



Report of the Chief Officer – Financial Services

Report to Executive Board

Date: 19th May 2020

Subject: Impact of Coronavirus COVID-19 upon Leeds City Council's 2020/21 Financial position

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

Summary

1. Main issues

- In April this Board received a report from the Chief Executive which detailed the Council's response to the CORONAVIRUS (COVID-19) pandemic. This report details the implications of the pandemic on the Council's financial position in 2020/21 and also identifies the options available to the Council to address these financial pressures.
- As a result of the pandemic the Council has incurred additional expenditure whilst at the same time seeing reductions in the level of resources available through a combination of lower forecast income levels for both Business Rates and Council Tax and a reduction in the level of income receivable from sales, and fee and charges. As a result the Council is forecasting a projected overspend of £164.7m before any funding from Government. The financial implications from COVID 19 will have ongoing funding consequences for the financial projections contained in the current Medium Term Financial Strategy.
- The timing of the impact regarding the forecast overspend on the Council's General Fund will be considered in the June Report to Executive Board. This report details the forecast position for 2020/21 as incurred not when it will impact on the General Fund itself.

- To date the Government has provided additional support to the Council through two COVID-19 grants which total £43.7m and contribute towards reducing the identified pressure in 2020/21 to £123.4m after application of £2.4m in 2019/20.
- In recognition that support received to date from the Government is insufficient to deal with the identified projected overspend, and if further sufficient Government support is not forthcoming, the Council will need to identify a number of options which would contribute towards closing the current forecast overspend.
- However if after identifying these options the Chief Officer – Financial Services in their professional opinion considers that the actions proposed are insufficient to reduce the Council’s cost base to enable there to be sufficient resources to fund services then a Section 114 report would need to be issued.

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

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

3. Resource Implications

- The financial position as set out in the report details a projected overspend of £164.7m as a result of the COVID-19 pandemic. To date the Government has awarded two tranches of COVID-19 grant which, when applied, reduce the projected overspend to £123.4m in 2020/21.
- Given the financial situation above, this report identifies a number of asks of Government which if received will contribute towards the Council delivering a balanced budget position in 2020/21.
- A further report to Executive Board in June will detail further actions the Council will need to take if further funding is not provided to deliver a balanced budget in 2020/21.

Recommendations

- a) Executive Board are recommended to note the position outlined in this paper by the Chief Officer - Financial Services concerning Leeds City Council’s financial position as a consequence of the COVID-19 pandemic.
- b) Executive Board are requested to write to Government to ask for financial assistance to enable the Council to fulfil its requirements to deliver services to the residents of Leeds.
- c) Executive Board are asked to note that a further paper is to be brought to Executive Board in June which will provide an update on the impact of COVID-19 in 2020/21 and update of the forecast Budget Position for 2021/22.

1. Purpose of this report

- 1.1 At its meeting on the 26th February 2020 Full Council set a balanced Budget for 2020/21 and provisional budgets for 2021/22 and 2022/23.
- 1.2 The financial health of the Council will continue to be reviewed and updated to Executive Board on a monthly basis. However, due to the scale of the financial challenge the Council is now facing for 2020/21 and future years due to the COVID-19 pandemic, it is appropriate to provide an interim briefing on the forecast position for the Council, how this has materialised, and the options to consider in managing the situation.
- 1.3 This review of the Revenue Budget for 2020/21 will consider:
 - the original assumptions for the revenue budget and why these have changed
 - the potential non-achievement of saving proposals contained in the budget
 - the additional expenditure incurred to meet costs of COVID-19
 - the losses of budgeted income as a consequence of the pandemic.

2. Background information

- 2.1 A report received at this Board's meeting on April 22nd provided an update on the impact of the current global Coronavirus outbreak which was declared a pandemic by the World Health Organisation on the 11th March. Specifically the report described the range of national developments and announcements made by the Government, outlined the local approach to planning and governance and detailed the Council's Response and Recovery Plan. An update report on Coronavirus is included elsewhere on this agenda.
- 2.2 In recognition of the impact of Coronavirus on the economy the Government has responded by announcing a range of measures that include furloughing staff, the provision of targeted business rate reliefs, business grants and loans, deferral of VAT and self-assessment payments, and a Hardship Fund which is a grant payable to local authorities to provide council tax relief alongside existing council tax support schemes.
- 2.3 The Government also recognise that Coronavirus COVID-19 has had a direct financial impact on local authorities. To date £3.2bn has been provided nationally to compensate local authorities for additional expenditure incurred and loss of income resulting from the current Coronavirus pandemic. Of this £3.2bn Leeds has been awarded £43.7m.

