. The determination of these ambitions were subject to consultation with Members and officers throughout its development, with additional extensive stakeholder consultation carried out on the range of supporting plans and strategies.

7 The proposed Medium Term Financial Strategy has also been informed by the public consultation on the Council's Proposed Budget for 2022/23. Whilst the consultation covered the key 2022/23 proposals, it also incorporated questions around the Council's priorities and the principles that underlie the Authority's financial plans and so the results are relevant to this report. The full results of the consultation are publicly available in the 2022/23 Revenue Budget and Council Tax report considered by Full Council on 24th February 2022

**What are the resource implications?**

8 All resource implications are considered within the attached Medium Term Financial Strategy document.

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

9 This Medium Term Financial Strategy needs to be seen in the context of significant inherent uncertainty for the Council in terms of future funding and spending assumptions.

10 The Council's current and future financial position is subject to a number of risk management processes. Not addressing the financial pressures in a sustainable way is identified as one of the Council's corporate risks, as is the Council's financial position going into significant deficit in any one year. Both of these risks are subject to regular review.

11 Risks relating to some of the assumptions contained within this Medium Term Financial Strategy are addressed specifically in the appended Financial Strategy.

### What are the legal implications?

12 There are no legal implications arising from this report. The report recommends that Executive Board note the Medium Term Financial Strategy itself. Any proposals resulting from ongoing service / policy reviews will be subject to specific decision-making processes in which the legal implications, access to information and call-in will be considered in accordance with the Council's decision-making framework. This includes compliance with the legal requirements around managing staffing reductions.

## Options, timescales and measuring success

### What other options were considered?

13 Not applicable.

### How will success be measured?

14 Not applicable

### What is the timetable and who will be responsible for implementation?

15 Not applicable.

### Appendices

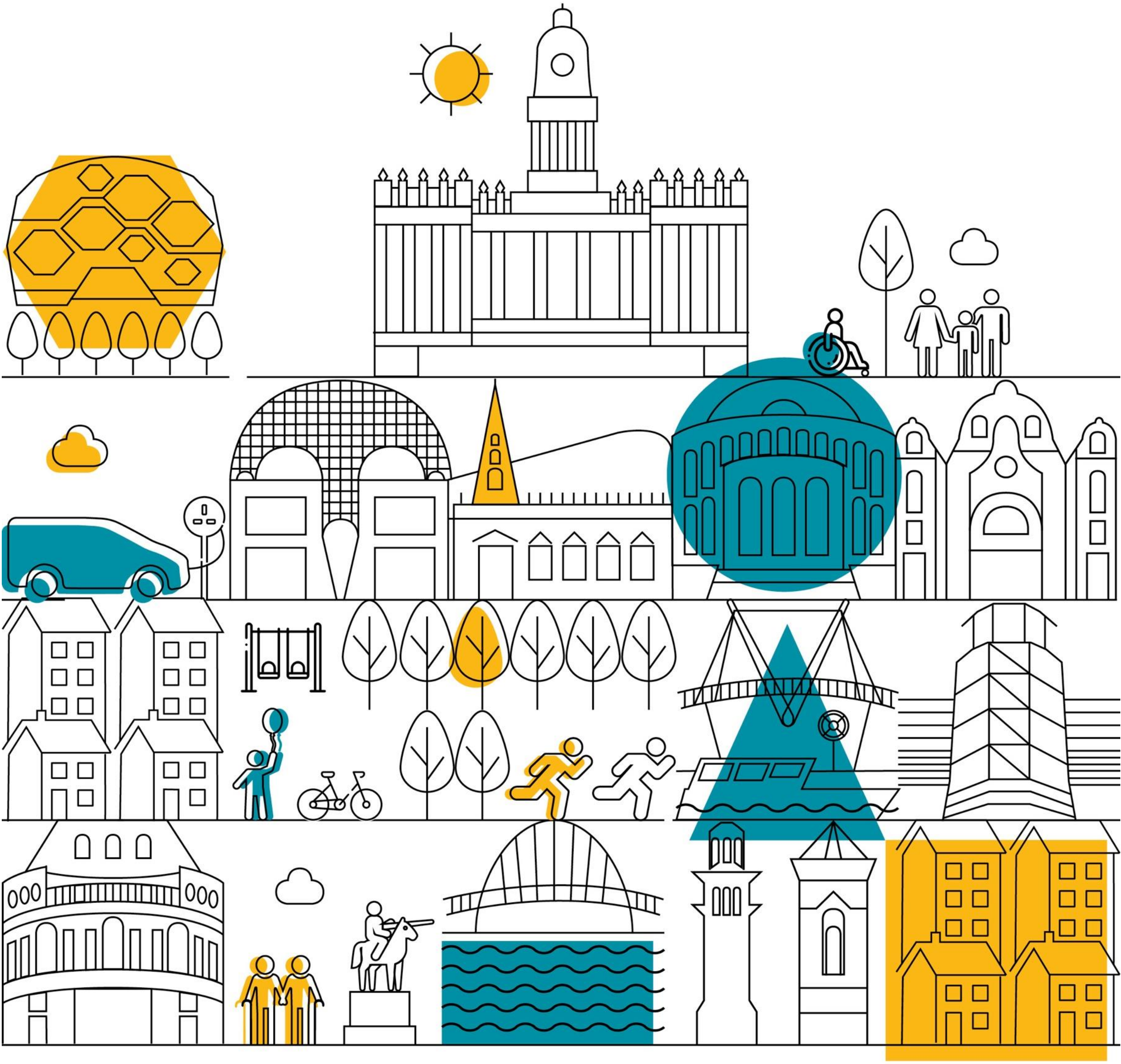
16 The Medium Term Financial Strategy 2023/24-2027/28

### Background papers

17 None.

MEETING OUR FINANCIAL CHALLENGE

# Medium Term Financial Strategy 2023/24 to 2027/28



Leeds CITY COUNCIL

**Contents**

# Introduction and Overview

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

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

This Strategy considers:

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

The key objectives of the MTFS are as follows:

- To ensure that effective financial planning and management contribute to the Authority achieving its strategic ambitions to be the Best Council in the Best City in the UK
- To ensure that the Council is financially resilient, stable and sustainable for the future
- To maximise the income from Council Tax and Business Rates revenue to support the priorities of the Council
- To forecast the influences on the resources available to the Council and to plan for the reduction in these resources over the life of the Strategy
- To estimate the expenditure requirements over the life of the Strategy to ensure value for money is achieved and resources are utilised where outcomes are measurable and have real impact
- To continue to improve value for money – managing our people and money more efficiently and effectively to continue to improve value for money, standardise, streamline, and share best practice, getting better value from commissioning and procurement, whilst seeking to minimise the impact of budget savings on priority services
- To bring together the key issues affecting the Revenue Budget, the Housing Revenue Account, Dedicated Schools Grant and the Capital Programme

- To review emerging issues and other influences affecting the Council's financial strategy, the forecast impact of these changes on both the demand for services and likely funding due to:
    - Global, national, and local economic factors
    - Demographic changes
    - Technological advances
    - Climate change
    - New legislation
    - Policy initiatives by both the Government and the City Council, and
    - The requirement to ensure that the Council's resources closely align with the Best City Ambition.

**Influences Affecting the MTFS**

A number of factors influence the MTFS, and the decisions and projections that form it. As well as the local socio-economic context (including Leeds' current and projected population, economy and labour market, and levels of deprivation), these include:

- International, National and Regional Influences
- The Economy – Cost of Living, Economic Forecasts, Exit from the EU
- Annual Government Announcements on Local Funding
- National Policy and the "Levelling Up" agenda
- Regional Working with the West Yorkshire Combined Authority
- Impact of COVID-19 economic recovery
- Health and Social Care funding changes

**Section 1.4** further explains these influencing factors.

The Strategy also considers direct influences such as pay award negotiations, the impact of other inflation such as energy, fuel, and other known implications of the cost of living crisis, future service demand, and delivery of savings targets and reviews from prior years. **Section 2.5** further explains these and the estimates made as a consequence.

# Part 1: The Context for Leeds City Council's Medium Term Financial Strategy

## 1.1 Background

1.1.1 The Financial Strategy sets out the overall shape of the Council's budget by determining the level of resources that will be available and how these are prioritised. This strategy provides a financial planning framework through to 2027/28 and forecasts the budget for the next five years. The medium term framework enables members and officers to develop detailed annual budget allocations after considering the facts discussed below.

1.1.2 Since 2010/11, the Council has faced a reduction in Government funding and 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, 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 2,784 FTEs (full time equivalents) up to 31st July 2022.

1.1.3 Inevitably, managing the large reduction in Government funding combined with increasing cost pressures has meant that the Council has had to make some difficult decisions around the delivery of services, and it will remain increasingly difficult over the coming years to identify further financial savings without significant changes in what the Council does and how it does it. This will have significant implications for directly provided services and those commissioned by the Local Authority, impacting upon staff, partners and service users.

1.1.4 In order to deliver the Council's ambitions of tackling poverty and reducing inequalities, consideration may have to be given to stopping, delivering differently or charging for those services that are no longer affordable and are a lesser priority than others. This will be achieved through a continuing process of policy and service reviews across the Council's functions and ongoing consultation and engagement.

1.1.5 The financial challenge now facing the Council is to manage these pressures alongside the significant impact caused by the current cost of living crisis and increased inflation, within a backdrop of economic recovery from COVID-19. The needs of the communities served by Leeds City Council have already increased and will continue to do so, and the various funding streams that support local government will undoubtedly be affected by longer-term economic scarring as a result of the virus and the war in Ukraine. As disposable income becomes further reduced, the Council's traded and commercial income is expected to suffer. With retention and recruitment pressures within the Council the ability to identify sufficient resources to support service transformation remains challenging.

1.1.6 This Financial Strategy provides a financial planning framework through to 2027/28 and forecasts the budget for the next five years. It should be stressed that, under the Council's constitution, decisions to set the annual budget, the Council Tax base and the rate of Council Tax can only be taken by Full Council and therefore these decisions will continue to be made as part of the Council's annual budget-setting process.

## 1.2 Risks

1.2.1 The Medium Term Financial Strategy makes assumptions in respect of the level of resources that are receivable through Council Tax, Business Rates and Government Grant. Any variation from these assumptions has implications for the level of resources available to the Council.

1.2.2 This includes:

- **Economic Risks** – underlying risks caused by the aftermath of COVID-19 catalysed by the global energy and fuel crisis that has resulted in a cost of living crisis, cumulated with the national economic issues due to Levelling Up and Spending Review uncertainties.

- **Risks to Funding** – the outcome of the Government's future spending plans covering the period from 1st April 2023 won't be known until the Autumn and the spending intentions for local government could differ from assumptions contained in this MTFS. Any differences will, in turn, impact upon the level of resources available to the Council. Further, there remain uncertainties around Business Rates reform, the Government's Fair Funding review, how the Government's Levelling Up policies will support local authorities in the future, further impacts of the UK leaving the EU, and also the Government's intentions for the future funding of social care.

- **Energy and Fuel Inflation** – the current assumption in the MTFS is for inflation on utilities of 37.5% and fuel of 34.5% above initial budgets for 2022/23, with an increase of more than 46% above initial MTFS projections for utilities inflation in 2023/24 and 3.4% for fuel inflation (which assumes that fuel inflation will be in line with CPI projections in future years). These are significant risks to the council and will need to be monitored regularly. In-year monitoring reports will review the level of inflation assumed in these areas.

- **Employer Offer Pay Award** – the current assumption in the MTFS is that the Pay Award will be 2% per annum for the life of the Strategy. However, the final employer offer for the 2022/23 pay award includes a flat £1,925 increase for all NJC and JNC staff. Whilst this has been rejected by one of the Unions, we await the outcome of further discussions. The Pay Award for 2023/24 is still to be discussed, and we also await further announcements about the Real Living Wage. The outcome of all of these discussions will indicate the extent of any additional pressures in the MTFS.

- **Resource Risk** – the long term impact of restructuring to reduce staff numbers and make savings, reduced availability of skilled workers, lack of funding and other shortages will impact on the Council's ability to deliver services to the people of Leeds. This risk also includes social care demand led cost pressures and income shortfalls due to reduced uptake of services that are chargeable.

- **Interest Inflation Risk** – increased interest rates, which would push up the costs of borrowing for the Council and across the local economy, impacting on many businesses and families. In the Council this could include costs associated with managing the Council's debt being higher than budgeted assumptions, for example as a consequence of higher than assumed interest rates

- **Demand and Demography Risk** – this Medium Term Financial Strategy contains a number of inherent risks including estimating demand and demographic pressures within services such as Adult Social Care and Children's Services, determining key income budgets that rely on the number of users of a service, and inflation on the cost of demand and demography being higher than assumed in the Strategy.
- **Political Landscape** – Liz Truss MP was announced as the new Prime Minister on 5th September. Further information is awaited on the priorities of the Government they form and whether there is synergy with the Council's priorities and funding expectations. An Emergency Budget is expected during the Autumn.
- **Risks to Capital Assumptions –** one of the main risks in developing and managing the capital programme is that insufficient resources are available to resource the impact of inflationary pressures such as the cost of materials. Current high inflation is impacting on the cost of delivering capital projects in a number of ways, and these pressures need to be managed appropriately so as to limit the revenue impact associated with requiring increased borrowing to fund these costs.

1.2.3 **Section 2.14** of this report gives more detail of the financial risks relating to these assumptions.

## 1.3 Overarching Principles of the MTFS

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

1.3.2 The Strategy contains provision for the Council's Revenue Budget to become both more financially resilient and sustainable, reducing the risks associated with funding recurring revenue expenditure through a requirement to generate capital receipts and making provision to unwind the utilisation of reserves and capitalisation of staffing costs, reducing the extent to which the Revenue Budget is supported by these mechanisms.

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

1.3.4 One of Leeds City Council's values relates to "spending money wisely" and ensuring that maximum value is extracted for every £1 spent. External Audit provides independent assurance that value for money is being achieved and the 2019/20 Annual Audit Letter from Grant Thornton concluded that " if Covid-19 had not taken place, the Council's financial position would have continued to be sufficiently stable to manage the financial impact of small unforeseen events as in previous years, however, the financial impact of Covid-19 has been significant and highlights the inadequacy of the Council's General Fund Reserves and balances to cushion the impact of major events, requiring the Council to take a range of unplanned and short-term measures to manage the additional costs. This situation indicates weaknesses in the level of General Fund Reserves to deal with significant unforeseen circumstances resulting from the Council's arrangements for financial management. Except for this matter, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources."

1.3.5 This 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." In accordance with this recommendation, this Medium Term Financial Strategy 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 £48.2m by 2027/28.

1.3.6 In addition, as detailed in the 2021/22 revenue budget outturn report, there is a balance of £37.5m in the Strategic Contingency reserve, established to provide for any unforeseen events requiring additional resources. The 2022/23 budget assumes a net use of £6.6m and further commitments of £2.3m have been agreed to date in year. As such £28.6m would be carried forward into next year when the Strategy assumes use of a further £15m to contribute to balancing the Council's budget, should this be approved by Council.

1.3.7 The 2021/22 budget also provided for the creation of COVID and Energy reserves which, alongside the Strategic Contingency Reserve, contribute towards the Council's revenue budget becoming more financially sustainable and resilient in the short term, vital in a period of such significant financial uncertainty. The COVID Reserve (currently £3.5m) can be applied to specific pressures arising from the ongoing impact of COVID in 2022/23, whilst the Energy Contingency Reserve (currently £3.9m) provides contingency funding should energy costs exceed provision in the budget.

1.3.8 In addition, the Medium Term Financial Strategy reflects the need to make the Council's financial position more resilient, reducing the extent to which internal charging and capitalisations are used to support the revenue budget. These measures are discussed further in **Section 2.8**.

1.3.9 Whilst the Government's spending plans for the forthcoming financial period were set out in the Comprehensive Spending Review in early Autumn 2021, it is not known whether these plans will change under the new Prime Minister, and full details will not become clear until the Provisional Local Government Finance Settlement in December. This Medium Term Financial Strategy assumes no growth in the Settlement Funding Assessment (Business Rates baseline plus Revenue Support Grant) for the period 2023/24 to 2027/28. It is assumed that the 50% Business Rates Retention Scheme will apply for the whole period of this Financial Strategy.

1.3.10 Business Rates receivable over and above the Business Rates baseline have been projected forward with account being taken of the ongoing impact of COVID-19 and the economic uncertainty caused by the subsequent cost of living crisis on the forecast level of Business Rates receivable. In respect of core Council Tax, a 1.99% per annum increase is forecast each year with the Council Tax base growing by 1.50% in 2023/24 rising to 1.57% by 2027/28. It should be noted that if either of these funding streams were higher than reflected in the Strategy this would be an additional resource towards meeting the current gap.

1.3.11 The Strategy assumes a 2% pay award for all employees. The cost of the Employer offer for 2022/23, not yet agreed, significantly exceeds this provision and it is possible that later years will also exceed 2%. This MTFS does not include the probable additional costs for the 2022/23 proposed Pay Award or the impact in future years as agreement has not yet been reached. **Paragraph 2.5.4** explains the potential financial impact of the current Employer Pay Offer.

1.3.12 Previously, the Strategy has only provided inflation where there is a contractual commitment. Fees and charges were anticipated to rise by 3% where this could be borne by the market. The current cost of living crisis has impacted on this approach given the financial impact of current high rates of inflation, and this Financial Strategy now includes additional inflation where it is deemed necessary, as further discussed at **Paragraphs 2.5.5-2.5.9**.

1.3.13 The Medium Term Financial Strategy considers the impact of international, national and regional factors. In summary, these include: the Economy, including the current cost of living crisis, economic forecasts, and the UK's exit from the EU; Government announcements about funding for the Public Sector; National Policy such as the "Levelling Up" agenda; Regional working and the West Yorkshire metro mayor; the new operating context resulting from the economic impact of COVID-19; and Health and Social Care funding. These are further detailed in **Section 1.4** below.

1.3.14 The Strategy reviews the key issues affecting the Housing Revenue Account (HRA) and includes the five-year strategy for the ringfenced account. **Section 2.12** details this further.

1.3.15 Further, this Strategy includes the issues affecting the Dedicated Schools Grant (DSG). **Section 2.13** details this further.

1.3.16 The approach to the determination of the Capital Programme considers the affordability of the Programme and the capital spending requirements over a 10 year period. The greater integration of the Capital Programme within the Strategy better reflects a more co-ordinated approach to capital investment requirements, whilst ensuring that affordability remains a key priority within the Medium Term Financial Strategy. The Capital Programme is currently undergoing a process of review, with new capital scheme proposals being assessed to decide which are of sufficient priority to add to the Council's programme and how these might be funded, so as to appropriately manage the overall cost of the programme.

