Leicester
City Council

Democratic and Civic
Support
City Hall
115 Charles Street
Leicester
LE1 1FZ

11 February 2020

Sir or Madam

I hereby summon you to a meeting of the LEICESTER CITY COUNCIL to be held at the Town Hall, on WEDNESDAY, 19 FEBRUARY 2020 at FIVE O'CLOCK in the afternoon, for the business hereunder mentioned.

Kamal Adatia

Monitoring Officer

AGENDA
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1 DECLARATIONS OF INTEREST

2 STATEMENTS BY THE CITY MAYOR/EXECUTIVE

3 MATTERS RESERVED TO COUNCIL

3a General Revenue Budget 2020/21

Council is asked to approve the recommendations set out on page 1.

3b Capital Programme 2020/21

Council is asked to approve the recommendations set out on page 53.

3c Housing Revenue Account Budget (including Capital Programme) 2020/21

Council is asked to approve the recommendations set out on page 87.

3d Treasury Policy

Council is asked to approve the Treasury Policy subject to any comments made by the Overview Select Committee at its meeting on 12 February 2020 which will be submitted prior to the Council meeting and a copy will be attached to the Council Script.

3e Treasury Management Strategy 2020/21

Council is asked to approve the Treasury Management Strategy 2020/21 subject to any comments made by the Overview Select Committee at its meeting on 12 February 2020 which will be submitted prior to the Council meeting and a copy will be attached to the Council Script

3f Investment Strategy 2020/21

Council is asked to approve the Investment Strategy 2020/21 subject to any comments made by the Overview Select Committee at its meeting on 12 February 2020 which will be submitted prior to the Council meeting and a copy will be attached to the Council Script

4 ANY OTHER URGENT BUSINESS

Fire & Emergency Evacuation Procedure

- The Council Chamber Fire Exits are the two entrances either side of the top bench or under the balcony in the far left corner of the room.
- In the event of an emergency alarm sounding make your way to Town Hall Square and assemble on the far side of the fountain.
- Anyone who is unable to evacuate using stairs should speak to any of the Town Hall staff at the beginning of the meeting who will offer advice on evacuation arrangements.
- From the public gallery, exit via the way you came in, or via the Chamber as directed by Town Hall staff.

Meeting Arrangements

- Please ensure that all mobile phones are either switched off or put on silent mode for the duration of the Council Meeting.

- Please do not take food into the Council Chamber.

- Please note that Council meetings are web cast live and also recorded for later viewing via the Council's web site. Tweeting in formal Council meetings is fine as long as it does not disrupt the meeting. Will all Members please ensure they use their microphones to assist in the clarity of the web-cast.

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  The aim of the Regulations and of the Council's policy is to encourage public interest and engagement so in recording or reporting on proceedings members of the public are asked:

✓ to respect the right of others to view and hear debates without interruption;

✓ to ensure that the sound on any device is fully muted and intrusive lighting avoided;

✓ where filming, to only focus on those people actively participating in the meeting;

- ✓ where filming, to (via the Chair of the meeting) ensure that those present are aware that they may be filmed and respect any requests to not be filmed.

MATTER RESERVED TO COUNCIL

3.a General Fund Revenue Budget 2020/21

The Council is asked to:-

a) Consider the City Mayor's proposed budget, to be published prior to the Budget Meeting and which will be attached to the Council Script;

b) Consider the views of the Overview Select Committee meeting on 12 February 2020 (which will be published prior to the Council meeting and a copy attached to the Council Script);

c) Consider any trade union views if these are received prior to the meeting.

The Council is recommended to approve the technical recommendations (which will be published prior to the meeting and attached to the Council Script) and the recommendations in the report of the Director of Finance, subject to any amendments recommended by the City Mayor.