3. Main issues

3.1 Revenue Budget

- 3.1.1 On the 15th April the Council provided a financial return to the Ministry of Housing, Communities and Local Government (MHCLG) with an initial estimate of the financial impact of COVID-19 for the Council totalling £129.0m. A further return requiring updated information has now been issued by MHCLG and is due to be submitted on 15th May. It is anticipated that such returns will be required on a monthly basis.
- 3.1.2 The updated financial implications for the Council are now estimated at £164.7m, as detailed in Table 1 although this is still a very high level forecast which will continue

to be refined as more information and data is available. The analysis at Table 1 sets out this updated position and identifies each potential financial impact and if it was included in the April MHCLG return or whether it is additional cost that will now be included for May.

- 3.1.3 To date MHCLG has announced two tranches of funding totalling £3.2bn to support Local Government, on the 24th March and the 28th April. The total allocation is £43.7m for Leeds City Council, of which £2.4m has been applied in 2019/20. The Council therefore has a current deficit of (£164.7m - £41.3m) £123.4m as a consequence of the COVID-19 pandemic.
- 3.1.4 The scale of the financial pressure being faced by the Council is unprecedented and requires immediate action to be taken to minimise spend and to enable the Council's financial position to remain within the available resources.

Table 1 Financial Impact - Revenue Budget

App 1 Ref:		Original Budget £m	Risk	Additional Pressure £m	Included in April MHCLG Return Y/N
	Assumptions				
1	Pay Increase 2%	8.000	Red - 2.75%	3.000	Y
2	Capitalisation of Salaries	23.000	Red - 33%	7.663	N
3	Capital Receipts	55.985	Red - 50%	27.993	N
	Total of changes in assumptions			38.655	
4	Additional Expenditure				
	Adults			8.217	Y
	Childrens			10.600	Y
	City Deve lopment			0.000	Y
	Communitie s and Environment			1.978	Y
	Resources and Housing			3.498	Y
	Total Additional Expenditure			24.293	Y
	Loss of Income				
5.1	Council Tax			40.000	Y
5.2	Business Rates			22.800	Y
5.3	Fees and Charges			24.436	Y
5.4	Commercial Income			8.647	Y
5.5	Othe r: Charging to HRA, Capital Schemes, etc.			5.855	Y
	Total Loss of Income			101.738	Y
	In summary:				
	Pressure not included in the 17th April MHCLG Return			35.655	N
	Pressure included in the 17th April MHCLG Return			129.031	Y
	Total			164.686	
	Funding Received:				
	Covid Support Grant Re ceived/A llocated to Date			(43.749)	
	Grant Used 2019/20 (Month 12 reporting)			2.441	
	Grant Remaining 2020/21			(41.308)	
	Impact on budgeted savings (MEMO ITEM)				
	Adults			1.750	Y
	Childrens			6.524	Y
	City Deve lopment			1.100	Y
	Communitie s and Environment			0.316	Y
	Resources and Housing			0.460	Y
	All - additional pay increase			3.000	Y
6	Total Impact on Saving Proposals	28.400	Red - 46%	13.150	

3.1.5 An explanation of each item above and the rationale for inclusion is provided at **Appendix 1**.

3.2 **Capital Programme**

3.2.1 A review of the capital programme is underway to ascertain whether the priorities agreed in February are still appropriate given the impact of COVID-19. All schemes are currently being assessed to establish whether they are progressing as normal

or the extent to which they have been affected by COVID-19, i.e. have they stalled or are they continuing but with delays anticipated. Once this base line information has been gathered directorates will be asked to review scheme priorities and also to consider whether there are any additional COVID-19 related capital requirements. These priorities are likely to focus on:

- Statutory Requirement – to be developed at minimum cost to meet this requirement
- Health and Safety
- Fully Funded from External Sources
- Income Protection
- Future Cost Savings
- Climate impact

3.2.2 Re-prioritised directorate capital programmes will then be subject to a peer challenge through the Star Chamber process that was integral to setting the current capital programme, with outcomes reported to SIB for discussion and agreement. This process will involve ensuring that re-prioritised schemes are affordable within the current year and over the course of the MTFS.