## 1.4 The Influences, Strategies and Priorities affecting the Medium Term Financial Strategy

### International, national and regional influences

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

### Economy

1.4.2 **Cost of Living** – the Council's and City's economic and fiscal position is clearly impacted by the wider national and international economic context. The United Kingdom's cost of living crisis started in 2021, when prices for many essential goods increased faster than household incomes, resulting in a fall in real income. Global and local factors have contributed to this. Global factors include (but are not limited to): economic impact of COVID-19, the energy crisis and rising energy process, a supply chain crisis and Russia's invasion of Ukraine in 2022. Local factors, some unique to the UK, include high inflation, labour shortages (in part caused by the exit from the EU), additional taxes on households, increase in the household energy price cap, increase in National Insurance and rises in Council Tax. Household incomes have not kept pace with rising prices.

1.4.3 **Office for Budget Responsibility forecasts** – previous analysis of data provided by the Office for Budget Responsibility (OBR) showed that the economy was recovering following the relaxation of COVID-19 lockdown restrictions. However, in the March 2022 Economic and Fiscal Outlook, the OBR acknowledged the "unusually high uncertainty around the outlook" as the economy recovers from COVID-19 and deals with the impacts of the war in the Ukraine. At the time, the OBR anticipated UK real GDP to grow by 3.8% in 2022 then by 1.8% in 2023, 2.1% in 2024, 1.8% in 2025 and 1.7% in 2026. Further to this, February 2022 CPI inflation was at 6.2%, broadly in line with the euro area. Also at this time, the OBR forecast that CPI inflation would average 7.4% in 2022 and then fall to 4% in 2023, returning to more usual levels of 1.5% in 2024, 1.9% in 2025 and 2.0% in 2026. Actual CPI in 2022 rose to 10.1% in the 12 months to July 2022, up from 9.4% in June.

1.4.4 **Exit from EU** – while Leeds remains 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. In April 2022, Government launched the UK Shared Prosperity Fund (UKSPF)[1] to succeed the EU structural funds. The UKSPF has the overarching objective of "building pride in place and increasing life chances" with funds to be invested in three local priorities: communities and place, support for local businesses and people and skills. Government stated that funding would increase from £400 million in 2022/23 to £1.5 billion a year by 2024/25, with total funding of £2.6 billion over this period.

### Annual Government Announcements

1.4.5 **2022 Spring Statement** – in March 2022, the then Chancellor of the Exchequer, Rishi Sunak, made a statement to the House of Commons outlining plans to support households with the increased cost of living following the coronavirus outbreak and during a period of increased global inflation and supply chain

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[1] UK Shared Prosperity Fund: prospectus - GOV.UK (www.gov.uk)

pressures. Following his resignation as Chancellor of the Exchequer, and the subsequent appointments of Nadhim Zahawi, and more recently Kwasi Kwarteng, the plans announced at the Spring Statement have not yet been superseded or amended.

1.4.6 Key announcements in the 2022 Spring Statement included:

- The Household Support Fund, which offers targeted support to vulnerable households, was doubled to £1bn. Leeds City Council received £7.1m of this funding.
- Fuel duty to be cut by 5p per litre until March 2023 with immediate effect.
- National Insurance thresholds to rise by £3,000 to £12,570 from July 2022.
- Basic rate of Income Tax to be cut from 20p to 19p by the end of the current Parliament in 2024.
- VAT on a range of energy saving materials, such as solar panels, heating pumps and roof insulation reduced from 5% to 0% for 5 years.
- Two new Business Rates reliefs were brought forward by a year to come into effect in April 2022 - there are now no Business Rates due on a range of green technology used to decarbonise buildings, whilst eligible heat networks will also receive 100% relief. Local authorities will receive compensation for the loss of income as a result of these exemptions and new burdens funding for any linked administrative and IT costs.
- Plans to reform the business tax system will be announced in the Autumn Budget, with changes intended to be introduced from April 2023. Government will consider whether the current tax system, including the Apprenticeship Levy, does enough to incentivise businesses to invest in training.
- The Government launched the second round of the Levelling Up Fund and published a refreshed Prospectus.

1.4.7 **2021 Comprehensive Spending Review** – the then Chancellor, Rishi Sunak, announced the results of the Government's Spending Review on 27th October 2021, a multi-year review for the three financial years 2022/23 to 2024/25 which covers the rest of the current Parliament. The announcement was combined with the annual Autumn Statement which focused on building a "Post-Covid economy". However, with a new administration entering office in September 2022 it remains unclear whether spending plans beyond 2022/23 will remain the same.

1.4.8 Given the uncertainties noted above, the key announcements in the 2021 Comprehensive Spending Review relating to local government are summarised below, with some analysis:

- The Spending Review showed an increase in annual local government funding (Resource DEL) of £3.6bn between 2021/22 and 2024/25, an average annual cash terms increase of 13%.
- However, the increase in spending on local government includes the funding generated by the Health and Social Care Levy, which comes with accompanying new duties and costs. Excluding social care reform funding, further analysis estimates that the net rise in annual Local Government funding between 2021/22 and 2024/25 is an annual average increase of 6%.
- Analysis also suggests that Core Spending Power (excluding social care reform) will increase by £4.9bn between 2021/22 and 2024/25, an average annual increase of 3.2%.
- The threshold for "core" council tax increases remains at 1.99% and the adult social care precept by a further 1%.
- The 2022/23 Small Business Rates Multiplier was frozen at 2021/22 levels. Local authorities were fully compensated for any loss of income caused by this.
- There were various smaller allocations within the core funding announcement, including £200m for the "cross-government Supporting Families programme", £37.8m for cyber security, and £34.5m to "strengthen local delivery and transparency".
- The Comprehensive Spending Review provided £639m by 2024/25 as part of the Government's commitment to end rough-sleeping.
- The Spending Review announced the reduction of the taper rate in Universal Credit from 63% to 55%.
- Following the recommendations of the independent Low Pay Commission, it was announced that the National Living Wage would increase by 6.6% from £8.91 to £9.50 effective from 1st April 2022. This did not add a further pressure to the Council's budget assumptions as the then Medium Term Financial Strategy provided for an estimated Real Living Wage increase to £10.39 per hour.
- There was confirmation of an additional £4.7bn by 2024/25 for the core schools' budget in England – broadly equivalent to a cash increase of over £1,500 per pupil by 2024/25 compared to 2019/20.
- Over the Spending Review period £2.6bn was committed for new school places for children with special educational needs and disabilities (SEND).

- An additional £1.6bn by 2024/25 was announced for 16-19 year olds' education in England, maintaining funding rates in real terms per student.
- There was no further announcement about planned local government funding reforms.

**National Policy**

1.4.9 "Levelling Up" has been one of the Government's flagship policies. It 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."[2] A Levelling Up Fund was announced at the 2020 Spending Review, initially making £4.8bn available for UK local infrastructure through a competitive bidding process, with this funding delivered through local authorities, and is intended to run until 2024/25. In February 2022 Government published a White Paper on its 'levelling up' strategy[3] and provided further detail on how the Fund would operate from 2022-23 onwards, including the first steps: Boosting pay and productivity, especially in places where they are lagging; Spreading opportunities and improving public services, especially where they are weakest; Restoring local pride; and Empowering local leaders.

1.4.10 Leeds City Council bid successfully for the 'Connecting West Leeds' scheme, a travel corridor scheme in the Pudsey constituency, receiving £20m from Round 1 of the Fund. The Council has recently submitted a further 6 bids (one for each Leeds constituency) totalling £120.8m to the Levelling Up Fund Round 2 with the aim of delivering transformational change for communities across Leeds, with outcomes expected in Autumn 2022.

**Regional Working – West Yorkshire Combined Authority**

1.4.11 In May 2021 Tracy Brabin, the first West Yorkshire metro mayor, was elected following the agreement of a devolution deal between the Government and West Yorkshire Leaders in Spring 2020. This has resulted in 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 naturally impacts on how services are delivered regionally, and the Council may need to think differently about the way in which services are organised, funded, and delivered as regional collaboration continues to be strengthened. This will influence the Medium Term Financial Strategy in future years.

1.4.12 New funding streams from Government will be unlocked due to this devolution deal, including the Transforming Cities Fund, the Brownfield Regeneration Fund and the West Yorkshire Heritage Fund, which will support delivery of a new British Library North facility in Leeds. The devolution deal also provides £38m of

[2] The Levelling Up Agenda, House of Commons, LGA Briefing, 15 June 2021

[3] Levelling Up the United Kingdom - GOV.UK (www.gov.uk)

gainshare funding each year for the next 30 years, to be spent flexibly in line with local priorities.

1.4.13 Most of the new funding will be directed to WYCA in the first instance, with Leaders playing a central role as voting members of the Combined Authority in deciding how much of it should be allocated. In many cases the Council and Combined Authority will need to work in partnership as before to deliver against shared regional priorities. However, the Combined Authority will also be one of the Council's funders in a way it hasn't been previously – for example in adult education and skills, as a result of powers devolved from the Department for Education and the Education and Skills Funding Agency (ESFA).

1.4.14 This is the first West Yorkshire devolution deal and there may be opportunities to expand and consider the scope and model of devolved powers and funding in future deals. The Levelling-Up and Regeneration Bill is currently at the committee stage in the House of Commons. The Council may also want to consider further opportunities to bring services more closely together across West Yorkshire when they are aligned to priorities being agreed and pursued across that geography. There are likely to be opportunities both to further strengthen collaboration and to explore re-organising services to maximise use of the limited resources for all partners involved.

**COVID-19 and a new operating context**

1.4.15 COVID-19 fundamentally affected the way in which the Council works, and the spread of recent variants is a reminder that it continues to present a health challenge. Whilst the impact of COVID-19 on the Council's financial position in both 2020/21 and 2021/22 was significant, the Medium Term Financial Strategy published in September 2021 (for 2022/23-2026/27) had assumed that the economy would then recover to nearly pre-COVID levels in the early years of that Strategy. This expected recovery has clearly been affected by the current cost of living crisis and high levels of inflation, which are discussed further in **Paragraphs 1.4.2-1.4.3**.

1.4.16 It is assumed that the Council will not be required to incur specific additional expenditure relating to COVID-19 over the life of this Strategy. In addition, it is assumed that the majority of income realisable from sales, fees and charges returns to pre-COVID levels. As such, this Medium Term Financial Strategy document does not specifically provide for the ongoing impact of COVID-19. The Strategy does, however, allow for new trends relating to changing life/work practices as a result of the longer-term effects of the pandemic. The Strategy also makes some allowance for a loss of income from sales, fees and charges in light of the cost of living crisis.

**Health and Social Care**

1.4.17 **NHS Integration** – the Health & Care Bill was introduced into Parliament on 6th July 2021. The West Yorkshire Integrated Care Board went live on 1st April 2022 and is 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, improve people's health & wellbeing and reduce health inequalities. Details around future funding will become clearer later in the financial year and updates provided accordingly.

1.4.18 **Cost of Care –** in September 2021 Government announced £5.4bn of funding for adult social care reform over the next three years, to be funded by the new Health and Social Care Levy. The Spending Review 2021 confirmed that £1.7bn of this funding would be for major improvements across the wider adult social care system. Government published the “People at the Heart of Care: adult social care reform”4 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. There is £3.6bn earmarked to reform the Adult Social Care charging system and enable local authorities to move towards paying providers a Fair Cost of Care; of which £1.4bn is for Fair Cost of Care and £2.2bn is for the extension of the means test, the cap on care costs and implementation & additional assessments. Regarding distribution of the £2.2bn, the Department of Health and Social Care is currently consulting on the methodology. Consultation closes on 23rd of September 2022, with funding allocations hopefully being finalised as part of provisional Local Government Finance Settlement in December 2022. The proposals do not directly address the existing local government social care funding gap.

## 1.5 About Leeds: Socio-economic context

1.5.1 Leeds is a growing city with a population that continues to become more diverse in terms of age, countries of origin and ethnicity. Leeds has a large, urban core but, unlike many other cities, our administrative boundary includes a significant rural area, with villages and market towns.

1.5.2 During the two decades prior to the last global financial crisis, the city’s economy experienced significant growth, driven in large part by financial and business services. Leeds established itself as a vibrant, diverse and dynamic city, with a strong knowledge-based economy. Leeds recovered from the economic impact of the COVID-19 pandemic faster than many of its neighbours, but like everywhere else is currently being impacted by the cost of living crisis, not only in terms of the challenges to households, particularly those on the lowest incomes, but also the further pressure it applies to vital public service provision in terms of increased demand and costs.

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[4] People at the Heart of Care: adult social care reform - GOV.UK (www.gov.uk)

1.5.3 The current cost of living crisis is also further exacerbating more deep-rooted inequalities. Poverty and deprivation remain significant challenges. Despite very strong performance in job creation in recent years, low pay is a stubborn problem, with people caught in a loop of low pay, low skills and limited career progression. These challenges not only limit the opportunities for individuals, but hold back the economy, affect productivity, cause skills' shortages, and create additional costs for businesses and the public sector.

**Population**

1.5.4 Leeds has a population estimated at 812,000 (Census 2021), an increase of over 60,000 or 8% since the 2011 Census. Intelligence regarding the demand for services confirms sometimes very rapid demographic changes, particularly in our most deprived communities.

1.5.5 The city's population has continued to become more diverse since the 2011 Census, in terms of age, countries of origin and ethnicity. International immigration has been an important factor behind this change, with EU countries such as Romania, Poland, Italy, and Spain continuing to make up a significant proportion of new arrivals, as do countries from better-established migration routes from south Asia and parts of Africa. Uncertainty continues as to the precise impact of Brexit on patterns of international migration.

1.5.6 Drawing on GP records for insights into how our city is increasingly diverse, these show that the BAME population represents almost a third of all those registered in 2021. The most notable difference in registrations is in the significant growth in economic immigration from the EU over the last decade.

1.5.7 The Leeds birth rate increased rapidly from the early 2000s and plateaued at around 10,000 per annum for eight years until 2016, after which the number of births fell consecutively. However, early data from the Census 2021 suggests the child population is still growing at a faster rate than the population of Leeds as a whole, but the growth is now concentrated in secondary school-age groups. The wider increasing diversity in the city's population is reflected in our young people.

1.5.8 Accompanying this increasing diversity is the broader trend of the city's ageing population. As the baby-boomer generation grows older there will be a range of implications for service provision. With the 65+ age group continuing to expand, the distribution of the city's older population should also be considered. There are currently higher numbers of older people living in the city's outer areas, however this could change as the recent shifts in the composition and spatial concentration of the population work through, resulting in a far more ethnically diverse older population, with a greater concentration in the city's inner areas.

### Economy

1.5.9 Leeds is well established as the main driver of economic growth for the city-region, and has key strengths in financial and business services, advanced manufacturing, health, and creative and digital industries, with a strong knowledge-rich employment base. These strengths, linked to the city's universities and teaching hospitals, are major innovation assets for Leeds. Leeds has also performed well in terms of business start-ups in recent years, with significant growth in digital and medical technologies, telecoms and creative industries.

1.5.10 The pandemic has brought unprecedented changes, accelerating trends around digital transformation, remote working, and the shift from the high street to on-line retail. The extent to which these changes are sustained and develop remain uncertain. The initial impacts of COVID-19 restrictions were immediate and significant, with home-working, furlough and the changes in consumer patterns resulting in a major drop-off in economic activity in the city centre. Leeds was particularly affected in comparison with our neighbouring economic centres across the city-region, though in line with other Core Cities[5]. However, economic activity did increase significantly once restrictions eased, with data suggesting that Leeds' bounce-back has been faster than neighbouring localities.

1.5.11 The relative diversity of the Leeds economy has been a key asset in the city's resilience to economic shocks, with Leeds being able to retain its manufacturing strength as well as consolidate its position as a major centre for finance and business services. It is likely that this diversity will be a key factor as we continue to recover from the pandemic.

1.5.12 However, pre-COVID-19 there were some concerns around slowing growth and low productivity, with many new jobs offering relatively low-skilled, low-paid work in consumer services. Leeds is not alone in these trends, although Leeds does relatively well in terms of productivity per worker (GVA per head), perhaps a reflection of our significant knowledge-based economy, consistently being the strongest performing Core City after Bristol. Our economic output growth has only been mid-table in relation to Core Cities in recent years, a possible hangover from the 'great recession', since when key sectors - particularly in financial and business services - have faced prolonged challenges.

### Labour Market

1.5.13 While our economic output growth over the last decade has only been mid-table, the city fared better than some of its neighbours and other Core Cities during the pandemic. In June 2022, unemployment in Leeds stood at 23,000 (4.4%), compared to a high point of 37,000 (7%) in March 2021, though remains above pre-pandemic levels. This could reflect the current pessimistic macro-economic climate driven by the cost of living crisis

[5] The Core Cities comprise eleven UK major regional cities outside London: Belfast, Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield

1.5.14 Latest ONS data from the 2021 Annual Population Survey suggest that 408,000 people work in Leeds, of whom around three quarters are employed in the private sector, making Leeds one of the top cities nationally with a working population employed in the private sector. Indeed, Leeds has witnessed very strong private sector growth over the last decade.

**Deprivation**

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

1.5.16 The Index of Multiple Deprivation (IMD) 2019 confirms this divergence, with almost a quarter of Leeds' Lower Layer Super Output Areas (LSOAs – areas with populations of around 1,500 people) mainly in the inner east and inner south of the city, falling within the most deprived 10% nationally; but also showing significant areas of the city which are relatively affluent.

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

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

## 1.6 About Leeds City Council

**Leeds City Council and WYCA Mayoral Changes**

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

1.6.2 The City of Leeds has 33 wards, with each having three elected councillors, meaning that Full Council comprises of 99 councillors in total. Arriving as the result of an election, each councillor has a democratic mandate to represent the constituents living in their electoral ward. As a member of Council, they may be a member of the administration (the ruling group who have most seats) or a member of the opposition. The political party in administration in Leeds is the Labour Party, which holds 58 of the seats in Full Council.

1.6.3 The Local Government Act 2000 made provision for the adoption of executive arrangements by councils. In Leeds we have adopted the strong leader and cabinet model of executive arrangements. Under the strong leader model of governance, the public elect their councillors and the councillors elect their leader. A such the leader of Council is usually the leader of the controlling group in council. In 2021 Councillor James Lewis (Labour) was elected as Leader. In Leeds what legislation calls "cabinet" is known as Executive Board. Members are selected by the Leader. The tradition in Leeds has been to include opposition members in Executive Board to act as a "Critical friend" and challenge or test decisions.

1.6.4 All functions (powers and duties) of Local Authorities are divided between the Council and the Executive. Whilst the vast majority of functions will be an executive function under executive arrangements, some, as stated by legislation, will be specifically for Full Council. Council functions include approving the budget and the relevant policy framework, taking decisions that involve the weighing of evidence, and providing oversight and scrutiny.

1.6.5 Leeds City Council is responsible for providing all statutory local authority services in Leeds, except for those it provides in conjunction with other West Yorkshire Authorities, together with the West Yorkshire Combined Authority (which saw an election of a Metro Mayor in May 2021, bringing access to significant levels of additional funding for the region). This includes education, housing, planning, transport and highways, social services, libraries, leisure and recreation, waste collection, waste disposal, environmental health and revenue collection.

## 1.7 Our strategic ambitions

1.7.1 Our strategic ambitions to be the Best Council in the Best City in the UK provide the basis for the decisions we make on the services we provide and how best and where to allocate our resources, and thus for this Medium Term Financial Strategy. The socio-economic context and the influences explained above inform these ambitions and our priorities.