Attached are copies of extracts from the following Scrutiny Committees and Commissions which considered the budget:

- Adult Social Care Scrutiny Commission – 4 February 2020 (Appendix 3 a.i)
- Children, Young People and Schools Scrutiny Commission – 28 January 2020 (Appendix 3 a.ii)
- Economic Development, Transport and Tourism Scrutiny Commission – 5 February 2020 (Appendix 3 a.iii)
- Health and Well-being Scrutiny Commission – 30 January 2020 (Appendix 3 a.iv)
- Heritage, Culture, Leisure and Sport Scrutiny Commission – 21 January 2020 (Appendix 3.a.v)
- Neighbourhood Services Scrutiny Commission – 15 January 2020 (Appendix 3 a.vii)

Leicester
City Council

Council **Date: 19th February 2020**

General Fund Revenue Budget 2020/21

Report of the Director of Finance

1. **Purpose**

1.1 The purpose of this report is to ask the Council to consider the City Mayor's proposed budget for 2020/21 and to present projections for 2021/22.

1.2 The proposed budget is described in this report, subject to any amendments the City Mayor may wish to recommend when he makes a firm proposal to the Council.

2. **Summary**

2.1 Since 2010, the Council has faced the most severe period of spending cuts we have ever experienced. We know from reports of the Institute of Fiscal Studies and our own analysis that government cuts have disproportionately hit the most deprived authorities (such as Leicester).

2.2 The budget for this year is made more difficult because we do not know the level of funding available beyond 2020/21.

2.3 Since last year, the Government has made announcements about the "end of austerity" in the public finances. While there has been some additional spending announced for next year, it should be noted that this does not reverse the significant cuts since 2010, and that pressures continue in demand-led services in Children's and Adults' social care.

2.4 Since 2014/15, the Council's approach to achieving these substantial budget reductions has been based on the following approach:-

(a) An in-depth review of discrete service areas (the "Spending Review Programme");

(b) Building up reserves, in order to "buy time" to avoid crisis cuts and to manage the Spending Review Programme effectively. We have termed this the "managed reserves strategy".

2.5 The Spending Review Programme is a continuous process. When individual reviews conclude, an Executive decision is taken and the budget is reduced in-year, without waiting for the next annual budget report. Executive decisions are informed by consultation with the public (where appropriate) and the scrutiny function.

2.6 This approach has served us well. Budgets for the period 2013/14 to 2015/16 contributed over £40m to reserves, which have been used to support budgets since 2016/17 and postpone the maximum impact of government cuts. This has been extended by regular reviews of reserves and other one-off monies available. Because of this approach, the Council has sufficient reserves available to balance the budget in 2020/21, and will have some remaining for subsequent years.

2.7 Funding levels beyond 2020/21 are particularly uncertain, with the planned move to 75% rates retention, the Government's planned funding review, and the risk of a return to centrally-imposed cuts to funding overall (see paragraphs 8.5 - 8.8). There are also significant unknowns around future funding for social care services.

2.8 To mitigate these risks, further savings from the spending review process are being used to extend the managed reserves strategy as far as possible. However, it seems inevitable that medium term budgets cannot be balanced without additional significant cuts.

2.9 As a consequence, the following approach has been adopted:-

(a) The budget for 2020/21 has been balanced using reserves, and can be adopted as the Council's budget for that year;

(b) Savings from the previous rounds of spending reviews are still being sought. These will seek to minimise the call on reserves in the remainder of 2019/20 and in 2020/21, and therefore to make additional amounts available to mitigate cuts in future years. Since February 2019, savings totalling £3.3m per year have been achieved and built into budget forecasts.

2.10 **What this means is that, in substance, the budget proposed is a one year budget. Projections of spending and income have been made beyond 2020/21, but they are uncertain and volatile.**

2.11 In common with other authorities nationally, we continue to face growth in social care costs, and it is not impossible that these services will consume an ever greater proportion of the budget (squeezing out the traditional services provided to the whole community). Government intentions for social care funding beyond 2020/21 are not clear; a reform strategy is planned for later in 2020, but it may be some years before it is fully implemented. It is also not clear whether this will be limited to older people, or will also cover younger adults requiring care (where the cost pressures are also substantial).

2.12 It should also be noted that there are some significant risks in the budget. These are described in paragraph 12, and to help mitigate these, a contingency of £2m has been included in the 2020/21 budget.