3.2.3 The outcome of the review will be taken to July Executive Board as part of the Capital Programme Quarter 1 update report.

3.3 Position on reserves

3.3.1 Prior to COVID-19, and assuming that the forecast level of capital receipts would be delivered in the identified financial years, the Council had forecast that the level of general reserves over the period 2019/20 – 2022/23 would be in excess of 5% of the Council's net revenue expenditure– please see Table 2.

Table 2 General Reserves Statement

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Brought Forward 1st April	28.0	27.0	28.9	49.5
Change in Incidence of Receipt of Innovation Grant	1.7	0.0	0.0	0.0
Approved use in year (Treasury Management Savings)	(1.0)	1.0	0.0	0.0
Provisional Financial Outturn 19/20	(4.5)	0.0	0.0	0.0
Impact of surplus capital receipts substituted in the GF 2020/21		10.9		
Impact of surplus capital receipts substituted in the GF 2021/22			20.6	
Impact of a shortfall in capital receipts substituted in the GF 2022/23				(15.1)
Budgeted Contribution/(Use) in year	2.8	(10.0)	0.0	0.0
Carried Forward 31st March	27.0	28.9	49.5	34.4
Net Revenue Charge	516.8	525.7		
General Reserve as a % of NRC	5.2%	5.5%		

3.3.2 However the impact of COVID-19 on the Council's financial position, as detailed in Table 1, combined with an as yet unquantified impact on the Council's financial position in future years, means that without an appropriate level of financial support from the Government to deal with COVID-19 financial pressures, the Council does not have the reserves to be able to absorb the additional expenditure and loss of income.

3.4 Section 151 Responsibilities

- 3.4.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and the Chief Officer - Financial Services has responsibility for these arrangements.
- 3.4.2 If in undertaking this statutory role it is clear that the Council cannot deliver a balanced budget position in 2020/21 then it is incumbent on the Section 151 Officer under the Local Government Finance Act 1988, Section 114 (3) to “make a report under this section if it appears....that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure”.
- 3.4.3 A Section 114 report would be issued after consultation with the Senior Management Team, this Executive Board and External Audit. The timing of the announcement would be such that it would allow for the implementation of specific actions, e.g. no new expenditure that is not of a statutory minimum requirement, which would contribute towards improving the Council’s financial position.
- 3.4.4 Before the Section 114 report was issued the Section 151 Officer would also ensure that all Scrutiny Chairs, the Chair of Corporate Governance and Audit, and the opposition Leaders were informed and kept updated on the position. If a S114 report was issued every member of Council and External Audit would receive a copy of this report
- 3.4.5 Under S115 of the Local Government Finance Act 1988 Councillors have 21 days from the issue of a Section 114 report to discuss the implications at a Full Council meeting and before the consideration of an emergency budget.

3.5 Stage One - Asks from Government

- 3.5.1 It is not clear what further financial support will be provided by Government in addition to the two tranches of funding support already provided to local authorities (see paragraph 3.1.3), or when this would be made available. Therefore it is proposed that representations are made to Government for further financial support to address the financial impact of COVID-19.
- 3.5.2 **Specifically the Council will seek Government support in respect of the following proposals:**
- 3.5.3 That Government underwrite all of the shortfall in Business Rates resulting from COVID-19. Currently the Government underwrites Business Rates if they fall below a safety net of 92.5% of the Council’s funding baseline which is assumed in the Council’s Settlement Funding Assessment. It is proposed that this safety net is extended to 100% which would bring the Council back to its baseline level of funding, which is the level of funding that the Government assesses the Council needs from Business Rates and Revenue Support Grant to fund the services that it delivers. (This request to Government would only address £11.9m of the £22.8m variation identified in Table 1. The balance of £10.9m relates to cumulative growth over and above the baseline that the Council benefits from but which isn’t taken account of in the Government’s Settlement Funding Assessment (SFA) – this is the ‘reward’ element of Business Rates Retention).
- 3.5.4 That Government compensates the Council for any shortfall against budgeted assumptions with regard to the level of Council Tax collected as a result of COVID-19.