1.7.2 Our overall vision for the city is set out in the Best City Ambition which can be read in full here: Best City Ambition (leeds.gov.uk). At its heart is our mission to tackle poverty and inequality and improve quality of life for everyone who calls Leeds home. The Ambition is focused on improving outcomes across three 'pillars':

Health and Wellbeing, Inclusive Growth, and Zero Carbon. These pillars, and the areas of focus that cut across them all, capture the things that will make the biggest difference to improving people's lives in Leeds. The Best City Ambition aims to help partner organisations and local communities in every part of Leeds to understand and support the valuable contribution everyone can offer – no matter how big or small – to making Leeds the best city in the UK.

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

- Being open, honest and trusted
- Treating people fairly
- Spending money wisely
- Working as a team for Leeds
- Working with all communities

1.7.4 Helping deliver our ambitions are our core organisational strengths: strong place leadership, effective partnership working and commissioning, ongoing engagement with communities and individuals, asset-based approaches based on early intervention and prevention and making the best use of our resources. These resources include:

- Our **finances**: our *Medium Term Financial Strategy* is helping us become more financially sustainable and resilient, safeguarding public funds while achieving value for money. This will ensure we are well placed to respond to the significant funding uncertainties and pressures we face and to target our money to where it can make the most difference
- Our **people**: our *People Strategy* (available online here: People Strategy 2020 to 2025) sets out our ambition to be the best place to work, through exceptional employee experience, talented managers and leaders, and a culture underpinned by fairness, diversity and collaboration.
- Our **digital capabilities** play a central role in maximising the use of tools and technology to improve and transform the way the council works, provides services and engages with citizens.
- Our **land and buildings**: our Estate Management Strategy (available here: Estate Management Strategy 2021 to 2025) explains our vision and approach to managing the Council's land and buildings across the city, helping us deliver a modern, efficient, sustainable estate and workplaces that remain fit for purpose as the world continues to adapt to new ways – and places – of working.
- Our **evidence and insights**, drawn from listening to our citizens and effective use of data, help us identify and understand the challenges and opportunities

we face, assess progress in delivering our ambitions and priorities, and drive improvement.

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

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# Part 2: The Five Year Financial Plan

## 2.1 Introduction to Five Year Financial Plan

2.1.1 This document presents the updated MTFS position. The Five Year Plan needs seen in the context of the factors that have influenced and been taken account of in the development of this Medium Term Financial Strategy and which are detailed in Part 1 of this document.

2.1.2 This Plan takes account of the range of socio-economic conditions and the policy drivers that shape our Medium Term Financial Strategy. The plan incorporates international, national and regional influences which include: economic impacts, such as the cost of living crisis, the UK exiting the European Union; Government announcements on funding and policy, such as the latest Spending Review and Chancellor's statement, the Levelling Up White paper, Health and Social Care reform, and implementation of devolution across West Yorkshire; and the socio-economic context of the city, including demography, the national and local economy, the local labour market and impact of deprivation across the city.

2.1.3 In addition, the Five Year Financial Plan also incorporates the ambitions and priorities of the Council. The socio-economic conditions and the policy drivers that shape our Medium Term Financial Strategy that had been affected by COVID-19 are now also impacted by the current cost of living crisis, which has a major impact at all levels, international, national and local. It has also severely impacted upon the Council's operating environment both in terms of the demand for services and the level of resources available to the Council that support the delivery of services provided to the citizens of Leeds.

2.1.4 The Plan has also been shaped by the financial challenges it has had to overcome in the past, with a reduction in Government funding since 2010 and the financial challenge that is detailed in this document.

2.1.5 The Strategy for 2023/24 and 2024/25 was previously presented to Executive Board in February 2022, as part of the 2022/23 Revenue Budget and Council Tax Report. Since then, the gap for 2023/24 has widened, from £32.9m to £63.6m and the 2024/25 gap has widened from £25.0m to £37.8m. The majority of this increase is due to inflationary pressures, as demonstrated in **Table 2.1**. The table shows the updated position for the Medium Term Financial Strategy. In summary, the three year gap is now £123.6m and the five year gap is £182.6m.

Table 2.1: Summary Updated Medium Term Financial Strategy 2023/24-2027/28

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | **3 Year Total £m** | 2026/27 £m | 2027/28 £m | **5 Year Total £m** |
|---|---|---|---|---|---|---|---|
| Movement in Funding (Increase)/Decrease<br>Sections 2.2 to 2.4 | (8.623) | (9.893) | (18.627) | **(37.142)** | (14.429) | (18.329) | **(69.900)** |
| Inflation due to Cost of Living Crisis (Increase)/Decrease | 33.186 | 6.602 | 6.882 | **46.671** | 4.850 | 5.270 | **56.790** |
| Other Cost Pressures (Increase)/Decrease<br>Sections 2.5 to 2.8 | 62.156 | 46.599 | 38.179 | **146.933** | 40.658 | 41.925 | **229.516** |
| Savings Proposals (Increase)/Decrease<br>Section 2.9 | (23.107) | (5.546) | (4.181) | **(32.834)** | (0.850) | (0.150) | **(33.834)** |
| Updated Gap | 63.613 | 37.762 | 22.253 | **123.628** | 30.228 | 28.716 | **182.572** |

2.1.6 Part 2 of this Medium Term Financial Strategy provides the information regarding the resources available to the Council, including the forecasts and assumptions underpinning these resources and it also details the pressures that the Council faces during the period covered by this strategy.

## 2.2 Financial Resources

### Settlement Funding Assessment (SFA) and Changes in Local Funding

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

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

2.2.3 The business rates baseline and the tariff were also first set in 2013/14 based on the level of business rates collectable in an area and both are usually increased annually by CPI in line with the Small Business Rates Multiplier. The difference between total SFA and the sum of the business rates baseline and the tariff (known as baseline funding) is the amount the Council receives as Revenue Support Grant. Between 2013/14 and 2019/20 SFA was reduced every year and therefore, as the business rates baseline and tariff are fixed in real terms, this has meant that all these reductions in SFA have disproportionately reduced Revenue Support Grant. In 2020/21 both RSG and the business rates baseline increased by CPI (1.7%), however in 2021/22 only RSG was increased by CPI (0.6%), with the business rates baseline frozen because the Small Business Rates Multiplier was frozen to assist businesses during the COVID-19 crisis. Local authorities were compensated for any losses in income caused by the freezing of the business rates baseline separately by a specific grant.

2.2.4 **Table 2.2** shows SFA and the other sources of funding included in the Council's Net Revenue Budget. These are Council Tax income and Business Rates growth income and are discussed in further detail in **Section 2.3**.

2.2.5 Additionally, the Council receives specific grants from Government. Although these can be announced alongside the LGFS they do not form part of the SFA. Changes in the levels of specific grants receivable are discussed in more detail at **Section 2.3**.

2.2.6 Table 2.2 Estimated Level of Financial Resources

| | 2022/23 Final £m | 2023/24 Indicative £m | 2024/25 Indicative £m | 2025/26 Indicative £m | 2026/27 Indicative £m | 2027/28 Indicative £m |
|---|---|---|---|---|---|---|
| Revenue Support Grant | 29.3 | 29.3 | 26.1 | 22.9 | 19.6 | 16.2 |
| Business Rates Baseline | 158.4 | 158.4 | 161.6 | 164.8 | 168.1 | 171.5 |
| **Settlement Funding Assessment** | **187.7** | **187.7** | **187.7** | **187.7** | **187.7** | **187.7** |
| Net Cumulative Business Rates Growth | (4.7) | 2.2 | 5.4 | 9.5 | 12.4 | 15.3 |
| Business Rates Surplus/(Deficit) | (28.2) | (8.1) | 0.0 | 0.0 | 0.0 | 0.0 |
| Council Tax: Core | 327.4 | 340.4 | 354.3 | 368.9 | 384.0 | 399.6 |
| Council Tax: Adult Social Care Precept | 42.0 | 45.7 | 49.6 | 49.6 | 49.6 | 49.6 |
| Council Tax Surplus/(Deficit) | (2.2) | (7.0) | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net Revenue Budget** | **521.9** | **560.9** | **597.0** | **615.7** | **633.7** | **652.2** |
| **Change in Resources** | **86.7** | **39.0** | **36.1** | **18.7** | **18.0** | **18.5** |

2.2.7 The Council's Net Revenue Budget, as shown in **Table 2.2**, is the net funding requirement to be met by general government grant and from local funding - Business Rates and Council Tax income. It is calculated as the amount by which the Council's gross expenditure exceeds its income from sales, fees and charges, specific grants and contributions and from all other income sources for that particular year. This gap between gross income and gross expenditure is then partly met by SFA and Business Rates Growth. After taking account of any Collection Fund surplus or deficit brought forward from the previous year, any remaining gap is funded from Council Tax income – the Authority's 'Council Tax Requirement'. Each of these elements is discussed further in **Section 2.3**.

2.2.8 **Table 2.2** shows that the Net Revenue Budget for the Council is forecast to increase over the life of the Strategy, from £521.9m in 2022/23 to an estimated £652.2m in 2027/28. However, this overall increase includes the continued effect of the reductions in local funding that occurred during the COVID 19 pandemic, which impacts the Net Revenue Budget. As discussed in **Section 2.3**, it is not expected that local funding will return to pre-COVID levels until 2023/24.

2.2.9 Government can award additional grant funding to local authorities using ministerial discretion under Section 31 of the Local Government Act 2003. This mechanism has continued to be used in 2022/23 to mitigate the impact of COVID-19 on local funding primarily compensating the Council for the cost of Government mandated reliefs given to retail and leisure businesses in that year. Businesses were offered 50% relief up to a maximum of £110,000 per business nationally. This created uncertainty for local authorities in budgeting for the cost as businesses could decide where to claim this relief if they had more than one establishment. In Leeds it was estimated £10m would be claimed, however £17.3m was claimed in the city during 2022/23. The Leeds share of the additional deficit caused by this relief will be a cost to 2023/24 budget, however the Council will receive additional Section 31 grant to cover this cost in 2022/23 of £5.0m. It is proposed in this Strategy that this additional funding will be placed in a reserve to be applied in 2023/24 to meet the deficit from 2022/23 caused by the increased reliefs claimed.

## 2.3 Budget Assumptions

2.3.1 The Government's previous four-year funding settlement period ended in 2019/20 and was replaced by single-year settlements in 2020/21, 2021/22 and 2022/23. For 2023/24 and beyond, there is little clarity about the future of local government funding. The Spending Review published by the Government in early autumn 2021 covered the years 2022/23 to 2024/25 and initially it was indicated that the next Local Government Finance Settlement 2023/24 would cover the years 2023/24 and 2024/25, i.e. the rest of the Spending Review period. However, with there being a new administration in Government from September 2022, the prospect of this two-year Settlement is now in some doubt. The introduction of long anticipated reforms to the local government finance system, such as a Business Rates Baseline reset, the introduction of a new distributional scheme, known as the Fair Funding Review, and the introduction of 75% Business Rates Retention, are also now all highly uncertain. It is therefore not assumed that these reforms will be implemented during the period of this Strategy.

2.3.2 A Revaluation of all non-domestic properties for the purposes of business rates will be implemented in 2023/24. In theory the Government will adjust authorities' payments (top ups and tariffs) under the Business Rates Retention Scheme in order to ensure locally retained income from Business Rates are not affected by a Revaluation. However, experience of the 2017 Revaluation evidenced that these adjustments could allow some changes in retained income to be under-compensated. Unfortunately, it is not possible to estimate any such impact until December 2022 when the new draft ratings lists are published by the Valuation Office Agency for comments.

2.3.3 Changes in local funding, i.e. Business Rates Retention and Council Tax, are discussed in **Paragraphs 2.3.4 to 2.3.26**.

**Business Rates Retention**

2.3.4 The five West Yorkshire authorities, including Leeds, plus Harrogate and York, reformed the Leeds City Region Business Rates Pool in April 2021 after piloting 75% Business Rates Retention in the North and West Yorkshire Business Rates Pool previously. Returning to 50% retention pooling arrangements, the Leeds City Region Pool retains levy payments on growth which three member authorities would, outside the Pool, have paid to Government. These pooling arrangements will continue until 31st March 2023, at which time Harrogate will have to leave the Pool following local government re-organisation in North Yorkshire. The remaining Pool members will have the opportunity to re-apply and form a new Pool in 2023/24 at the discretion of the Secretary of State. Even if the Pool does not continue in 2023/24, Leeds City Council will have to pay the same levy payments only to Government instead of the Pool.

2.3.5 Assuming pooling arrangements continue in 2023/24, pooled levy payments are spent locally by a Joint Committee made up of representatives of the member local authorities. The Council is currently projected to contribute levy payments to the Pool of £1.1m in 2023/24, £1.3m in 2024/25, £1.7m in 2025/26, £2.0m in 2026/27 and £1.9m in 2027/28 based on current projections of income from the Business Rates Retention Scheme.

2.3.6 In the previous Strategy, in September 2021, it was assumed that 75% retention would be introduced in 2024/25. Given the lack of any other indication from the Government, and that the Business Rates Working Groups set up to develop the new system are only now meeting on an ad hoc and infrequent basis, this Strategy assumes the 50% Business Rates Retention Scheme will continue until the end of 2027/28.

2.3.7 In addition, the COVID-19 crisis has placed considerable strain on the Business Rates system and on the income that local authorities retain through the Business Rates Retention Scheme. Further to this, the continuing cost of living crisis and the economic downturn forecast later in the year by the Bank of England in August 2022 will undoubtedly exacerbate these trends in locally generated income. Areas of particularly high risk for the Council reflected in this Strategy include increases in provisions for non-collection (bad debts), the continuing shock to businesses resulting in a reduction in the tax base in the city and likely reduced growth in Gross Rates payable in future years.

2.3.8 The assumptions used to forecast business rates income in the Strategy are shown in **Table 2.3**.

Table 2.3 Assumptions used to forecast business rates income

| | 2022/23 Indicative | 2023/24 Indicative | 2024/25 Indicative | 2025/26 Indicative | 2026/27 Indicative | 2027/28 Indicative |
|---|---|---|---|---|---|---|
| Estimated immediate reduction in taxbase | -1.3% | - | - | - | - | |
| In-year growth in taxbase | 0.4% | 0.7% | 1.1% | 1.5% | 1.4% | 1.3% |
| Level of bad debts | -2.9% | -2.2% | -1.6% | -0.9% | -0.9% | 0.9% |
| Level of Empty Rates relief | -5.7% | 5.0% | 4.5% | -4.5% | -4.5% | 4.5% |
| Multiplier compensation factor | 2.4% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Level of retention | 50% | 50% | 50% | 50% | 50% | 50% |

2.3.9 The Budget for retained Business Rates income is set annually in January of the preceding financial year and this determines the precept transferred from the Collection Fund to the General Fund each year. Any shortfall in business rates income received in comparison with the budget set is carried through into the following year as a surplus or deficit. An estimate of any such surplus or deficit is also made in January in the year preceding that in which it is to impact the budget, known as the ‘declared deficit’. In addition to this, in 2023/24, the Council will have to fund the final one third of the declared business rates deficit from 2020/21, which was not funded by section 31 compensation grants for reliefs introduced in that year. This one third is £12.2m.

2.3.10 In January 2022, the Council’s share of the deficit declared for 2021/22 was £28.2m, £12.2m being the second instalment of the deficit from 2020/21 and £16.0m being the in-year deficit from 2021/22, largely caused by the 2021/22 extended Retail and Leisure and Childcare reliefs announced by the Government after the Council had set its 2021/22 Budget. However, between the £28.2m deficit being declared and the end of the financial year, collection of business rates improved dramatically as the city emerged from the pandemic lockdowns. Although the allowances for non-collection remained significantly higher than normal, at 4.5% compared to 0.9% pre-pandemic, this was a significant improvement and allowed the Council to reduce its bad debt provisions by £6.8m. Alongside this there was a reduction in the need for appeals provisions of £1.0m as the Valuation Office Agency settled a large number of appeals with no cost to the Council’s Collection Fund and an improvement in the Net Rates raised in the city of £0.2m. This meant that the 2022/23 Collection Fund opened with a balance £8.0m better than expected. This can be set against the £12.2m that has to be paid in 2023/24 for the final one-third instalment from the 2020/21 deficit.

2.3.11 In 2022/23 it is currently projected that there will be an in-year deficit of £3.9m, entirely caused by the extended Retail Relief for 2022/23 being in more demand in the city than forecast, as explained in **Paragraph 2.2.9**. This relief is, however, fully funded by Government through a Section 31 grant and the Council will receive £5.0m in excess Section 31 grant in 2022/23. It is proposed in this

Strategy that this funding be held in a reserve and be applied in 2023/24 to meet the cost of the additional deficit caused by the extended Retail Relief in 2022/23.

2.3.12 Therefore, taking into account the £12.2m deficit instalment from 2020/21, the £8.0m improvement in the position at the end of 2021/22, the £3.9m in-year deficit projected for 2022/23 and the £5.0m in additional section 31 grant funding to be applied in 2023/24, it is estimated that the deficit that effectively remains to be funded in 2023/24 will be £3.1m.

2.3.13 It is assumed that the in-year business rates income retained in 2024/25 to 2027/28 will be as budgeted and that therefore the Collection Fund will return to balance with no further deficits. At the time of writing the Council is not aware of any additional Government support in response to the impact of COVID-19 or the Cost of Living Crisis for businesses on business rates income, thus no further support is assumed in the Strategy from 2023/24. The cessation of extended Retail Relief will increase the budgeted income from Business Rates by £4.9m from 2023/24.

2.3.14 Based on the assumptions in **Table 2.3**, the Strategy assumes that budgeted in-year Business Rates income retained by the Authority in 2022/23 (£153.7m) will increase to £160.6m in 2023/24 (excluding the repayment of the 2020/21 deficit on the Collection Fund) as increased costs against this income caused by the pandemic, particularly bad debts and Empty Rate Relief, continue to reduce. In 2024/25 this recovery is assumed to continue with in-year retained Business Rates income rising to £167.0m. £174.4m in 2025/26, £180.5m in 2026/27 and £186.8m in 2027/28.

2.3.15 Taking account of the impact of the deficit carried forward and the three-year spread, the total budgeted income retained from the Business Rates Retention Scheme will increase from £125.6m in 2022/23 (supplemented by £32.1m of Section 31 grant funding for reliefs from 2021/22 held in reserve) to £152.5m in 2023/24, supplemented by £5.0m compensation for reliefs brought forward in reserve from 2022/23 (as detailed in paragraph 2.3.12) making a total of £157.5m of resources for 2023/24. In 2024/25 this is expected to significantly rise to £167.0m with the dropping out of the £12.2m deficit from 2020/21. Finally, the contribution of Business Rates to the Net Revenue Charge will increase to £174.4m in 2025/26, £180.5m in 2026/27 and £186.8m in in 2027/28.