2.13 The budget provides for a council tax increase of 4% in 2020/21, which is the maximum available to us without a referendum. 2% of this 4% is for the "social care precept" – the Government has permitted social care authorities to increase tax by more than the 2% available to other authorities, in order to help meet social care pressures. In practice, increasing our tax by an additional 2% will only meet a small proportion of the extra costs we are incurring.

2.14 In the exercise of its functions, the City Council (or City Mayor) must have due regard to the Council's duty to eliminate discrimination, to advance equality of opportunity for protected groups and to foster good relations between protected groups and others. The budget is, in effect, a snap-shot of the Council's current commitments and decisions taken during the course of 2019/20. There are no proposals for decisions on specific courses of action that could have an impact on different groups of people. Therefore, there are no proposals to carry out an equality impact assessment on the budget itself, apart from the proposed council tax increase (this is further explained in paragraph 11 and the legal implications at paragraph 15). Where required, the City Mayor has considered the equalities implications of decisions when they have been taken and will continue to do so for future spending review decisions.

3. Recommendations

3.1 Subject to any amendments recommended by the City Mayor, the Council will be asked to:-

(a) approve the budget strategy described in this report, and the formal budget resolution for 2020/21 which will be circulated separately;

(b) note comments received on the draft budget from scrutiny committees and trade unions, and that no comments have been received from other partners;

(c) approve the budget ceilings for each service, as shown at Appendix One to this report;

(d) approve the scheme of virement described in Appendix Two to this report;

(e) note my view that reserves will be adequate during 2020/21, and that estimates used to prepare the budget are robust;

(f) note the equality implications arising from the proposed tax increase, as described in paragraph 11 and Appendix Three;

(h) emphasise the need for outstanding spending reviews to be delivered on time, after appropriate scrutiny.

4. **Budget Overview**

4.1 The table below summarises the proposed budget for 2020/21, and the forecast position for 2021/22:

	2020/21 £m	2021/22 £m
Service budget ceilings	274.7	270.4
Corporate Budgets		
Capital Financing	6.3	6.5
Miscellaneous Corporate Budgets	0.8	1.0
Corporate Contingency	2.0	
Education Funding Reform	1.0	1.0
Future Provisions		
Inflation		6.3
Planning Provision		3.0
Total forecast spending	**284.8**	**288.2**

Rates Retention		
Business rates income	65.2	
Top-up payment	47.8	
Revenue Support Grant	28.9	
Subtotal: rates retention	141.9	144.1
Less assumed future cuts		(3.0)
Council Tax	122.8	126.1
Collection Fund surplus	1.8	
Social Care grants	10.0	10.0
New Homes Bonus	5.9	5.0
Total forecast resources	**282.4**	**282.2**

Underlying gap in resources	**2.4**	**6.0**
Proposed funding from reserves	(2.4)	
Gap in resources	**NIL**	

4.2 The proposed budget for 2020/21 has an underlying budget gap of £2.4m, which represents a £6.5m decrease from the forecast in February 2019. The main changes to the budget position are summarised in the table below:

	2020/21 changes £m
Spending Reviews and other savings	3.1
Growth in local tax base (council tax & business rates)	4.3
Social care pressures (in excess of additional government resources)	(4.8)
Pay inflation	(2.7)
Reduced level of cuts to general funding	4.2
Collection fund surplus (one-off)	1.8
Other changes	0.6
Net decrease in budget gap since February 2019	**6.5**

4.3 The net decrease in the table above conceals significant additional pressures in social care services and pay costs. For 2020/21, the pressure on the budget is mitigated by cuts in government grant being slightly less than expected and a one-off surplus on rates and Council Tax income in the Collection Fund; but cost pressures are expected to continue to grow in future years.

4.4 The budget for 2021/22 is presented in broad terms only, and is particularly volatile. The current business rates retention scheme is due to be replaced from April 2021; we do not yet know the format of the new scheme, and the table above assumes that these changes are broadly neutral for the Council's finances. The position could be significantly worse than this: there are particular risks around social care cost pressures, the Government's review of local government funding formula, and/or a return to overall funding cuts for the sector. Under this scenario, the gap for 2021/22 could be as much as £36m.