- 3.5.5 That Government funds 100% of the Local Council Tax Support (LCTS) scheme to protect authorities against loss of council tax income due to an increase in claimants.
- 3.5.6 That Government write off PWLB debt held by local authorities. On the 2nd April the Health Secretary announced that over £13bn of budgeted deficits for 2020/21 only would be written off as part of a major financial reset for NHS providers. If such a write off was extended to PWLB debt held by local authorities the Council would save £38m in 2020/21 if 100% was written off, £19m if 50% was written off and £3.8m if 10% was written off. The Housing Revenue Account (HRA) would also make savings from writing off PWLB debt.
- 3.5.7 Failing this, that Government reduce the interest rates for PWLB debt. The Council currently pays a 180 basis point premium for any new certainty rate loans it acquires from PWLB for general fund purposes. The Council is currently forecast to take on net additional borrowing of £788m to cover its capital requirements to 2024, the interest charged resulting in additional annual revenue costs of £14m compared to the Government's own costs of funding, by the end of 2024.
- 3.5.8 That Government underwrite any variation in the level of income receivable from fees and charges that have been impacted by COVID-19.

4. Corporate considerations

4.1 Consultation and engagement

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

4.2 Equality and diversity / cohesion and integration

- 4.2.1 The Equality Act 2010 require the Council to have "due regard" to the need to eliminate unlawful discrimination and promote equality of opportunity. The law requires that the duty to pay "due regard" be demonstrated in the decision making process. Assessing the potential equality impact of proposed changes to policies, procedures and practices is one of the key ways in which public authorities can show due regard.
- 4.2.2 The Council is fully committed to ensuring that equality and diversity are given proper consideration when we develop policies and make decisions. In order to achieve this, the Council has an agreed process in place and has particularly promoted the importance of the process when taking forward key policy or budgetary changes. Equality impact assessments also ensure that we make well informed decisions based on robust evidence.
- 4.2.3 Where appropriate, equality impact assessments will be carried out prior to the implementation of any of the financial options detailed in this report.

4.3 Council policies and the Best Council Plan

4.3.1 The Best Council Plan sets out the Council's ambitions and priorities. The current plan is therefore aligned with both the Council's Medium Term Financial Strategy and its annual budget.

4.3.2 Since the impact of COVID-19 challenges the financial sustainability of the Council it is imperative that the financial options contained in this report are considered in order that Best Council priorities can be delivered within a robust financial framework.

Climate Emergency

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

4.4 Resources, procurement and value for money

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

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

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

4.5.2 With the agreement of the Chair, and given the significance and scale of this issue, it is appropriate for the Board to receive an update at this meeting. However this report is coming to Executive Board as a late paper due to the fast paced nature of developments regarding this issue and in order to ensure Board Members receive the most up to date information possible. A verbal update on developments following the publication of this report will be provided at the Board meeting.

4.6 Risk management

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

4.6.2 The financial position detailed in Table 1 makes a number of assumptions in respect of the impact of COVID-19 upon both income and expenditure. These assumptions will be subject to review through the financial management, monitoring and reporting processes that the Council has in place and there remains an inherent risk that the identified budget gap increases.

5. Conclusions

- 5.1 The impact of Coronavirus COVID-19 upon the Council's 2020/21 revenue budget is currently projected to result in an overspend of £164.7m, although this is partially offset by the receipt of two tranches of grant support from Government which reduces the variation down to £123.4m.
- 5.2 Since further financial support to local authorities has yet to be announced a number of asks will be made of Government which, if agreed, would contribute towards addressing the projected overspend detailed in this report. However if in the professional opinion of the Chief Officer-Financial Services they consider that the actions proposed in the future are insufficient to reduce the Council's cost base to enable there to be sufficient resources available to fund services then a Section 114 report would need to be issued.
- 5.3 There remains a risk that the overspend could increase as the financial implications of COVID-19 are revised as more information is available and this updated position will be reported to this Board in June and to MHCLG. Any increase in the financial impact of COVID-19 upon the Council's financial position heightens the requirement for both further Government financial support and consideration of the options contained in this report.
- 5.4 There is a significant concern that the impact of COVID-19 upon the level of resources available to fund the services that the Council currently provides will extend into future financial years where the Council is already forecasting estimated budget gaps of £52.2m in 2021/22 and £31.7m in 2022/23 respectively. An updated Medium Term Financial Strategy for 2021/22 – 2025/26 will be brought to September's Executive Board.