2.3.16 Business Rates growth above the baseline represents the growth in retained Business Rates income achieved by the Authority since the start of the Retention Scheme in 2013/14. Originally Government stated that the growth achieved nationally would be pooled in 2020/21 and redistributed following the Fair Funding Review along with further reforms to the Retention Scheme, a process known as a ‘reset’. The reset has been repeatedly postponed due to Brexit and the COVID 19 crisis and now it is highly uncertain when it will take place. However, any estimation of the amount of growth to be distributed by any reset is almost impossible to estimate due to the volatility of Business Rates income since the pandemic. Therefore, this Strategy assumes that any effects of these processes will be revenue neutral.

2.3.17 In the years 2020/21 to 2022/23 increased risks around bad debts, Empty Rates Relief, continued reductions to the current tax base (the aggregate Rateable Value of all business premises in Leeds) and reduced in-year growth in future years due to the pandemic in 2020/21 more than reversed all the accumulated growth achieved since 2013/14. 2023/24 will see the return of growth above the baseline of £2.2m. Details of the underlying assumptions for each of the elements are given in **Table 2.3**. The net effect of these assumptions on growth above the baseline is detailed in **Table 2.4**.

Table 2.4: The net effect of losses on Business Rates growth above the baseline

| | 2023/24 Indicative | 2024/25 Indicative | 2025/26 Indicative | 2026/27 Indicative | 2027/28 Indicative |
|---|---|---|---|---|---|
| Leeds share of growth above the baseline | 49% | 49% | 49% | 49% | 49% |
| **Growth above baseline assumed in previous year (£m)** | **-4.7** | **2.2** | **5.4** | **9.5** | **12.4** |
| Reduction in current taxbase in 2022/23 (£m) | -2.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in cost of bad debt provisions (£m) | 1.0 | 1.2 | 1.2 | 0.0 | 0.0 |
| Change in cost of empty rate relief (£m) | 2.3 | 0.1 | 0.1 | 0.0 | 0.0 |
| In-year growth of business rates yield (£m) | 1.2 | 1.9 | 2.7 | 2.7 | 2.7 |
| Ending of expanded Retail Relief (£m) | 4.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other changes in the tax base (£m) | 0.3 | 0.0 | 0.1 | 0.2 | 0.2 |
| **Growth above baseline assumed in current year (£m)** | **2.2** | **5.4** | **9.5** | **12.4** | **15.3** |

2.3.18 The risks posed by appeals against the 2010 ratings list continue to reduce as the number of outstanding appeals is anticipated to reduce over the forthcoming months. The 2017 ratings list was introduced alongside a new appeals process and, before COVID-19, the number of appeals against this list had been much lower than the 2010 ratings list. During the pandemic a large number of appeals were received claiming the lockdowns should reduce Rateable Values, but Parliament legislated to ensure these appeals would not be successful. Going forward the 2017 ratings list will come to an end on 31st March 2023. The Strategy currently includes additional provisions for any appeals that may be received prior to the end of the list. After this time ratepayers will no longer be able to appeal their Rateable Values on the 2017 list. This will be closely monitored prior to the 2023/24 budget estimates being made.

2.3.19 There remain many uncertainties around the future of Business Rates Retention within the local government finance system. It is no longer clear whether the move to 75% retention will go ahead at all and if it does when this will happen and what further reforms will be required before its implementation. This Strategy therefore assumes that 50% retention will remain in place throughout the period covered. The timing and mechanism of any baseline reset remains uncertain, as does whether the Government will centralise any of the growth to be redistributed to local government to fund other initiatives.

2.3.20 The Government launched a ‘Call for Evidence’ on a fundamental review of the business rates system itself in 2020/21, the results of which include the promise of further reliefs for high street retail establishments and a move to three-yearly revaluations. The move to three-year revaluations will involve adjustments to the Business Rates Retention Scheme every year from 2023/24 which will mean that the Councils tariff will no longer remain constant in real terms. This adds another layer of complexity to the Business Rates Retention Scheme as it is not possible to quantify either the value of the new reliefs in Leeds or the impact of the revaluations.

**Council Tax**

2.3.21 This Medium Term Financial Strategy is written in the context of the cost of living crisis and a forecast economic downturn. As such, the Strategy assumes a slightly lower than average underlying growth in the taxbase (excluding the impact of Local Council Tax Support) in 2023/24 of 1.31% which will not recover to pre-pandemic levels until 2025/26 at a growth of 1.41%, as shown in **Table 2.5**. The taxbase is the number of Council Tax band D equivalent residential properties in the City of Leeds less any discounts and exemptions that have to be applied according to statute.

2.3.22 The Strategy further assumes that the number of Local Council Tax Support claimants will remain above average until 2025/26 in line with the forecast unemployment rate from the Office for Budget Responsibility. **Table 2.5** projects that unemployment, the main driver of working age claims for Council Tax Support, is expected to gradually fall from 4.8% in 2022/23 to 4.2% by 2025/26. The effect of the cost of living crisis on Local Council Tax Support claims will remain under review. Additionally, the Strategy assumes that collection rates will remain at 99% throughout the period to 2027/28, however this remains an area of high risk given the economic situation.

2.3.23 The Strategy projects that councils will be able to raise core Council Tax by 1.99% in 2023/24 and in future years. It is assumed there will be an additional precept for Adult Social Care of 1% in 2023/24 and 2024/25 in line with comments in the Spending Review 2021, alongside real terms increases in funding provided through government grants for Adult Social Care in 2023/24. Any increase above these assumptions would generate additional resources that could be used to contribute towards closing the estimated budget gap.

2.3.24 As with Business Rates, any shortfall or surplus between budgeted and actual Council Tax income is a cost or gain that must be carried forward to the following year. In 2020/21 Government made it mandatory for billing authorities to spread the cost of the declared deficit not funded by grant over three years. The final third of that deficit will therefore have to be funded from the 2023/24 Budget. For Leeds City Council this amounts to £4.5m. In 2022/23 it is estimated that there will also be an in-year deficit generated for Council Tax of £2.5m because of pressures on the collection rate in that year. The 2022/23 Budget for the Council assumed a collection rate of 99% however, this has had to be revised in-year to 98.5% creating the £2.5m in-year deficit which will also have to be funded in 2023/24. This makes a total projected deficit of £7.0m to be funded in 2023/24.

2.3.25 After 2023/24 it is assumed that actual income will be as budgeted and therefore no surplus or deficit is included.

2.3.26 Table 2.5 Assumptions used to forecast council tax income

| | **2022/23 %** | **2023/24 %** | **2024/25 %** | **2025/26 %** | **2026/27 %** | **2027/28 %** |
|---|---|---|---|---|---|---|
| Core increase to LCC precept | 1.99% | 1.99% | 1.99% | 1.99% | 1.99% | 1.99% |
| Underlying taxbase growth from previous year | 0.82% | 1.31% | 1.37% | 1.41% | 1.42% | 1.40% |
| Levels of Bad Debt | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| Unemployment assumptions impacting on levels of LCTS | 4.80% | 4.30% | 4.30% | 4.20% | 4.20% | 4.20% |

## 2.4 Other Funding Changes

2.4.1 The paragraphs below outline the key changes to other funding that the Council receives, summarised in **Table 2.6**, in addition to changes to the Settlement Funding Assessment and to local funding outlined above. In summary, funding is expected to increase by £37.1m over the three years to March 2026, and increase by a total of £69.9m over the five years of the Strategy.

Table 2.6: Summary of Funding Changes

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | **3 Year Total £m** | 2026/27 £m | 2027/28 £m | **5 Year Total £m** |
|---|---|---|---|---|---|---|---|
| Change in Resources due to Settlement Funding Assessment and Local Funding<br>Table 2.2 Paragraph 2.2.6 | (38.954) | (36.080) | (18.734) | **(93.768)** | (17.987) | (18.480) | **(130.235)** |
| Specific Grant Funding Changes<br>Paragraphs 2.4.2 to 2.4.16 | 22.101 | 6.745 | 0.589 | **29.435** | (0.343) | (0.721) | **28.371** |
| Other Changes in Resources<br>Paragraph 2.4.17 | 0.296 | 0.084 | 0.633 | **1.013** | 0.000 | 0.000 | **1.013** |
| Movement on use of Reserves<br>Paragraphs 2.4.18 to 2.4.22 | 7.935 | 19.358 | (1.115) | **26.178** | 3.901 | 0.872 | **30.951** |
| Total Funding Changes | (8.623) | (9.893) | (18.627) | **(37.142)** | (14.429) | (18.329) | **(69.900)** |

**Specific Grant Funding Changes - New Homes Bonus**

2.4.2 Since 2011/12, the Council has received New Homes Bonus, an incentive grant based on housing growth. In 2018/19, the Government announced their intention to review the operation of the Bonus to better align the scheme with local authorities' performance in meeting local housing demand beyond 2019/20. No further detail has yet been provided and the existing scheme was simply rolled forward in 2020/21 and 2021/22. Consequently, this Strategy assumes that the one further payment for new housing growth will continue in 2022/23 although this will not be confirmed until the Provisional Local Government Finance Settlement is received in December 2022. From 2023/24 it is assumed there will be no further payment of New Homes Bonus for the rest of the period of this Strategy.

2.4.3 The income from New Homes Bonus in 2023/24 is currently projected to be zero, £2.2m below the level budgeted for in 2022/23 as the final year of payment for new housing growth drops out of the system.

**Specific Grant Funding Changes – Adult Social Care**

2.4.4 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. These allocations were included in the 2022/23 Budget and have been rolled forward in the Strategy for 2023/24 and beyond.

2.4.5 As a part of the 2022/23 final Local Government Finance Settlement the Government introduced a new grant, Market Sustainability and Fair Cost of Care Fund, with a national allocation of £162m in 2022/23. The Leeds share of this was £2.2m. In 2023/24 and for the next two years a further £600m will be made available (each year). The Leeds share of this is estimated to be £8.2m, an increase of £6.0m on the 2022/23 allocation. It is assumed that the funding will continue for the life of the Strategy as the Government continue to support the reform of social care. The funding is part of the Council's Core Spending Power and relates to the Government's planned reforms of the social care system. It is therefore expected that it will fund new burdens arising from the new duties the Council will have to undertake. As such it is expected to be neutral to the Council overall, with the expenditure being shown **in Paragraph 2.5.23** of this report.

2.4.6 The Strategy also includes an inflationary increase of £1.1m for the improved Better Care Fund, reflecting inflationary rises in 2022/23 (not previously budgeted for) and 2023/24.

2.4.7 The Strategy continues to assume Council's will be able to raise an Adult Social Care Precept in 2023/24 and 2024/25. This is reflected in the Council Tax section at **Paragraph 2.3.23**.

**Specific Grant Funding Changes – Children and Families**

2.4.8 As discussed at **Paragraph 2.4.4**, 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 continuation 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 budget accordingly. These allocations were included in the 2022/23 Budget and have been rolled forward in the Strategy for 2023/24 and beyond.

2.4.9 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 funding and the fallout of this grant in 2024/25 are reflected in the Strategy.

2.4.10 As such, the Medium Term Financial Strategy assumes no increase in Children's Social Care grant resources over the period 2023/24 to 2027/28 and reflects the fallout of the £1.6m per annum Strengthening Families grant in 2024/25.

**Specific Grant Funding Changes – Communities, Housing and Environment**

2.4.11 The Housing Benefit and Local Council Tax Support Administration Subsidy grants are anticipated to continue to reduce by a further £1.162m over the period of the Strategy up to 2025/26. This reflects the continuing reductions in the national quantum of funding allocated to Local Authorities. These are indicative assessments at this stage as the final allocations for 2023/24 will not be made until late 2022/early 2023. No other grant funding changes are assumed.

**Specific Grant Funding Changes – Section 31 grants**

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

2.4.13 Government has awarded local authorities funding to meet the cost of the increased Business Rates reliefs, as discussed at **Paragraph 2.2.9**, although this was at a much lower level than in 2021/22. Section 31 grant of £5.0m will be held in reserve by the Council and carried forward to be applied to the Business Rates deficit in 2023/24, which is £27.1m lower than was applied in 2022/23. It has been assumed that this is a one-off grant, falling out completely in 2023/24.

2.4.14 In 2023/24 it is projected that Government will continue to compensate councils for historic changes to reliefs and capping of the multiplier. Historically, the Government has placed a cap on the annual increase in the multiplier of less than RPI. The Government has then compensated authorities for all losses that have been incurred up to the full RPI rate. However, with the rate of RPI being currently 12.3% (July 2022) and CPI being currently 10.1% (July 2022) it is uncertain if this will happen again. It would pose a serious risk to the Strategy if this compensation were assumed to be received and subsequently it was not (compensation even to CPI would result in an additional £17m in funding to the Council). The Strategy therefore does not assume any further income beyond the continuation of historic compensation. It is therefore estimated that the compensation for the multiplier cap in 2023/24 will reduce by £0.5m. However, should increases in the multiplier cap be more akin to the current levels of RPI/CPI, the additional resource realised will contribute towards addressing the estimated budget gaps detailed in this report.

2.4.15 It is assumed that extended Retail Relief offered to businesses in 2022/23 will not be continued in 2023/24. Therefore, the Section 31 grant received for Retail Relief in 2022/23 will also fall out of the Council's budget in 2023/24. This represents a further reduction in Section 31 grant funding of £4.5m for 2023/24. The total reduction in Section 31 grant funding for 2023/24 is therefore £4.9m. After 2023/24 it is projected that Section 31 grant relief funding will increase by £1m in 2024/25 and £0.6m in each of the years between 2025/26 and 2027/28.

**Other Funding Changes – Strategic Accounts**

2.4.16 Local authorities pay a levy on Business Rates growth, either to the Government or to a local Pooling arrangement where one exists, as discussed in paragraph 2.3.4. It is estimated that levy payments will increase from £0.9m in 2022/23 to £1.1m in 2023/24, £1.3m in 2024/25, £1.7m in 2025/26, £2.0m in 2026/27 and £1.9m in 2027/28. Should 75% retention be introduced during the period of this Strategy, it is thought that the levy calculation will be reformed and only applied to 'extraordinary' Business Rates growth, however this has not yet been defined by Government.

**Other Changes in Resources**

2.4.17 In February 2021, the Secretary of State announced, alongside the Local Government Finance Settlement, the continuation of the capital receipts flexibility programme for a further three years, to give local authorities the continued freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings. In 2022/23, additional planned expenditure of £7.1m relating to transformational work that meets these criteria was funded through the

Government's flexible use of capital receipts regulations. In 2023/24 and 2024/25 the Strategy reflects the part-fallout of this resource, £0.3m and £0.1m respectively.

**Movement on the use of reserves**

2.4.18 The opening General Reserve position in 2022/23 stood at £33.2m with the opening position for 2023/24 estimated to be £33.2m also, reflecting no budgeted contribution to this reserve in 2022/23. This Medium Term Financial Strategy incorporates a base budget increase of £3.0m in 2023/24. As such a £3m contribution in every subsequent year of the Strategy is assumed, giving a projected General Reserves position of £48.2m at 31st March 2028. The impact of these assumptions on the level of General Reserve over the life of the Strategy is discussed in Part 3 of this Strategy document.

2.4.19 The opening General Fund earmarked reserves for 2022/23 stood at £143.4m. This total includes £37.5m of Strategic Contingency Reserve, which was established in 2020/21 to fund future unforeseen budget pressures and to ensure the Council becoming more financially resilient. The 2022/23 budget assumes a net use of £6.6m from this reserve and there are currently in year commitments of £2.3m relating to funding COVID Backlog Recovery, so that £28.6m remains available. This Strategy proposes use of a further £15m in 2023/24 to support the Authority to deliver a balanced budget in that year, dependent on the approval of Full Council at the 2023/24 Budget meeting.

2.4.20 The 2021/22 approved budget allowed for the creation of an earmarked reserve for COVID pressures. £3.5m has been carried forward into 2022/23 but it is anticipated that this will be used in full in the current year to fund specific ongoing effects of COVID. The MTFS reflects the use and fallout of this reserve.

2.4.21 An Energy Contingency reserve was also established in the 2021/22 approved budget to provide contingency funding should energy costs exceed provision in the budget - £1.1m was carried forward into 2022/23 and a further £2.8m has been added so that the reserve currently stands at £3.9m. The MTFS assumes that this contingency will be used in full in 2022/23, reflecting the significant inflationary pressures expected with regard to the cost of energy. This MTFS reflects the fallout of contributions to this reserve.

2.4.22 Movements across the range of earmarked reserves provide for a net increased pressure of £28.0m on the General Fund over the life of the Strategy. The increased pressure includes net fallout of £15m relating to use of the Strategic Contingency Reserve, £5m fallout of use of Adults and Health reserves and £4m relating to use of the COVID reserve, £7m relating to Financial Sustainability measures: provision for Strategic Resilience (£4m) and provisions for Insurance and MMI (£3m), which are discussed in more detail in **Section 2.8**. This is netted down by the fallout of contributions to ring-fenced reserves budgeted in 2022/23 but removed in 2023/24 including £3m relating to the Energy Contingency Reserve.

## 2.5 Budget Pressures

2.5.1 **Table 2.7** summarises the cost pressures identified as part of the Strategy for 2023/24 to 2027/28. Given the impact of pay and price pressures upon the Council's financial position these have been shown as either "Inflationary Pressures" or "Non-Inflationary Pressures" in order to separately identify the impact of inflation in addition to the other pressures noted.

Table 2.7: Summary of Cost Pressures

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | **3 Year Total £m** | 2026/27 £m | 2027/28 £m | **5 Year Total £m** |
|---|---|---|---|---|---|---|---|
| Inflationary Pressures: | | | | | | | |
| Pay Award and the Leeds Living Wage | 10.263 | 9.113 | 10.601 | **29.977** | 11.213 | 11.469 | **52.659** |
| National Living Wage for Commissioned Services | 18.443 | 18.719 | 19.532 | **56.694** | 21.090 | 22.815 | **100.599** |
| Energy | 10.699 | 0.063 | 1.170 | **11.932** | 1.239 | 1.305 | **14.476** |
| Fuel | 1.645 | 0.095 | 0.116 | **1.855** | 0.121 | 0.123 | **2.100** |
| Other General Price Inflation | 20.842 | 6.444 | 5.597 | **32.883** | 3.490 | 3.841 | **40.214** |
| Paragraphs 2.5.2-2.5.9 | | | | | | | |
| Non-Inflationary Pressures: | | | | | | | |
| Employers Local Government Pensions Contributions | 0.000 | 0.000 | 0.000 | **0.000** | 0.000 | 0.000 | **0.000** |
| Severance & Capitalised Pension costs | (0.776) | (0.563) | (1.806) | **(3.144)** | (4.473) | (0.220) | **(7.838)** |
| Demand and Demography | 4.107 | 5.802 | 4.421 | **14.330** | 4.410 | 3.758 | **22.498** |
| Income Pressures | 1.190 | (0.330) | (0.150) | **0.710** | 0.950 | (0.100) | **1.560** |
| COVID-19 | (5.845) | 0.000 | 0.000 | **(5.845)** | 0.000 | 0.000 | **(5.845)** |
| Other Cost Pressures | 23.588 | 12.820 | 0.195 | **36.602** | 0.167 | 2.327 | **39.097** |
| Debt | 11.186 | 1.038 | 5.385 | **17.609** | 7.301 | 1.876 | **26.786** |
| Paragraphs 2.5.10 to 2.6 | | | | | | | |
| Total Funding Changes | 95.342 | 53.201 | 45.061 | **193.604** | 45.507 | 47.195 | **286.306** |

### Inflationary pressures

2.5.2 **Pay Award and the Leeds Living Wage**: At the time of writing this Strategy, agreement had not been reached between the National Employers and Trade Unions regarding the 2022/23 Pay Award. The Final Offer from the National Employers was a pay increase of £1,925 for all NJC and JNC staff which will be required to be funded by the Council. Further, the offer included an additional day's leave from 1st April 2023/24 for NJC staff, which has implications for incoming earning roles and those roles which would require shift cover. In response to this offer, the Trade Unions are consulting with members on whether it should be accepted or rejected. A response from the Unions, as a result of these consultations, is expected in late October.