5. **Construction of the Budget and Council Tax**

5.1 By law, the role of budget setting is for the Council to determine:

(a) The level of council tax;

(b) The limits on the amount the City Mayor is entitled to spend on any service ("budget ceilings"; the proposed budget ceilings are shown at Appendix One)

5.2 In line with Finance Procedure Rules, Council must also approve the scheme of virement that controls subsequent changes to these ceilings. The proposed scheme is shown at Appendix Two.

5.3 The City Council's proposed Band D tax for 2020/21 is £1,614.23, an increase of just under 4% compared to 2019/20.

5.4 The tax levied by the City Council constitutes only part of the tax Leicester citizens have to pay (albeit the major part – 84% in 2019/20). Separate taxes are raised by the Police and

Crime Commissioner and the Combined Fire Authority. These are added to the Council's tax, to constitute the total tax charged.

5.5 The actual amounts people will be paying in 2020/21, however, depend upon the valuation band their property is in and their entitlement to any discounts, exemptions or benefit. Almost 80% of properties in the city are in band A or band B, so the tax will be lower than the Band D figure quoted above.

5.6 The Police and Crime Commissioner and Combined Fire Authority will set their precepts in February 2020. The formal resolution will set out the precepts issued for 2020/21, together with the total tax payable in the city.

6. **Departmental Budget Ceilings**

6.1 Budget ceilings for each service have been calculated as follows:

(a) The starting point is last year's budget, subject to any changes made since then which are permitted by the constitution (e.g. virement), and excluding one-off additions identified in the 2019/20 budget. Budgets have also been adjusted for changes to the accounting treatment of insurance-related costs, and (for Health & Wellbeing and Education & Children's Services), to reflect a revised cost of providing accommodation for the Public Health function;

(b) Decisions taken by the Executive in respect of spending reviews, where the savings take effect in 2020/21, have been deducted from the ceilings;

(c) An allowance for non-pay inflation has been added to the budgets for independent sector adult care (2%), foster care (2%) and the waste PFI contract (RPI, in line with contract terms). Apart from these areas, no allowance has been made for non-pay inflation.

6.2 In contrast to previous years, the budget ceilings shown at Appendix One do *not* include any allowance for pay inflation. At the time of writing, the local government pay scales for 2020/21 had not been determined, and therefore a provision (equivalent to a pay award averaging around 2.5% across all pay grades) is being held centrally to meet the cost. This will be distributed to departmental budget ceilings when the details of the pay award are known.

6.3 The role of the Council is to determine the financial envelopes within which the City Mayor has authority to act. In some cases, changes to past spending patterns are required to enable departments to live within their budgets. Actions taken, or proposed by the City Mayor, to live within these budgets are described below.

City Development & Neighbourhoods

6.4 The department provides a wide range of statutory and non-statutory services which contribute to the wellbeing and civic life of the city.

6.5 The department's costs are not subject to the same levels of volatility as social care services, and pressures tend to be more easy to predict in advance. Nonetheless, the impact of austerity means the department (whilst expecting to live within its resources in 2019/20) may struggle to do so in 2020/21. Key pressures are:-

(a) Reduction in capital project work undertaken by the Estates and Building Services (EBS) division, and consequent loss of fee income. This pressure amounts to some £1m per annum;

(b) Pressures on budgets for property maintenance, which have recently been centralised as part of an earlier spending review (the Technical Services Review). The department is struggling to provide an appropriate level of service to meet assessed needs and a shortfall of some £0.6m has been identified;

(c) Lower income from Neighbourhood Services.

6.6 In total, budget pressures of up to £2m per year are anticipated.

6.7 The department continues to contribute to the spending review programme, and has achieved £2.5m as part of the new Spending Review 4 Programme, with work ongoing to deliver further savings.

Adult Social Care

6.9 Adult Social Care services nationally are facing severe cost pressures. This is now recognised by the Government, although long-term solutions have been continually deferred (we still await proposals in the form of a green paper).

6.10 Consequently, the Government has been providing additional resources on a year by year basis, at inadequate levels, with no guarantee that these will be increased (or indeed maintained) in future years. Total social care grant (to deal with pressures in both adults' and children's social care) now stands at £10m. For practical purposes, the budget assumes that this level of funding forms a base from which future Government decisions on funding will be made (i.e. it is unrealistic to assume that it will not continue in some form although there are no guarantees). Additionally, Better Care Fund monies paid directly to the department now amount to some £28.5m per year.