6. Recommendations

- 6.1 Executive Board are recommended to note the position outlined in this paper by the Chief Officer – Financial Services concerning Leeds City Council's financial position as a consequence of the COVID-19 pandemic
- 6.2 Executive Board are requested to write to Government to ask for financial assistance to enable the Council to fulfil its requirements to deliver services to the residents of Leeds.
- 6.3 Executive Board are asked to note that a further paper is to be brought to Executive Board in June detailing the impact over the financial years 2020/21 and 2021/22 of COVID-19 and an updated forecast Budget Position for 2021/22.

7. Background documents¹

- 7.1 None.

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

Rationale

1. The budget for 2020/21 assumed a **pay award** of 2%, however the latest offer from employers is 2.75%. This adds a pressure of £3m. This pay award has not been accepted at the time of writing this paper, but every 1% increase adds a further £4m to the budget pressure.
2. The **capitalisation of salaries** occurs when staff within the Council complete works of a capital nature, enabling investment in the Council's assets. At present we capitalise £23m of salaries for this purpose. As staff are not currently undertaking the work on capital schemes these salaries cannot be capitalised and therefore result in a pressure on the revenue account.
3. **Capital Receipts** are generated to fund Minimum Revenue Provision, transformation of services and systems and PFI expenditure in the revenue account. The 2020/21 Revenue Budget assumes that £55.87m would be generated from Capital Receipts for these purposes. The current economic climate has made the generation of these receipts a high risk.
4. The 2020/21 additional COVID-19 related expenditure currently being forecast by directorates is detailed in the daily and monthly dashboards and assumes £27.3m.
5. The Council generates £777.2m of its income locally from Council Tax, Business Rates, Fees and Charges for goods and services provided, Commercial Income and Commercial rents.
 - 5.1 **Council Tax.** The Council generates £333.713m from Council Tax. Due to COVID-19 there is an expectation that the level of income will reduce by 10% (£34m). At the moment it is difficult to forecast the impact COVID-19 will have on collection rates however early indications are showing that this is a realistic forecast. It is not known yet whether this is a cashflow issue or whether the resources will not be collected in the future as more people struggle to pay their Council Tax liabilities. The hardship support for the LCTS scheme is estimated to require a further £2m and £4m growth in LCTS claimants is estimated.
 - 5.2 **Business Rates.** The Council generate £163.778m from Business Rates. It is assumed that there will be no growth in Business Rates for 2020/21 and that losses in the rates payable by businesses will be limited to the current safety net. It is however assumed that this will be a real loss of income and not a cashflow impact as many businesses are under significant financial pressure and not all are expected to continue in the future.
 - 5.3 **Fees and Charges.** The Council generates £256.6m in fees and charges for goods and services provided. Due to COVID-19 the Council is not currently providing many of these goods and services, as a result of which the estimated amount of irrecoverable income is £24.4m. This assumes 3 months total loss, 6 months reduced service and then 3 months back to pre COVID-19 levels for most income streams. If the impact of the pandemic continues for longer than anticipated then this shortfall in income will increase.
 - 5.4 **Commercial Income.** In addition the Council receives £23.2m in income from the following commercial activities:

- The Council has invested in assets within the Leeds City Region for regeneration purposes. These assets have also generated a yield for the Council which is at risk of not being achieved.
- Markets
- Advertising income
- Cafes and Parks
- The Arium
- Community Centres, etc.

This income cannot be generated where there has been closure of the facilities.

6. The 2020/21 budget assumed £28.4m of saving proposals to be implemented by directorates. The directorates have forecast that 46% will not be achieved, largely due to staff being deployed on COVID-19 delivery and unable to implement these proposals.

Note

Housing Rents - As a statutory ring fenced account the Housing Revenue Account (HRA) did not feature in the April return to MHCLG which detailed the impact of Coronavirus COVID-19 on the Authority's financial position in 2020/21. Subsequent dialogue with MHCLG has resulted in the inclusion of the HRA in the most recent financial impact return issued by MHCLG.