2.5.3 The financial position in this Strategy does not make assumptions about the Pay Award for 2022/23 or beyond. Instead, the position shown makes provision of £52.7m for the costs of 2% annual pay awards for both NJC and JNC staff for the period covered by the Medium Term Financial Strategy. The Strategy also assumes that increases in the Real Living Wage will remain consistent with the current differential (59p per hour) with estimated National Minimum Wage levels.

2.5.4 As such the impact of the 2022/23 Employer Pay Offer is not shown in the summary of cost pressures at **Table 2.7**, but if agreed would cause a significant budget pressure in the Strategy. The estimated impact on the Council's financial position is shown in **Table 2.8** – the figures assume a 4% pay increase in 2023/24 and later years. It should be noted that every increase of 1% equates to a cost to the Council of around £4.0m.

Table 2.8: Additional pressure due to Employers Offer on Pay Award

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | **3 Year Total £m** | 2026/27 £m | 2027/28 £m | **5 Year Total £m** |
|---|---|---|---|---|---|---|---|
| Estimated impact in 2023/24 of £1,925 Pay Award in 2022/23 | 19.473 | 0.000 | 0.000 | **19.473** | 0.000 | 0.000 | **19.473** |
| Estimated later year impact of Pay Award and ongoing inflation | 9.905 | 11.608 | 12.850 | **34.363** | 13.101 | 13.891 | **61.355** |
| Estimated impact of Extra Day's Leave from 2023/24 | 0.920 | | | **0.920** | | | **0.920** |
| Total Funding Changes | 30.298 | 11.608 | 12.850 | **54.756** | 13.101 | 13.891 | **81.748** |

**National Living Wage for Commissioned Services**: In respect of services commissioned from external providers, provision has been made for £18.4m in 2023/24, £18.7m in 2024/25 and £19.5m in 2025/26. As such over the first three years of the Strategy, provision is made of £56.7m for this area of work. The remaining two years of the Strategy are estimated to require over £21.1m and £22.8m, meaning that the five year Strategy makes a total provision of £100.6m for Commissioned Services. The majority of this sits in the Adults and Health Directorate, with £0.6m per annum provided for in the Children and Families Directorate.

2.5.5 The increased costs in the Adults and Health Directorate reflect an estimated Real Living Wage rate of £10.50/hour and a further 40p/hour for Homecare in 2023/24 and for future increases in Real Living Wage. The Strategy also provides for projected National Living Wage increases. The increased costs associated with both paying our staff the Real Living Wage and encouraging the services we commission to pay their staff the National Minimum Wage, have been resourced by the Council without any additional funding from the Government.

2.5.6 **Energy:** The previous Strategy made an allowance for 5% inflation each year for the life of the Strategy. For this Financial Strategy 2023/24 – 2027/28 these assumptions have been reviewed and reflect revised inflation assumptions. A significant increase is estimated in 2023/24 where the cost of energy is estimated to be £10.7m higher than in 2022/23. The estimated cost of energy is then expected to stabilise over the remaining years of the Strategy. In total, the Strategy allows for £14.5m of energy inflation over the five year span.

2.5.7 **Fuel:** In recent years the Strategy has not allowed for inflation on fuel. However, reflecting increasing fuel prices, £1.6m is provided in 2023/24. This in part provides for increased prices in 2022/23, to reset the base budget in 2023/24 to 2022/23 prices. In subsequent years the Strategy assumes that inflation will fall in line with Office for Budget Responsibility forecasts and makes provision for increases of around £0.1m per annum. Over the life of the Strategy total additional provision of £2.1m is provided.

2.5.8 **Other general inflation:** In recent years, the Strategy has not provided for general price inflation, reflecting prevailing low rates of inflation, and the only inflationary allowance have been made where there is a contractual commitment. Whilst this can vary from contract to contract, it is often index linked to CPI or RPI which are both forecast to be high in 2022 (September forecast for CPI is 7.48% and RPI is 9.95%). Where PFI schemes are linked to CPI or RPI the Council will need to provide for the increase accordingly. Due to the significant inflationary pressures in the economy this Strategy also makes allowance for general price inflation in 2023/24. In summary, in 2023/24 contract and general inflation of £20.8m is provided for as follows: Adults and Health £5.0m, Children and Families £8.3m, City Development £3.6m, Communities, Housing and Environment £2.3m and Resources £1.7m. As inflation is expected to return to more normal levels over time, the Strategy reflects this, reducing to £6.4m Council-wide in 2024/25 and to £3.8m by the fifth and final year.

2.5.9 The Strategy has assumed an inflationary uplift on fees and charges where it was considered they could be borne by the market. However, given the significant financial pressures faced by the Council, proposed levels of fees and charges are currently being reviewed to identify potential to increase income.

**Non-inflationary budget pressures**

2.5.10 The Financial Strategy makes allowance for non-inflationary pressures, and these are summarised below.

**Employers Local Government Pensions Contributions**

2.5.11 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 1st April 2020 and remain unchanged for three years. The previous Strategy reflected concerns that the COVID-19 pandemic might impact the Pension Fund adversely both by affecting return on investments and by changing the profile of membership of the Fund. Therefore, it was assumed that there would be a short-term increase in the employer's contribution to 16.1% in 2022/23 and a return to 15.9% in 2023/24. This increase was reversed at the time of the 2022/23 budget as these concerns did not appear to be materialising. Recent investment performance has been strong, with no additional pressure assumed in the current Strategy. However, we will continue to review this position in discussion with the actuaries as current inflationary pressures do present a risk to equity markets.

**Early Leavers Initiative – Fall-out of capitalised pension costs**

2.5.12 The fall-out of capitalised pension costs associated with staff who have left the Council under the Early Leavers Initiative (ELI) will save an estimated £0.8m in 2023/24, reducing over the life of the Strategy to £0.2m in 2027/28.

**Demand and Demography**

2.5.13 The Medium Term Financial Strategy recognises the increasing demography and consequential demand pressures for services in Adult Social Care, Children and Families services and Waste services, with £22.5m being provided over the five years up to 2027/28 as shown in **Table 2.9**.

Table 2.9 Demand & Demography

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m | Total £m |
|---|---|---|---|---|---|---|
| **Adults & Health** | 2.31 | 4.03 | 2.87 | 3.10 | 3.35 | 15.67 |
| **Children & Families** | 1.59 | 1.56 | 1.04 | 1.09 | 0.18 | 5.45 |
| **Communities, Housing & Environment** | 0.21 | 0.21 | 0.51 | 0.22 | 0.22 | 1.38 |
| | **4.11** | **5.80** | **4.42** | **4.41** | **3.76** | **22.50** |

2.5.14 Within Adults and Health, the population growth forecast assumes a steady increase from 2020 in the number of people aged 85+ between 2021 and 2026. These increases of 0.9%, 1.2%, 0.9%, 1.2% and 1% respectively result in additional costs for domiciliary care and care home placements. In addition, the Medium Term Financial Strategy reflects the anticipated impact of increasing cash personal budgets through to 2025. The Learning Disability demography is expected to grow by 1.02% (based on ONS data) over the period. It should be noted that the high cost increase in this area of service is primarily a combination of increasingly complex (and costly) packages for those entering adult care, as well as meeting the costs of the increasing need for existing clients whose packages may last a lifetime. The Strategy provides £2.3m for 2023/24 financial year to deal with this demand and demographic growth, £15.7m in total across the years of the Strategy.

2.5.15 Children and Families continues to face demographic and demand pressures due to several different factors. Birth rates were relatively high in previous years, particularly within the most deprived clusters in the city. Although the birth rate has now reduced, the population peak is now moving through to adolescents, who can require more complex and therefore costly placements.

2.5.16 The main drivers of demand pressures are well documented nationally and locally. The demand for Children and Families services are significantly influenced by the Covid-19 pandemic. The pandemic has had a huge impact on the communities of Leeds with those most vulnerable significantly affected in terms of their health and well-being as well as their economic circumstances. This has also led to an increased need for children's social care. Other specific drivers of demand pressures include an increasing population of children and young people with special and very complex needs, greater awareness of the risks of child sexual exploitation, grooming by criminal gangs, levels of domestic abuse, misuse of drugs and alcohol, levels of poverty and a children's home sector that requires rebuilding from the perspective of children's needs rather than financial incentive.

2.5.17 There are also growing expectations of families and carers in terms of services offered and the impact of Government legislation, including 'staying put' arrangements that enable young people to remain with their carers up to the age of 21.

2.5.18 As a result of these trends, CLA numbers nationally and in Leeds continue to increase. This trend is expected to continue and has been built into the Strategy. Consequently, the Medium Term Financial Strategy provides £5.454m in total over the next five years for the projected demand in the CLA and financially supported non-CLA budget, excluding inflation. £1.588m of the increase is in 2023/24. In subsequent years, the increase each year is between £0.2m and £1.6m.

2.5.19 As a result of further demand pressures due to assumed household growth, provision of £0.2m has been made in each year of the Strategy for the increased disposal costs of waste to the Recycling and Energy Recovery Facility (RERF). In addition, periodically household growth can require that a new route is provided, the Strategy makes provision for £0.3m for this in 2025/26.

**Income Pressures**

2.5.20 Over its life, the Strategy provides for additional income pressures relating to the following: loss of car parking income (£1.3m); loss of fee income due to the reduction of asset sales (£0.3m); local land charges (£0.3m). This is part-balanced by small increases in income reflecting the planned Elections schedule (£0.1m) and schools catering income (£0.1m).

**COVID-19 Pressures**

2.5.21 The impact of COVID-19 on the Council's budget in recent years was significant and has been reported through to the Council's Executive Board accordingly. However, the Council's Medium Term Financial Strategy 2022/23-2026/27 (published in September 2021) assumed that the economy would recover to nearly pre-COVID levels and in accordance with the Government's current assumptions it does not provide any provision for any ongoing impact of COVID-19, but does reflect the 2023/24 fallout of pressures funded in 2022/23 (£5.8m).

2.5.22 If COVID-19 continues to have an impact on the Council's revenue budget, and no additional Government support is forthcoming, then the impact will need to be managed within the Council's approved budget.

**Other pressures**

2.5.23 Over the life of the Medium Term Financial Strategy 2023/24-2027/28 other cost pressures amount to £39.1m, £23m of which relates to reduced reliance on capitalisation and internal charging arrangements. This is further discussed at **Section 2.8**. Other significant variances over the life of the Strategy include: Expenditure of £6m funded through the Fair Cost of Care in Adults and Health, as noted in Paragraph 2.4.5; SEND Transport pressures of £2.3m in Children and Families; and £5.2m in Communities, Housing and Environment which largely reflects a £2m reduction in Benefits overpayment income which is as result of the continued roll out of Universal Credit, Grounds Maintenance costs for the City's parks £1.0m and the cessation in 2027/28 of the seven year reduction in the Waste Management PFI unitary charge (£2.2m). These other pressures, analysed by Directorate, are included in **Table 2.10** below:

Table 2.10 Other Pressures

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m | Total £m |
|---|---|---|---|---|---|---|
| **Adults & Health** | 6.06 | 0.01 | 0.01 | 0.01 | 0.02 | 6.12 |
| **Children & Families** | 2.99 | 0.07 | (0.98) | 0.02 | 0.02 | 2.13 |
| **City Development** | 0.96 | (3.58) | 0.05 | 0.02 | 0.02 | (2.54) |
| **Communities, Housing & Environment** | 2.03 | 1.18 | 1.02 | 0.02 | 2.23 | 6.48 |
| **Resources** | 1.55 | 0.14 | 0.08 | 0.09 | 0.05 | 1.90 |
| **Strategic Accounts** | 10.00 | 15.00 | 0.00 | 0.00 | 0.00 | 25.00 |
| | **23.59** | **12.82** | **0.19** | **0.17** | **2.33** | **39.10** |

## 2.6 Debt

2.6.1 Over the life of the Strategy, additional provision of £26.78m is required to service debt over the life of the Strategy as detailed in **Table 2.11**. Of this, £9.02m relates to the net requirement to increase the level of budgetary provision for MRP as detailed in **Table 2.12**. PFI related provision in **Table 2.11** covers the use of capital receipts to fund PFI liabilities including MRP on these arrangements, together with a provision for the impact of the capitalisation of PFI lifecycle costs.

The increase in core treasury provision includes several elements such as external interest payable, offset by costs rechargeable to Departments for departmentally determined schemes. This provision also includes a number of other distinct headings such as interest payable to or receivable from the HRA for its debt costs and use of its revenue balances, brokerage and external interest receivable. The provision for core treasury amounts to an additional provision of £16.68m within a total increase of £26.78m. The most significant factor within this for 2023/24 is the anticipated increase in external interest costs being provided for.

Table 2.11 Provision for Debt

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m |
|---|---|---|---|---|---|
| Core Treasury | 6.19 | 2.54 | 7.59 | (0.46) | 0.82 |
| MRP | 2.64 | 0.65 | 0.20 | 3.63 | 1.90 |
| PFI related | 2.36 | (2.16) | (2.41) | 4.14 | (0.85) |
| | **11.19** | **1.03** | **5.38** | **7.31** | **1.87** |

The following table shows the gross MRP and external interest payable by the General Fund included within the MTFS but does not include any interest or voluntary set aside payable by the HRA.

Table 2.12 Minimum Revenue Provision and External Interest

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m |
|---|---|---|---|---|---|
| Gross MRP | 64.71 | 65.36 | 65.56 | 69.19 | 71.09 |
| External Interest - General Fund | 60.03 | 60.67 | 62.28 | 62.99 | 63.11 |

## 2.7 Summary of resources and estimated pressures

2.7.1 After taking account of changes to the Settlement Funding Assessment, changes in local funding plus other cost and funding changes as outlined above, but before savings agreed to date, there is a requirement to deliver £156.5m of savings in the three years 2023/24-2025/26 and £216.4m of savings over the full five period covered by the Medium Term Financial Strategy. The scale of the overall savings requirement needs to be considered in the context of the Council's current budget: gross General Fund budget of £1,601.8m and net budget of £521.9m in 2022/23.

2.7.2 **Table 2.13** summarises the estimated change in local funding such as Council tax, Business Rates, grant funding use to support expenditure, and estimates of pressures, that have been made to the 2023/24 to 2027/28 Medium Term Financial Strategy as detailed in **Sections 2.2 – 2.6**.

Table 2.13 Estimated Budget Gap (including Financial Sustainability Measures)

| 2023/24 TO 2027/28 PROJECTIONS | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m | Total £m |
|---|---|---|---|---|---|---|
| Settlement Funding Assessment | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Changes in Local Funding | (38.954) | (36.080) | (18.734) | (17.987) | (18.480) | (130.235) |
| Change in contribution to/(from) General Reserve | 3.000 | 0.000 | 0.000 | 0.000 | 0.000 | 3.000 |
| Change in contribution to/(from) Earmarked Reserves | 4.935 | 19.358 | (1.115) | 3.901 | 0.872 | 27.951 |
| COVID-19 Grants | 27.150 | 0.000 | 0.000 | 0.000 | 0.000 | 27.150 |
| Other Changes in Specific Grant | (6.908) | 4.237 | 0.782 | 0.000 | 0.000 | (1.889) |
| Changes in S31 grants | 1.858 | 2.508 | (0.193) | (0.343) | (0.721) | 3.109 |
| Change in other resources | 0.296 | 0.084 | 0.633 | 0.000 | 0.000 | 1.013 |
| **Decrease/(Increase) in Funding** | **(8.623)** | **(9.893)** | **(18.627)** | **(14.429)** | **(18.329)** | **(69.900)** |
| Inflation Energy | 10.699 | 0.063 | 1.170 | 1.239 | 1.305 | 14.476 |
| Inflation Fuel | 1.645 | 0.095 | 0.116 | 0.121 | 0.123 | 2.100 |
| Inflation Other | 20.842 | 6.444 | 5.597 | 3.490 | 3.841 | 40.214 |
| Employer's LGPS contribution | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Pay Award including Living Wage | 10.263 | 9.113 | 10.601 | 11.213 | 11.469 | 52.659 |
| Severance & Capitalised Pension costs | (0.776) | (0.563) | (1.806) | (4.473) | (0.220) | (7.838) |
| NLW Commissioned Services and Ethical Care Charter | 18.443 | 18.719 | 19.532 | 21.090 | 22.815 | 100.599 |
| Demand and Demography | 4.107 | 5.802 | 4.421 | 4.410 | 3.758 | 22.498 |
| Income pressures | 1.190 | (0.330) | (0.150) | 0.950 | (0.100) | 1.560 |
| COVID-19 Pressures in 2022/23 (fall out) | (5.845) | 0.000 | 0.000 | 0.000 | 0.000 | (5.845) |
| Other pressures/savings | 23.588 | 12.820 | 0.195 | 0.167 | 2.327 | 39.097 |
| Debt - external interest/Minimum Revenue Provision | 11.186 | 1.038 | 5.385 | 7.301 | 1.876 | 26.786 |
| **Projected Cost Increases** | **95.342** | **53.201** | **45.061** | **45.507** | **47.195** | **286.306** |
| **Total Cost and Funding Changes** | **86.720** | **43.308** | **26.434** | **31.078** | **28.866** | **216.406** |

## 2.8 Medium Term Financial Sustainability Measures

2.8.1 This MTFS continues the journey that commenced in 2019, and which was detailed in the Revenue Budget Update report to October's Executive Board in 2019, whereby the Council's revenue budget becomes more financially robust, resilient and sustainable by moving away from the use of one-off sources of funding such as capital receipts and reserves to fund recurring expenditure. Subsequently the MTFS 2022/23 – 2026/27 and the Annual Revenue Budget report 2022/23, received in September 2021 and February 2022 Executive Boards respectively, further embedded the requirement to make the Council's revenue budget affordable and sustainable.

2.8.2 This 2023/24 to 2027/28 Strategy reflects the requirement to make the Council's financial position more resilient with the inclusion of ongoing planned budgeted contributions to the General Reserve. Further to this, the Strategy provides for a reduction in both the reliance on the capitalisation of revenue expenditure and reduction in the extent to which internal charging mechanisms are used in the Council's revenue budget, where the application of internal charging is driving the wrong financial behaviours and sustaining inefficiencies.

2.8.3 The financial position of the Council has been reviewed over the longer-term with the intention of increasing financial sustainability and resilience. **Table 2.14** shows the latest position assumed for a range of financial sustainability measures and use of those measures to reduce reliance on one-off funding sources. **Paragraphs 2.8.4-2.8.10** discuss this in more detail.

Table 2.14 Financial Sustainability Measures

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m |
|---|---|---|---|---|---|
| ***Included in Funding Changes (Table 2.6):*** | | | | | |
| General Fund Balances | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Strategic Resilience Reserve | 2.0 | 2.0 | 0.0 | 0.0 | 0.0 |
| Provision for Insurance | 0.0 | 2.0 | 0.0 | 0.0 | 0.0 |
| Provision for MMI | 0.0 | 1.0 | 0.0 | 0.0 | 0.0 |
| ***Included in Cost Increases (Table 2.7):*** | | | | | |
| Capitalisation | 5.0 | 10.0 | 0.0 | 0.0 | 0.0 |
| Internal Charging | 4.0 | 4.0 | 0.0 | 0.0 | 0.0 |
| Repayment of Borrowing from Ring Fenced Resources | 1.0 | 1.0 | 0.0 | 0.0 | 0.0 |
| **Total Financial Sustainability Measures** | **15.0** | **20.0** | **0.0** | **0.0** | **0.0** |

2.8.4 Under the 2003 Local Government Act, the Council's Statutory Financial Officer is required to make a statement to Council on the adequacy of reserves as a part of the annual budget setting process. The Medium Term Financial Strategy recognises the requirement to keep the level of the Council's reserves under review to ensure that they are adequate to meet identified risks. 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 MTFS provides for a £3m base budget contribution to the General Reserve each year from 2023/24 to 2027/28. The impact is to provide General Reserves of £36.2m in 2023/24, £39.2m in 2024/25, £42.2m in 2025/26, £45.2m in 2026/27 and £48.2m in 2027/28.

2.8.5 Whilst the current cost of living crisis presents a significant risk to the level of resources available to the Council there may be further impacts in addition to those provided for in this Medium Term Financial Strategy. It is therefore prudent to contribute to the Strategic Resilience reserve to mitigate against any potential further impacts, increasing the base budget contribution to this reserve to £4m per annum by 2024/25.

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

2.8.7 Previous years' budgets have utilised the capitalisation of revenue expenditure to mitigate the impact of the Government's austerity agenda and the resultant reduction in funding to local authorities since 2010. In order for the Council's Revenue Budget to become more financially resilient, whilst at the same time reducing the risks associated with funding recurring revenue expenditure from capitalisation, this Strategy contains provision to further unwind the extent to which the Revenue Budget is supported by these mechanisms. Consequently, as detailed in **Table 2.14**, the base budget provision has increased by £9m from 2023/24 and then by a further £14m per annum from 2024/25.

2.8.8 Of this, £8m reflects the requirement to reduce the extent to which internal charging mechanisms are used in the Council's revenue budget, where the application of internal charging is driving the wrong financial behaviours and sustaining inefficiencies.

2.8.9 Against a background of reductions in Government funding the Council has used its balance sheet to support its Revenue Budget. In the context of making the Revenue Budget financially sustainable a planned reduction in the reliance on ringfenced resources on the balance sheet, as detailed in **Table 2.14**, has been provided for in the revised budget position (£2m increase in base budget provision by 2024/25).

2.8.10 The impact of these variations on the estimated budget gaps each year which are incorporated into **Table 2.13** and detailed in **Table 2.14**, shows that the measures agreed increase the base budget by £35m in total over the life of this Financial Strategy.

## 2.9 <u>Savings in the MTFS</u>

2.9.1 In recent years it has been necessary for the Council to undertake savings reviews to meet the financial challenges in the Strategy at that time. This Medium Term Financial Strategy recognises the longer-term full year impact of savings agreed in previous years' budgets. These have been reviewed and updated where necessary to ensure deliverability, so that the latest position is reflected in **Table 2.15** below. Following review, these savings identified in prior years total £20.9m over the life of the Strategy. £13.5m of these are due to Business as Usual savings, and £7.3m are due to Service Reviews.

2.9.2 During the planning process for the 2023/24 – 2027/28 Financial Strategy, directorates have identified routine efficiencies that could be made whilst maintaining "Business as Usual", having no impact on service delivery or on the workforce. These reduce the budget gap for 2023/24 by £11.2m, and over the life of the Strategy by £13.0m.

2.9.3 After recognition of these routine efficiencies, there remains a requirement to deliver £182.6m of savings over the life of the Medium Term Financial Strategy. This includes £123.6m of savings over the first three years covered, £63.6m of which is required in 2023/24.

Table 2.15 Estimated Budget Gap less Prior Year Savings and Efficiencies

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m | Total £m |
|---|---|---|---|---|---|---|
| **Estimated Budget Gap** | **86.7** | **43.3** | **26.4** | **31.1** | **28.9** | **216.4** |
| **Prior Year Directorate Savings** | | | | | | |
| Business As Usual | (7.682) | (1.902) | (3.249) | (0.700) | 0.000 | (13.533) |
| Service Review | (4.239) | (3.092) | 0.000 | 0.000 | 0.000 | (7.331) |
| **Routine Efficiencies** | **(11.186)** | **(0.552)** | **(0.932)** | **(0.150)** | **(0.150)** | (12.970) |
| **Total Savings/Efficiencies** | **(23.107)** | **(5.546)** | **(4.181)** | **(0.850)** | **(0.150)** | (33.834) |
| **Gap after Savings/Efficiencies** | **63.613** | **37.762** | **22.253** | **30.228** | **28.716** | **182.572** |

### Bridging the Revised Gap – the Savings Programme

2.9.4 Recognising the challenge of bridging the estimated budget gaps for the period 2023/24 to 2027/28, whilst at the same time seeking to ensure that the Council's revenue budget is robust, resilient and sustainable, another savings programme has been established, focusing primarily on the three-year period 2023/24 to 2025/26. This builds on the 'Financial Challenge' savings programmes carried out over the last two years, with the cross-council senior officer group established in 2020 to provide support and ensure a co-ordinated, consistent approach across the programme continuing its role. Further support and challenge to identify new proposals and consider options put forward by officers will again be provided by Scrutiny Board working groups.

2.9.5 Reviews are underway across the Authority to identify opportunities to continue to modernise and improve services, reduce costs and generate additional income.

The outcome of this work will lead to a number of savings proposals for consideration by the Executive Board during the Autumn of 2022. Those approved for implementation, or consultation as required, will subsequently be built into the 2023/24 Budget and Provisional Budgets for 2024/25 and 2025/26.

2.9.6 Through the Financial Challenge programme, a range of proposals have, and will continue to be, identified that will contribute towards the delivery of a balanced budget position in each of the financial years covered by the MTFS. Through last year's savings programme, which focused on the three-year period 2022/23 to 2024/25, savings of £9.633m were approved for 2023/24 and a further £4.373m for 2024/25. These have been built into the revised position presented in this Medium Term Financial Strategy.

## 2.10 The Capital Programme

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

2.10.2 Capital investment needs are assessed on an annual basis under the direction of the Council's Financial Challenge: Strategic Investment Board (SIB) 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.

2.10.3 A detailed review of the whole capital programme, covering the period up to 2023/24, was undertaken in the lead up to the Capital Programme being approved by Executive Board and Full Council in February 2021. A key principle of that review was to replace borrowing with external funding sources where possible and that principle continues, for example in the Council's recent bids to the Government's Levelling Up Fund.

2.10.4 In May 2022 SIB agreed an overarching Capital Strategy to support a further review of the capital programme, whereby new borrowing would not exceed budgeted MRP, except where this would prevent the delivery of savings or robust prudential borrowing proposals. Further, SIB refreshed the capital programme priorities to be used to assess the priority of new projects/pressures and inform which should be added to the Capital Programme. Consequently, a further review of the Capital Programme will be undertaken in the Autumn of 2022 to consider whether all elements of the existing programme remain priorities in the current financial climate and to agree whether further proposed schemes are of sufficient priority to be added to the Programme and how these might be funded sustainably. This review is also intended to consider the resilience of current programme assumptions in light of significant inflationary pressures on the delivery of capital projects. Any capital and revenue impacts of this review will be reflected in reports to Executive Board in December 2022.

2.10.5 Savings proposals to address the current Financial Challenge are reviewed to ensure that any interdependencies between capital and revenue are given due consideration.

2.10.6 The restated 10 year programme is detailed in **Table 2.16**.

Table 2.16 10 Year Capital Programme

| **Annual Programme Capital Review** | 2022/23 £000, | 2023/24 £000, | 2024/25 £000, | 2025/26 £000, | 2026/27 £000, | 2027/28 £000, | 2028/29 £000, | 2029/30 £000, | 2030/31 £000, | 2031/32 £000, | Total £000, |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Highways Maintenance | 13,051.9 | 13,000.0 | 13,000.0 | 13,000.0 | 13,000.0 | 13,000.0 | 13,000.0 | 13,000.0 | 13,000.0 | 13,000.0 | 130,051.9 |
| Highways Maintenance - supported by external funding | | | | | | | | | | | 0.0 |
| Highways Maintenance Capitalisations | 4,613.7 | 3,700.0 | 2,800.0 | 1,800.0 | 900.0 | | | | | | 13,813.7 |
| Highways Bridges & Structures Maintenance | 2,000.0 | 2,000.0 | 2,000.0 | 2,000.0 | 2,000.0 | 2,000.0 | 2,000.0 | 2,000.0 | 2,000.0 | 2,000.0 | 20,000.0 |
| Highways Section 278 | 3,500.0 | 2,800.0 | 2,100.0 | 1,400.0 | 700.0 | | | | | | 10,500.0 |
| Highways Section 278 - external contributions / supported by external funding | 1,545.5 | 2,796.6 | 331.9 | 2,100.0 | 2,800.0 | 3,500.0 | 3,500.0 | 3,500.0 | 3,500.0 | 3,500.0 | 27,074.0 |
| General Capitalisation | 3,900.0 | 3,300.0 | 2,700.0 | 1,800.0 | 900.0 | | | | | | 12,600.0 |
| Childrens Centres | 75.0 | 100.0 | 101.4 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 626.4 |
| Adaptations - Disabled Facilities Grants | 1,860.5 | 1,860.6 | 1,860.6 | 1,069.0 | 1,069.0 | 1,069.0 | 1,069.0 | 1,069.0 | 1,069.0 | 1,069.0 | 13,064.7 |
| Adaptations - supported by external funding | 7,665.5 | 7,665.6 | 7,665.6 | 7,602.7 | 7,602.7 | 7,602.7 | 7,602.7 | 7,602.7 | 7,602.7 | 7,602.7 | 76,215.6 |
| Vehicle Programme | 4,166.0 | 2,000.0 | 1,200.0 | 800.0 | 400.0 | | | | | | 8,566.0 |
| Vehicle Programme - supported by external funding | 586.2 | | | | | | | | | | 586.2 |
| Adaptation to Private Homes | 575.5 | 575.3 | 470.0 | 470.0 | 470.0 | 470.0 | 470.0 | 470.0 | 470.0 | 470.0 | 4,910.8 |
| Telecare ASC | 785.5 | 785.4 | 600.0 | 600.0 | 600.0 | 600.0 | 600.0 | 600.0 | 600.0 | 600.0 | 6,370.9 |
| Library Books | 625.5 | 450.0 | 300.0 | 200.0 | 100.0 | | | | | | 1,675.5 |
| Sports Maintenance | 35.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 935.0 |
| Project Support Fund (Groundwork) | 65.9 | 0.0 | 0.0 | 70.0 | 70.0 | 70.0 | 70.0 | 70.0 | 70.0 | 70.0 | 555.9 |
| Project Support Fund (Groundwork) - supported by external funding | 70.0 | 70.0 | 70.0 | | | | | | | | 210.0 |
| Essential Services Programme | 4,520.2 | 3,530.2 | 2,500.0 | 1,700.0 | 800.0 | | | | | | 13,050.4 |
| Digital Development | 5,822.6 | 2,500.0 | 2,500.0 | 2,500.0 | 2,500.0 | 2,500.0 | 2,500.0 | 2,500.0 | 2,500.0 | 2,500.0 | 28,322.6 |
| Corporate Property Management | 7,929.2 | 1,750.0 | 1,500.0 | 1,500.0 | 1,500.0 | 1,500.0 | 1,500.0 | 1,500.0 | 1,500.0 | 1,500.0 | 21,679.2 |
| Capital Programme Management | 541.4 | 541.4 | 541.4 | 541.4 | 541.4 | 541.4 | 541.4 | 541.4 | 541.4 | 541.4 | 5,414.0 |
| Demolition Programme | 1,499.9 | 750.0 | 500.0 | 500.0 | 500.0 | 500.0 | 500.0 | 500.0 | 500.0 | 500.0 | 6,249.9 |
| Heritage Assets | 9,038.4 | 4,000.0 | | | | | | | | | 13,038.4 |
| Capitalisation of Interest | 500.0 | 400.0 | 300.0 | 221.0 | 200.0 | 200.0 | 200.0 | 200.0 | 200.0 | 200.0 | 2,621.0 |
| Climate Emergency | 222.8 | 250.0 | 600.0 | 600.0 | 600.0 | 600.0 | 600.0 | 600.0 | 600.0 | 600.0 | 5,272.8 |
| Climate Emergency - supported by external funding | 800.0 | 700.0 | 250.0 | 300.0 | 350.0 | 350.0 | 350.0 | 350.0 | 350.0 | 350.0 | 4,150.0 |
| Transformational Change to LCC (excl Core Systems Review) | 8,598.9 | 8,303.0 | 8,219.0 | 8,219.0 | 8,219.0 | 8,219.0 | 8,219.0 | 8,219.0 | 8,219.0 | 8,219.0 | 82,653.9 |
| PFI Lifecycle Capitalisations | 11,462.0 | 11,980.0 | 12,895.0 | 13,395.0 | 13,895.0 | 14,395.0 | 14,895.0 | 15,395.0 | 15,895.0 | 16,395.0 | 140,602.0 |
| **Total Annual Programmes** | 96,057.1 | 75,908.1 | 65,104.9 | 62,538.1 | 59,867.1 | 57,267.1 | 57,767.1 | 58,267.1 | 58,767.1 | 59,267.1 | 650,810.8 |

## 2.11 Capital Receipts

2.11.1 The main sources of capital receipts include property sales, the proceeds from right to buy sales, and the repayment of capital loans from external organisations.

2.11.2 Capital receipts are used to fund a number of revenue budgets - transformational change and PFI liabilities - with remaining receipts funding capital expenditure including Future Ways of Working. Use of capital receipts to fund revenue transformational costs is permitted under a specific Government Direction allowing 'Flexible Use of Capital Receipts' – this provision currently extends to 2024/25, however the current strategy assumes that, as in previous year, the Direction will be extended. Should this not be the case these costs will revert to being a pressure on the revenue budget.

2.11.3 The MTFS recognises the intention to use future generation of capital receipts mainly to invest in capital infrastructure and therefore reduce the Council's future borrowing requirement and to support the delivery of organisational transformation. The revenue resource requirements reflect this strategy.

2.11.4 The current forecast capital receipts and associated capital receipts requirement are shown in **Table 2.17**. Over the life of the Strategy the forecast receipts are sufficient to meet all associated revenue and capital commitments. Work continues to identify additional receipts in the later years of the Strategy.

Table 2.17: Capital Receipts Requirement

| | 2022/23<br>£ | 2023/24<br>£ | 2024/25<br>£ | 2025/26<br>£ | 2026/27<br>£ |
|---|---|---|---|---|---|
| Useable capital receipts | 48,616,783 | 23,283,334 | 16,924,815 | 2,550,000 | 2,585,000 |
| | | | | | |
| Ringfenced capital receipts (FWOW Programme) | 442,900 | 0 | 0 | 0 | 0 |
| Flexible use of capital receipts (ELI & Digital) | 12,359,900 | 12,191,000 | 9,343,800 | 8,219,000 | 8,219,000 |
| Revenue budget requirement (PFI & Lifecycle) | 25,666,000 | 28,293,000 | 30,720,000 | 34,095,000 | 39,363,000 |
| Charging PFI over asset life | (18,155,000) | (19,766,000) | (21,016,000) | (23,097,000) | (26,027,000) |
| Total Revenue budget requirement | 20,313,800 | 20,718,000 | 19,047,800 | 19,217,000 | 21,555,000 |
| | | | | | |
| In Year Surplus/(deficit) | 28,302,983 | 2,565,334 | (2,122,985) | (16,667,000) | (18,970,000) |
| Useable capital receipts surplus b/fwd | 12,711,523 | 35,194,651 | 37,759,985 | 35,637,000 | 18,970,000 |
| Useable capital receipts surplus c/fwd | (35,194,651) | (37,759,985) | (35,637,000) | (18,970,000) | 0 |
| **Used to fund Capital Spend** | **5,819,855** | **0** | **0** | **0** | **0** |

## 2.12 Housing Revenue Account

### Background

2.12.1 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 ring-fenced account. The total resources available to the HRA is forecast at around £1.4bn over the next 5 years, with 87% of this being derived from rent and service charges to tenants.

2.12.2 Since all housing priorities are funded through the HRA, any variations in the rental income stream will directly impact upon the level of resources that are available for the delivery of housing priorities. Throughout the life of this plan, resources will be directed towards key priority areas which include fulfilling the plan to improve the homes people live in, expanding and improving older person's housing and improving estates to ensure that they are safe and clean places to live.

**2023-2028 Deficit**

2.12.3 Over the 5 years of the plan, there is an initial gap, prior to savings proposals, of £12.4m in 2023/24 and a cumulative deficit of £38.8m by 2027/28. This is summarised in **Table 2.18**.

Table 2.18: 5 year summary 2023/24 – 2027/28

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m |
|---|---|---|---|---|---|
| Income | (273.68) | (283.77) | (289.43) | (296.56) | (305.11) |
| Expenditure | 286.15 | 293.17 | 298.08 | 302.46 | 306.60 |
| Appropriations | (0.07) | 0.51 | 0.38 | 0.23 | (0.18) |
| **In Year Pressure (Saving)** | **12.40** | **9.91** | **9.03** | **6.13** | **1.31** |
| **Cumulative Balance** | **12.40** | **22.31** | **31.34** | **37.47** | **38.77** |

2.12.4 **Key Income Assumptions 2023 – 2028**

- **Rental Income**. In February 2019 the Government confirmed that a return to a rent formula of CPI+1% for 5 years from 2020/21. With CPI inflation for September 2022 forecast at around 10%, this would have given an allowable rent increase in rent of up to 11%.

  However, on 31st August 2022 DLUHC announced a consultation to cap social housing rent increases for the next two financial years. DLUHC are consulting on rent increases in the range of 3% to 7% with the draft directive proposing a 5% ceiling on rent increases. The consultation closes on October 6th 2022 with the directive to be issued thereafter.

  This plan therefore assumes an increase in rental income of 5% in 2023/24 and 2024/25, in line with the draft directive. The following 3 years increases are based on the Office of Budget Responsibility (OBR)'s long term forecast of CPI plus 1%.

  Total forecast rental income is also adjusted for the net difference between forecast Right to Buy (RtB) sales and new build properties from the Housing growth programme.

- **Right to Buy Sales** The current plan assumes 560 sales for next year, reducing by 50 a year in 2024-25 and later years until reaching 400 a year. Whilst this reflects the expectation that the recent increase in sales will diminish at some point, RtB discounts remain a considerable incentive for many people and as such sales may remain at a higher level, which would put further pressure on the rental income budget. Conversely additional sales increases capital receipts which can be partly utilised for funding Council Housing growth.

- **Other Income**. The financial plan assumes service charges will rise in line with rental income at 5% for 2023/24.

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

2.12.5 **Key Expenditure Assumptions:**

- **Pay Award and Price Inflation**. The plan provides for a pay award in 2022/23 of £1,925 per employee as per the current offer and makes appropriate provision for future pay rises. Price inflation is generally assumed at CPI levels in the plan.

- **Energy Costs** Gas and electricity are forecast based on the latest energy unit assumptions; for 23/24 alone, the budget reflects the total impact of price pressures arising since April 2022 estimated at £1.3m.

- **Repairs**. The repairs budget is assumed to be inflated by 11% for 2023/24, this is an increase of £5.2m compared with the budget in 2022/23. The following years assume a return to increases of CPI, adjusted to reflect the forecast changes in stock numbers.

Table 2.19 Proposed Repairs Budget 2023/24 to 2025/26

| | **OE 2022/23** £000s | **2024/25** £000s | **2024/25** £000s | **2025/26** £000s |
|---|---|---|---|---|
| Repairs | 46,795 | 51,942 | 53,163 | 53,694 |

- **Disrepair Provision**. Resolving disrepair remains a priority for the service. The financial plan assumes an annual budget of £1.4m for disrepair is provided for. Contained within these assumptions is a targeted reduction in the number and value of disrepair claims. If this targeted action is not successful, then there will be a corresponding pressure upon the repairs budget.

- **Provision for Bad Debt**. The budget has been kept at £1.1m, the same level as in 2022/23 and it is assumed that this level of provision will remain static in the financial plan. This will be kept under continual review as universal credit is rolled out further.

- **Capital Programme - (Annual Investment).** The revenue contribution to the capital programme (RCCO) is approximately 25% of the total HRA budget.

  This contribution, along with external funding and the use of reserves combine to provide the funding for the HRA Capital Programme. Currently, the capital programme from 2023/24 to 2025/26 is gross spend of £256m. This plan assumes that the RCCO will be increased, as other funding streams reduce, and the total level will be increased to £263m as shown in **Table 2.20** below. The fall out of other funding places greater pressure on the revenue account to increase its funding to maintain the total level of investment in the stock.

Table 2.20 HRA Capital Programme 2023/24 to 2025/26

| | **2022/23** | **2024/25** | **2024/25** | **2025/26** |
|---|---|---|---|---|
| | £000s | £000s | £000s | £000s |
| Capital Programme | 95,000 | 91,424 | 86,000 | 85,788 |
| HRA Revenue Contribution (RCCO) | (60,769) | (70,808) | (72,899) | (73,571) |
| RtB Receipts (Allowable Debt) | (16,346) | (14,175) | (12,287) | (10,637) |
| Government Grant / EU Grant | (17,885) | (6,257) | 0 | 0 |
| Other Funding | 0 | (184) | 0 | 0 |

- **Additional interest on borrowing charges**. The plan reflects increased costs associated with servicing the HRA's debt to fund the Council's Housing Growth Programme. The Council House Growth Capital Programme is budgeted at £324m and at the end of August 2002 £106.1m has been spent.

  The table below shows the planned spend and the need to borrow circa £140m over the next 5 years. There is a risk that rising interest rates will add further pressures to the current gap within the HRA.

  However, it is important that the Council spends at this level on the CHGP to ensure that Right to Buy Receipts are fully spent and not returned to Government.

Table 2.21 Council Housing Growth Programme 2023/24 to 2025/26

| | 2022/23<br>£000s | 2024/25<br>£000s | 2024/25<br>£000s | 2025/26<br>£000s | 2026+<br>£000s |
|---|---|---|---|---|---|
| Capital Programme | 72,682 | 63,862 | 63,836 | 23,133 | 15,692 |
| Borrowing (additional each year) | (42,963) | (37,125) | (37,110) | (12,688) | (8,771) |
| RtB Receipts | (27,861) | (26,737) | (26,727) | (10,445) | (6,921) |
| Other Funding | (1,858) | | | | |

- **Recharges to the HRA**. Recharges to the HRA relate to services provided from other parts of the Council on behalf of the HRA. These include, for example, back-office services such as HR, Finance, and IDS as well as front facing services such as the contact centre, hubs, community safety and environmental services. All of these costs will be subject to an annual review to ensure that only appropriate elements are charged to the HRA.

- **Contribution to General Reserve**. The level of HRA general reserve is £7.4m. The plan assumes that there will be a pause in making further contributions to the general reserve until this becomes affordable.

2.12.6 The strategy to mitigate this cumulative deficit (£12.2m in 2023/24) on the Housing Revenue Account is in line with the approach being taken for the rest of the Council. Options for balancing will include savings that can be generated from business-as-usual proposals and those that require more specific service reviews options to deliver savings.

2.12.7 All areas of HRA spend and income will be considered when finalising the detail of the 2023/24 budget with appropriate consultation:

- Service charges will be reviewed with an option to increase these above the current assumptions to reflect the increased costs, specifically on energy prices. The consultation on rent caps does not apply to service charges.

- The investment programme will be reviewed with options presented to reduce or realign the programme.

- Other capital programmes could be delayed or reduced.

- A review of staffing levels and removal of budgeted vacant posts could be considered.

- All expenditure lines, including repairs, will be reviewed to ensure resources are directed into priority areas of the budget.

- A review of HRA earmarked reserves will be completed as a mechanism to help smooth out specific one off pressures to be paid back later.

## 2.13 Dedicated Schools Grant

### Background

2.13.1 The Dedicated Schools Grant (DSG) is allocated by the Education and Skills Funding Agency (ESFA) and is the main source of income for local authorities' schools' budgets. It consists of four funding blocks: schools, high needs (special educational needs), early years and central school services (provided by the Council). The Council is forecast to receive DSG Funding of £2,107m over the next 5 years and further details are provided in **Table 2.22**.

2.13.2 Along with many other local authorities, Leeds is currently not receiving the full allocation of DSG due under the national funding formula, as there is a cap on some of the funding increases and this has created pressures on the DSG account. If the cap on gains had not been in place, Leeds would have been allocated an additional £32.2m of funding between 2018/19 and 2022/23 across the schools block (£9.5m) and high needs block (£22.7m). A further funding cap of £1.86m will apply in 2023/24 to the high needs block, based on provisional funding allocations released by the ESFA. Leeds is one of the 30 local authorities out of 150 that will continue to have their funding capped in 2023/24. Further detail is provided in the sections that follow.

2.13.3 In accordance with the Education Act, some of the DSG can be retained by the Council to provide services for schools, though the majority is passed directly on to schools and other educational settings. Funding arrangements are reviewed annually, taking into account available funding and priorities set out with the Best City Ambition and supporting strategies. A number of funding allocations are agreed following consultation with schools and the Leeds Schools Forum, a statutory board with some decision making powers. The high needs budget is however a Council decision and is approved by Full Council each year.

2.13.4 There is some flexibility within the regulations in how funding is allocated out to schools and it is also currently possible to move a small proportion of funding between the different blocks of the DSG to offset overspends, although this is subject to strict regulations and requires annual consultation with schools and Schools Forum approval.

### Projections

2.13.5 As shown in **Table 2.22** below, the schools block and early years block budgets are expected to balance over the next five years, based on previous trends and forecast data.

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

2.13.7 **Table 2.22** provides details for each funding block and **Table 2.23** shows the projected cumulative DSG deficit at the end of each year.

2.13.8 Table 2.22 – Dedicated Schools Grant projected income and expenditure

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m |
|---|---|---|---|---|---|
| **Schools Block** | | | | | |
| DSG Income | (340.4) | (350.5) | (357.0) | (363.0) | (368.0) |
| Individual Schools Budgets | 333.0 | 342.9 | 349.4 | 355.2 | 360.1 |
| De-delegated budgets | 5.6 | 5.7 | 5.8 | 5.9 | 6.0 |
| Growth Fund | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| | **0.1** | **(0.0)** | **0.1** | **0.0** | **0.0** |
| **Central School Services Block** | | | | | |
| DSG Income | (5.1) | (5.1) | (5.2) | (5.3) | (5.3) |
| CSSB Expenditure | 5.2 | 5.3 | 5.4 | 5.5 | 5.6 |
| | **0.1** | **0.2** | **0.2** | **0.2** | **0.3** |
| **Early Years Block** | | | | | |
| DSG Income | (59.0) | (57.2) | (55.4) | (53.7) | (52.0) |
| 3 and 4 year old entitlement | 48.7 | 47.1 | 45.7 | 44.3 | 42.9 |
| 2 year old entitlement | 7.4 | 7.2 | 7.0 | 6.8 | 6.6 |
| Other early years provision | 3.0 | 2.9 | 2.7 | 2.6 | 2.5 |
| | **0.1** | **0.0** | **0.0** | **0.0** | **0.0** |
| **High Needs Block** | | | | | |
| DSG Income | (108.3) | (111.0) | (113.7) | (116.7) | (119.8) |
| Funding passported to institutions | 101.7 | 112.9 | 125.4 | 139.6 | 154.3 |
| Commissioned services | 2.7 | 2.8 | 2.9 | 3.0 | 3.0 |
| Directly Managed by Children & Families | 7.1 | 7.2 | 7.3 | 7.5 | 7.6 |
| | **3.2** | **11.9** | **21.9** | **33.4** | **45.1** |
| **Total DSG Income** | (512.8) | (523.8) | (531.3) | (538.7) | (545.1) |
| **Total Expenditure** | 516.3 | 535.9 | 553.5 | 572.3 | 590.5 |
| **Total Dedicated Schools Grant overspend** | **3.5** | **12.1** | **22.2** | **33.6** | **45.4** |

2.13.9 Table 2.23 – Dedicated Schools Grant projected deficit

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m |
|---|---|---|---|---|---|
| DSG balance brought forward | 1.0 | 4.5 | 16.6 | 38.8 | 72.4 |
| In year deficit (from table above) | 3.5 | 12.1 | 22.2 | 33.6 | 45.4 |
| **Total deficit on General DSG before further actions** | **4.5** | **16.6** | **38.8** | **72.4** | **117.8** |
| Potential additional funding, if Schools Forum continued to agree a transfer 0.5% of schools block funding to the high needs block | (3.2) | (3.3) | (3.4) | (3.4) | (3.5) |
| **Potential revised cumulative deficit** | **1.3** | **10.1** | **28.9** | **59.1** | **101.0** |

## Assumptions and risks

### SEND green paper

2.13.10 The Government released a SEND Green Paper for consultation in 2022, which could have significant implications for how support for pupils with SEND is delivered and funded. The consultation has now closed and we are awaiting the Government response to this. The outcome could have an impact on the projections for the high needs block, but this is too early to quantify. The Green Paper does however indicate local authorities will be required to provide additional support in certain areas, for example elective home education.

### Funding Increases

2.13.11 In 2019/20, the Government also announced a three year funding settlement for the schools and high needs blocks of the DSG, providing a combined national rise of £7.1bn by 2022/23 compared to 2019/20. Local authority allocations are released on an annual basis and it is not yet known what increases may be available beyond 2023/24.

2.13.12 If increases were not as high as expected for the schools and early years blocks this would be matched by a reduction in funding allocated out to settings.

2.13.13 In relation to the central school services block funding, these projections are based on the current funding mechanism however the Department for Education (DfE) has advised there will be a future consultation on the services this block funds, and some services may become traded arrangements with schools and therefore DSG funding may reduce.

2.13.14 In relation to high needs, in the past Leeds was significantly underfunded for and in 2017/18 the high needs block funding for Leeds was 25% lower per pupil than the national average. Since 2018/19 the Government has been moving towards a national funding formula to address historical funding differences. This is currently in a transitional phase and while the funding for Leeds has increased it is not yet at the full allocation in the national formula. In recent years Leeds received a funding increase of at least 8%, however this will reduce to 7% in 2023/24 and beyond this the DfE has advised local authorities should assume a 3% increase.

2.13.15 To provide some context for the potential impact of funding changes, every 1% change in the high needs allocation is equivalent to approximately £1.1m of funding.

**Cap on gains**

2.13.16 Although funding has increased since the move towards the national funding formula, some DSG funding increases have been subject to a cap on gains during the transitional period. Although this cap has been removed from the schools block from 2020/21 onwards, it is still in place for the high needs block until at least 2023/24. It is not currently known whether a cap will continue to be applied to the high needs block beyond 2023/24.

2.13.17 Although Leeds has been receiving the maximum increases allowed under the cap on gains, it is less than the national funding formula entitlement. If the cap on gains had not been in place, Leeds would have been allocated an additional £32.2m of funding between 2018/19 and 2022/23 across the schools block (£9.5m) and high needs block (£22.7m). A further funding cap of £1.86m will apply in 2023/24 to the high needs block, based on provisional funding allocations released by the ESFA. Leeds is one of the 30 local authorities out of 150 that will continue to have their funding capped in 2023/24.

**High needs demand and complexity**

2.13.18 In line with the national picture, Leeds has experienced an increase in high needs demand and complexity in recent years, with this trend expected to continue. However as noted above there is currently still a cap on funding increases and to date any additional funding received by Leeds has been exceeded by increased costs.

2.13.19 The projections in **Tables 2.22 and 2.23** are based on the current data for forecast population changes in special educational needs in Leeds, combined with trend analysis over the past three years. The projected increases in demand exceed the 3% increase in funding forecast beyond 2023/24. However, there are risks that increases in demand and complexity could be higher than projected, particularly in relation to the long term impact of COVID on learning and deprivation, the effects of which may only become apparent after a number of years.

**Funding paid to high needs settings**

2.13.20 For 2023/24 the ESFA has introduced a requirement for local authorities to increase funding for high needs settings by a minimum of 3% per pupil compared to 2021/22 baselines. We have assumed this continues to be the case for future years.

2.13.21 Places will need to be created to meet future high needs demand, and the rates payable will vary according to the type of need and setting. As some future provision is still to be developed, the projections assumes that funding rates for the increased demand will be in the middle cost band for existing settings. The modelling will continue to be updated as work continues to develop capacity for future demand.

**Inflationary pressures**

2.13.22 Current inflationary pressures will have an impact on schools and other settings, as well as on the cost of council services funded by DSG, which may in turn place more pressure on DSG.

**Funding transfers between DSG blocks**

2.13.23 Since 2017/18 a total of £15.81m has been transferred to the high needs block from other funding blocks of the DSG, in order to redirect funding to settings to support special educational needs pressures (£14.16m from the schools block and £1.65m from the central school services block).

2.13.24 Beyond 2023/24 it is not known whether funding can continue to be moved between DSG blocks in this way, as the DfE has indicated the ability for local authorities to do this in future will become more limited.

2.13.25 If funding transfers are still allowed in future, any transfers from the schools block to the high needs block would require annual consultation with schools and approval by the Leeds Schools Forum.

2.13.26 **Table 2.23** shows the estimated funding available if a transfer of 0.5% of schools block funding to the high needs block continued. The 0.5% transfer is in line with the current limit that Schools Forums can agree without further approval from the Secretary of State.

**DSG savings plan**

2.13.27 With effect from the end of 2019/20, new provisions were added to the School and Early Years Finance Regulations which required local authorities to carry forward any DSG overspends or deficit balances to the following year.  Such deficits were to be dealt with from future DSG income, rather than being funded by the Council, unless otherwise authorised by the Secretary of State. In practice Leeds, along with many local authorities, has historically dealt with any overspends on DSG in this way. However, the regulations are due to change at the end of the 2022/23 financial year following which local authorities will need to have sufficient funding available in other reserves to offset any DSG deficit. The government has recently consulted local authorities on the impact of this DSG provision ending at the end of 2022/23. A response to this consultation has not yet been issued.

2.13.28 Under the current regulations any local authority with an overall deficit on its DSG account, or whose DSG surplus has substantially reduced during the year, must co-operate with the Department for Education (DfE) in managing that situation. This includes providing information on plans for managing the DSG account and meeting with officials from the DfE as and when requested. The Secretary of State may also impose more specific conditions of grant on individual local authorities that have an overall deficit on their DSG account, where they believe that they are not taking sufficient action to address the situation. The council has prepared an initial plan outlining existing work to manage DSG pressures and other areas to be reviewed. This will be developed further during 2022/23.

## 2.14 The Financial Risks

2.14.1 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 any one year resulting in reserves (actual or projected) being less than the minimum specified by the Council's risk-based reserves strategy. Both of these risks are subject to regular review and reporting.

### The Economy

2.14.2 The Council's and City's economic and fiscal position is clearly impacted upon by the wider national and international economic context. The performance of the UK economy in a global context will have implications for the level of resources available to the government. Any change in forecast assumptions will have implications for the government's spending plans and this in turn will impact upon the level of resources available to the public sector. Similarly changes in the government's national spending priorities or responding to particular economic pressures such as inflation may have implications for the level of resources available to local government.

### Risks to funding

2.14.3 The Medium Term Financial Strategy makes assumptions in respect of the level of resources that are receivable through Council Tax, Business Rates and Government Grant. Any variations from these assumptions has implications for the level of resources available to the Council.

2.14.4 The impact of COVID-19 upon the Council's revenue budget in 2020/21 and 2021/22 was significant and the receipt of specific financial support from the Government was necessary to deliver a balanced budget position in both of those years. The Medium Term Financial Strategy 2022/23-2026/27 noted fallout of this funding. This Medium Term Financial Strategy does not provide for the ongoing impact of COVID-19. It is assumed that there will not be a requirement for further lockdowns and therefore the Council will not be required to incur specific additional expenditure relating to COVID-19. However, if the ongoing impact is greater than assumed, and no government support is forthcoming, there will be a requirement for contingency actions to be identified and implemented.

2.14.5 The 2021 Spending Review was published in early Autumn 2021 and covered the Government's spending plans for the years 2022/23 to 2024/25. This was followed by the Local Government Finance Settlement initially published in December 2021. However, this Settlement only covered 2022/23. Therefore, the details of how public spending on local councils would be allocated in 2023/24 and 2024/25 remain to be finalised. In addition to this, since 6$^{th}$ September 2022 there has been a new administration in Government, and it is uncertain whether this new administration will continue with the plans set out in the 2021 Spending Review. Therefore, the assumptions made in this Strategy are subject to change and any variations will impact upon the level of resources available to the Council either positively or negatively.

2.14.6 The Provisional Local Government Finance Settlement for 2023/24 is expected in December 2022. It was originally understood that these documents would cover a two-year period and would detail the Government's allocations to individual local authorities in line with the Spending Review 2021. With the new administration it is now not clear if this will be the case.

2.14.7 Over the period up to 2027/28 there remain uncertainties with regard to Business Rates reform, the Fair Funding Review, reforms to the New Homes Bonus Scheme and also the Government's intentions for the future funding of social care and these could impact upon the assumptions contained in this document.

**Key Risks to cost assumptions**

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

2.14.9 In particular the war in the Ukraine has already had a significant impact upon the global price of fuel, energy and commodities and this has been realised as significant inflationary pressures in the economy. The uncertain nature and length of this conflict may yet have further implications for inflation and the pay and price assumptions contained in this financial strategy.

2.14.10 Specifically, there are risks that demographic and demand pressures in Adult Social Care and Children's Services could be greater than anticipated, that inflation is higher than that assumed in the Medium Term Financial Strategy and that the costs associated with managing the Council's debt is higher than budgeted assumptions. There is also significant reform on the horizon across social care. For Adults, there will be the impact of the care reforms, for which there will be additional costs however the level of Government funding for this is uncertain. For Children, the Independent Review of Children's Social Care was published earlier this year and recommended a radical reset of the Children's Social Care system. The government intends to publish an implementation strategy in response to the review before the end of the year.
Key risks for the Dedicated Schools Grant (DSG) projections relate mainly to the high needs block of the DSG, which provides funding in relation to pupils with special educational needs. Future demand has been estimated based on trends and forecasts, both for population growth and increases in complexity of need, however actual demand may vary from these assumptions and the availability of places may also affect costs. In particular, the long-term impact of COVID-19 on these trends is not yet known. In addition, funding allocations are confirmed on an annual basis and there is a risk that actual funding increases will differ from the amounts assumed in the MTFS. Specifically, funding increases are currently capped, and it is not yet known how this cap will operate in future years. Lastly, a number of DSG funding decisions are made by the Leeds Schools Forum, a statutory body of education representatives from across the city, and there is a risk these decisions may impact on future DSG pressures.

2.14.11 There are a number of risks that are specific to the Housing Revenue Account. These include CPI being lower than the percentage figure assumed in the calculation of the rent increase in each of the years covered by this Medium Term Financial Strategy. Every 0.1% variation equates to a reduction of £0.21m in the level of resources available to support the services provided to Leeds tenants.

2.14.12 In addition, the position contained in this Strategy makes assumptions around rent collection rates and tenant arrears. The ongoing impact of COVID-19, a second wave of COVID-19 and the impact of the cost of living crisis upon household budgets will have implications for these assumptions and ultimately the amount that must be set aside for bad debt provision.

**Capital risk**

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

- Monthly updates of capital receipt forecasts prepared, using a risk based approach, by the Director of City Development;

- Monthly monitoring of overall capital expenditure and resources forecasts alongside actual contractual commitments;

- Quarterly monitoring of the Council's VAT partial exemption position to ensure that full eligibility to VAT reclaimed can be maintained;

- Ensuring written confirmation of external funding is received prior to contractual commitments being entered into;

- The capital programme includes a central contingency to cater for any unforeseen circumstances. In addition, individual programmes and schemes contain a risk provision for unexpected circumstances; and

- Compliance with Financial Procedure rules, Financial Regulations and Contract Procedure Rules to ensure the Council's position is protected.

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

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

2.14.16 The Council recognises a number of pressures and development schemes that bring economic and wider benefits that have implications for the level of debt. The Council will look to manage these pressures and limit the impact on debt costs by ensuring where possible that new schemes are fully funded (either by external resources or departmental prudential borrowing) or are essential (under health and safety grounds or in order to ensure Council assets are maintained for continued service provision). A revised approach to ensuring that new capital schemes are prioritised and injected at two points in the year has been implemented. This strategy does however allow for spend to save schemes that are supported by robust business cases or those of an immediate health and safety nature to be injected throughout the year. These principles continue to be key to the review of the Capital Programme being undertaken in Autumn 2022.

2.14.17 The Council's capital programme faces significant inflationary pressures as the result of a range of factors – not least the impact of EU exit and the COVID-19 pandemic on supply chains, increased labour costs and energy price pressures affecting the availability and cost of key construction materials such as steel, cement and bricks which require high energy use for their production. The Autumn review will include consideration of the impact of current high rates of inflation on schemes currently being delivered and those planned. In year pressures arising will be reported to SIB who will prioritise these, consider how scheme costs might be reduced and identify appropriate additional funding measures where required.

2.14.18 Use of capital receipts to fund revenue transformational costs is permitted under a specific Government Direction allowing ‘Flexible Use of Capital Receipts’. This provision was renewed in 2022/23 and currently extends to 2024/25, however the current strategy assumes that, as in previous years, the Direction will be extended and will cover the life of this Strategy. Should this not be the case these costs will revert to being a pressure on the revenue budget.

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

2.14.20 The execution of the Treasury Management Strategy and associated risks are kept under regular review through:

- Monthly reports to the Finance Performance Group;
- Annual reports to Executive Board updating on the Strategy and Outturn position;
- Quarterly strategy meetings with the Chief Officer-Financial Services and the Council’s treasury advisors; and
- Regular market, economic and financial instrument updates and access to real time market information.

# Part 3: Financial Assurance

## 3.1 Assurance

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

## 3.2 Governance Structure

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

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

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

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

3.2.5 The Chief Officer – Financial Services, as Section 151 officer, is responsible for systems of financial control and, as a part of this system of control, Financial

Regulations provide a framework for managing the Council's financial affairs. This system of control ensures that the financial transactions of the Council are recorded as soon as, and as accurately as, reasonably practicable, they enable the prevention and detection of inaccuracies and fraud and ensure that risk is appropriately managed.

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

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

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

## 3.3 Internal Audit and Systems of Control

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

3.3.2 Each financial year, a risk based Internal Audit Plan is put together incorporating a review of information from a range of sources including strategic plans and risk registers. The Internal Audit Plan is designed to promote the effective and efficient use of resources across the organisation and is subject to constant review throughout the financial year to ensure that coverage is prioritised and directed towards the areas of highest risk. This ensures that audit and consultancy work is aligned with new projects, emerging risks and shifting medium-term priorities.

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

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

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

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

## 3.4 Financial Assurance and Resilience

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

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

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

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

3.4.5 External Audit provides independent assurance on the Council's accounts and accounting practice and that there are appropriate controls around the key financial systems. In addition, they provide independent assurance to ensure value for money is being achieved and Grant Thornton's 2019/20 Annual Audit letter issued a qualified 'except for' value for money conclusion because our work identified weaknesses in the level of General Fund Reserves to deal with significant unforeseen circumstances resulting from the Council's arrangements for financial management. Except for this matter, Grant Thornton concluded, the Council had "proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

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

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

3.4.8 In response to a number of high profile authorities reporting financial difficulties, CIPFA (Chartered Institute of Public Finance and Accountancy) issued their financial resilience index for local government. This analytical tool is designed to provide councils with a clear understanding on their position in terms of risk. The selection of nine indicators, three of which relate to reserves, measure an individual authority's resilience to continue to deliver annual savings and manage significant shocks whilst still pursuing ambitious goals for Local Communities. The indicators reflect the fact that the Council has a lower level of usable reserves when compared to nearest neighbours identified in CIPFA's model and other Core Cities. As detailed in the MTFS the Council is planning to increase the level of reserves that it retains.

3.4.9 In October 2019 CIPFA published the Financial Management Code. The Code, which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability, has been introduced following concerns about fundamental weaknesses in financial management particularly in relation to organisations that may be unable to maintain services in the future. The Code itself contains a series of financial management standards for which compliance is required if a local authority is to meet the minimum standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Local authorities are required to apply the requirements of the Financial Management Code with effect from 1st April 2021. Adoption of the Code reinforces the Council's budget principles which provide a framework for managing the revenue and capital budgets. These principles were adopted by the Council in July 2019.

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

## 3.5 Robustness of the Budget

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

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

- The reasonableness of provisions for inflationary pressures.
- The extent to which known trends and pressures have been provided for.
- The achievability of changes built into the budget.
- The realism of income targets.
- The alignment of resources with the Council's service and organisational priorities.
- A review of the major risks associated with the budget.

- The availability of un-earmarked reserves to meet unforeseen cost pressures.
- The strength of the financial management function and reporting arrangements.

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

- Detailed estimates were prepared by directorates in accordance with principles laid down by the Chief Officer – Financial Services based upon the current agreed level of service. Service changes are separately identified, and plans are in place for them to be managed.
- The estimate submission has been subject to rigorous review throughout the budget process both in terms of reasonableness and adequacy. This process takes account of previous and current spending patterns in terms of base spending plans and the reasonableness and achievability of additional spending to meet increasing or new service pressures. This is a thorough process involving both financial and non-financial senior managers throughout the Council.
- Financial pressures experienced in the previous financial year are recognised in the following year’s budget.
- As part of the budget process, directorates undertook a risk assessment of their key budgets, and provided a summary of major risks within the directorate budget documents. All directorate budgets contain efficiencies, income generation and service reviews which will require actions to deliver and any delay in taking decisions may have significant financial implications. Whilst the level of risk within the budget was considered manageable on the understanding that key decisions are taken and that where identified savings are not delivered alternative savings options will be needed.
- In order to address the estimated budget gaps identified in the Medium Term Financial Strategy the Council has established a “Financial Challenge” savings programme. A cross-council group of senior officers provides a high support, co-ordinated and consistent approach to the identification of robust, realistic and deliverable budget savings proposals.
- The same group has oversight over the budget savings programme. Through this robust and accountable approach any variations to budgeted assumptions can be readily identified and addressed. Where appropriate, and in accordance with the Council’s adopted budget principles, alternative proposals will be identified to ensure that a balanced budget position can be delivered over the period covered by this Medium Term Financial Strategy. Progress against the delivery of these targeted savings will be included in the monthly Financial Health reporting to this Board.

- In recognition of the financial challenge the Council faced in 2021/22 from an unprecedented event the Council established a Strategic Contingency Reserve in 2020/21 which will be used to fund future unforeseen budget pressures and to ensure the Council becoming more financially resilient. In addition, two specific reserves have been established as part of these proposals to deal with variations in assumptions with regard to the recovery from COVID and the impact of higher energy costs.
- In addition to specific directorate/service risks, the collection of council tax and the generation of business rate yields are two key risks which need to be closely monitored.
- Where the budget assumes the generation of additional capital receipts from property and land sales which are utilised to offset PFI liabilities and fund transformational programmes using the government's capital receipts flexibilities, the timing of the delivery of these receipts needs to be closely monitored and contingency actions identified should there be any slippage to budgeted assumptions.
- Under the Business Rates Retention Scheme, the Council's local share of business rates is exposed to risks both from collection and from reductions in rateable values.
- Business rates income continues to be a significant risk, however, as is also the case for council tax, any losses greater than those assumed in setting the budget will materialise through a collection fund and will not impact in the current financial year, although this will be an issue in future financial years.
- The Council's financial controls are set out in the Council's financial regulations as described in the previous section. These provide a significant degree of assurance as to the strength of financial management and control arrangements throughout the Council. The Council has a well-established framework for financial reporting at directorate and corporate levels. Each month Executive Board receives a risk-based financial health report from each directorate and action plans are utilised to manage and minimise any significant variations to approved budgets.
- In July 2019 Executive Board agreed the adoption of principles which were developed to support both the determination and management of the revenue budget. Adoption of these principles results in a more robust and accountable approach to budget management which closely aligns itself with the principles set out in CIPFA's Financial Management Code which was fully implemented by the start of the 2021/22 financial year.

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

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

3.5.5 Any ongoing impact of COVID-19 has not been factored into the Council's financial assumptions for the period covered by this Medium Term Financial Strategy. . It is assumed that there will not be a requirement for further lockdowns and therefore the Council will not be required to incur specific additional expenditure relating to COVID-19. In addition, it is assumed that income realisable from sales, fees and charges returns to pre-COVID levels. These assumptions are consistent with the Government's current level of financial support which assumes that there will be no ongoing financial impact of COVID. .

3.5.6 The impact of the inflation (pay and price) key assumptions in each financial year covered by the Medium Term Financial Strategy is detailed within this report. However, this is only an estimate of the likely impact of inflation and the impact of events and changes in policy at both national and international levels will have implications for these assumptions.

3.5.7 The statement by the Chief Officer – Financial Services on the robustness of the 2023/24 budget, which will be received at Full Council in February 2023, will reflect that if COVID-19 and inflationary pressures have an impact upon the Council's revenue budget and no additional Government support is forthcoming, then the impact will need to be managed within the Council's approved budgets.

## 3.6 Level of Reserves and Balances

3.6.1 Under the 2003 Local Government Act, the Council's Statutory Financial Officer is required to make a statement to Council on the adequacy of reserves as a part of the annual budget setting process. It is also good practice for the Authority to have a policy on the level of its general reserve and to ensure that it is monitored and maintained.

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

3.6.3 The general reserve policy encompasses an assessment of financial risks both within the Medium Term Financial Strategy and also in the annual budget. These risks should include corporate/organisation wide risks and also specific risks within individual directorate and service budgets. This analysis of risks should identify areas of the budget which may be uncertain and a quantification of each "at risk" element. This will represent the scale of any potential overspend or income shortfall and will not necessarily represent the whole of a particular budget heading. Each assessed risk will then be rated and scored in terms of impact and probability.

3.6.4 Whilst the Council maintains a robust approach towards its management of risk, and especially in the determination of the level of reserves that it maintains, it is recognised that our reserves are lower than those of other local authorities of a similar size. However, as detailed in this Medium Term Financial Strategy the Council has made provision to address this position while having minimum impact on front line services.

3.6.5 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."

3.6.6 In accordance with this recommendation this Medium Term Financial Strategy assumes that reserves will be at £33.2m in 2022/23 and will rise to £48.2m by 2027/28. The indicative general reserve levels from 2022/23 to 2027/28 are set out in **Table 3.1.** This position assumes that a balanced budget position is delivered in 2022/23.

Table 3.1 Level of General Reserve

| General Reserve | 2022/23 £m | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m |
|---|---|---|---|---|---|---|
| **Brought Forward 1st April** | (33.2) | (33.2) | (36.2) | (39.2) | (42.2) | (45.2) |
| Planned Contributions | 0.0 | (3.0) | (3.0) | (3.0) | (3.0) | (3.0) |
| Planned Use | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Carried Forward 31st March** | **(33.2)** | **(36.2)** | **(39.2)** | **(42.2)** | **(45.2)** | **(48.2)** |

3.6.7 Whilst the Council continues to maintain a robust approach towards its management of risk and especially in the determination of the level of reserves that it maintains, it is recognised that levels of reserves are lower than those of other comparable local authorities. In addition, whilst the funding position continues to remain challenging and the impact of COVID-19 continues to impact upon the Council's financial position, we will continue to keep the Council's reserves under review to ensure that they are adequate to deal with the identified level of risks.

## 3.7 Revenue and Capital Principles

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

3.7.2 The capital principles have been developed to enable the Capital Programme resource to achieve the priorities within the Best City Ambition and will support the development and monitoring of the Capital Programme.

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

3.7.4 In respect of the current financial year a number of key principles deal with contributions to non-ring fenced reserves; substituting grants for general funding;

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

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

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

3.7.7 Adoption of these revenue and capital principles results in a more robust and accountable approach to budget management which closely aligns itself with the principles that are set out in CIPFA's Financial Management Code, which all local authorities were required to fully implement by 1st April 2021.

## 3.8 Assurance Statement

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

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

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

# Part 4: Financial Strategies

## 4.1 Financial Strategies

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

## 4.2 Capital Strategies

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

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

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

4.2.4 The keys aims of the Strategy are to:

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

4.2.5 Capital investment decisions should be undertaken with regard to:

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

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

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

## 4.3 Procurement Strategy

4.3.1 The Procurement Strategy 2019 to 2024 was updated in June 2019 and detailed on the Council web site. The Council currently spends approximately £1 billion externally each year, across revenue, capital, HRA and grant monies. The purpose of the procurement strategy is to ensure that the Council continually seeks to improve outcomes and deliver value for money from the goods, works and services that it buys. The Procurement Strategy is a "living" document which is kept under constant review, and annual procurement assurance reports are provided to Corporate Governance and Audit Committee

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

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

- **Social value and Living Wage**. We will seek to improve economic, social and environmental wellbeing from our contracts, over and above the delivery of the services directly required. By including social value outcomes in our contracts and encouraging our contractors to pay the Foundation Living Wage we ensure that we are making every £ spent go further.
- **Commercial opportunities.** In many cases market development is led by the commissioning teams within directorates and, in collaboration with Procurement and Commercial Services, those teams will continue to seek new ways to develop and create commercial opportunities, not just by promoting revenue generation, but by looking at how we engage with, and influence, the marketplace and potential suppliers in order to drive innovation and develop new ideas around service delivery.
- **Supplier engagement and contract management:** Within the Council responsibility for contract management lies firmly within directorates and this will continue. All directorates manage their strategic supplier relationships through continuous engagement with their suppliers and ensure effective management of all contracts from beginning to end in order to control costs, obtain the quality outcomes and performance levels set out in the contract (including in respect of social value), and minimise the level of risk. By engaging with suppliers and undertaking robust contract management we ensure that the council gets what it is are paying for.

## 4.4 Treasury Management Strategy

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

- Reduce the cost of debt management;
- Ensure that the management of the HRA and general fund is treated equally, and new accounting principles are examined to provide benefits where possible;
- Effect funding at the lowest point of the interest rate cycle;
- Maintain a flexible approach regarding any financial matters that may affect the Authority;
- Keep under constant review advice on investment/repayment of debt policy;
- Maintain a prudent level of volatility dependent upon interest rates;
- Set upper and lower limits for the maturity structure of its borrowings and to

maintain a reasonable debt maturity profile;

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

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

4.4.2 In accordance with CIPFA Code of Practice on Treasury Management fully revised fifth Edition 2021 the Council is adopting, as part of their standing orders and financial procedures, the following clauses:

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

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

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

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

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

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

- The 2021 Codes are currently being reviewed in detail and the main impact is in relation to the commercialisation agenda and borrowing primarily for investment for yield. It is anticipated that any changes will be in place for the setting of the Annual Treasury Management Strategy for 2023/24.

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

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

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

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

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

Annexe A

# FINANCIAL STRATEGY 2020 – 2025

## HELPING DELIVER THE BEST COUNCIL PLAN

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

**Leeds Best Council Ambition**

**An Efficient, Enterprising and Healthy Organisation**

**Leeds Best City Ambition**

**A Strong Economy and a Compassionate City**

## OUR AIMS

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

How we are delivering our Financial Strategy to achieve our aims

MEDIUM TERM FINANCIAL STRATEGY

5 YEAR ROLLING STRATEGY

3 YEAR BUDGET INCLUDING REVENUE AND CAPITAL PROGRAMME SCHEMES

BUSINESS CASE DEVELOPMENT

BUDGET MONITORING AND CAPITAL

BUSINESS CASE MONITORING

CLOSURE OF ACCOUNTS

### Financial Strategies

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

### Leadership

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

### Assurances

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

### Statute and Governance

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

### Digital and Data

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

### Highly Skilled Workforce

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

## OUR VALUES

Underpinning everything we do and how we work

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

Leeds CITY COUNCIL