6.11 The Adult Social Care Department has managed its budget well in recent years. This is a consequence of additional funding which has been provided in council budgets, and measures to contain costs (including staffing reductions of 20% and tight controls ensuring the service can only be accessed by people who are statutorily entitled). It is expected that the department will live within its resources in 2019/20.

6.12 In 2020/21 and beyond, the department continues to face significant demand led pressures:-

(a) The growth in need of our existing service users resulting in additional support being added to their existing package of care. This is expected to increase at 5.5% per annum.

(b) Growth in service user numbers is expected to grow overall at 0.5% per annum. Growth in older service user numbers has been contained recently, but we are seeing more significant growth in working age adults with mental health conditions and learning disabilities.

(c) The cost of meeting need is rising by more than inflation, due to the impact of continuing increases in the National Living Wage (NLW) which drives care costs. The Government's intention is that the NLW will rise to £10.50 by 2025 (or two thirds of median wages at that time): this implies an increase of some 5% per annum during the intervening period.

6.13 The proposed budget provides an additional £3.1m per year to the departmental budget, in addition to support from the Better Care Fund.

6.14 It is expected that the cost of providing statutory packages of support will increase by around £15m per year, each year, beyond 2020/21, of which two thirds is due to need and one third to wage pressures. At present we have no indication of what funding might be made available by the Government (nor indeed whether social care will continue to be paid for in the same way as currently). The corporate budget strategy is predicated on two options, one being that the Government will provide sufficient funding to meet increased need in 2021/22, and one that they will provide less than the full cost.

6.15 The department continues to provide support to the Spending Review 4 Programme, which is meeting the Council's overall budget savings targets. To date, £2.6m has been achieved as part of this programme and proposals are being developed to achieve a further £0.8m.

<u>Education & Children's Services</u>

6.16 In common with authorities across the country, increasing demand for social care services is putting considerable pressure on the budget of the department (and of the Council). Anecdotally, more authorities seem to be reporting children's social care as the major source of their budget pressure than adult care. Blackpool council has reported that it will be cutting up to 75 jobs in order to increase budgets by £14m, and Liverpool has projected a £33m increase in its 20/21 budget gap arising from children's social care.

6.17 Whilst the department expects to live within its resources in 2019/20 (having received an injection of £11m in the 2019 budget on a one-off basis) it is now clear that the pressures on the system will persist. These include:-

(a) Social care placement costs. Pressures reported last year continue, and whilst placement numbers seem to have stabilised (but not reduced) we are seeing more teenagers with severe behavioural issues entering the system requiring high level support. This is despite the interventions of the new multisystemic therapy and functional family therapy teams, who have between them diverted 95 children from care in the first half of 2019/20;

(b) Pressures in respect of transport costs for looked after children and SEN pupils. These pressures may be reduced following a review and consultation on the local transport offer.

6.18 Whilst the director is achieving savings to reduce the overall burden on the general fund, the budget provides a further £11m on an on-going basis from 2020/21 (and an additional £3m on a one-off basis in 2020/21 to buy time for more fundamental review).

6.19 Measures taken, or expected to be taken, to control costs include:-

(a) Continued operation of the therapeutic intervention teams (which were partially funded by one-off business rates pilot income in 2019/20). These teams are now working with over 200 children per year;

(b) Seeking to increase the number of internal foster carers and reduce the use of external agencies;

(c) Careful review of all external residential and semi-independent placements;

(d) Savings from internal administration budgets;

(e) Reductions in the cost of the Connexions and Education Welfare Services.

Health & Wellbeing

6.20 The Health and Wellbeing Division consists of core public health services, together with sports and leisure provision. It is partly funded from Public Health Grant and partly from the general fund. Public Health Grant has been falling in recent years, but will be maintained at current levels in 2020/21 (after inflation). The department expects to manage within its budget.

6.21 The future of Public Health Grant beyond 2020/21 is unclear – it is anticipated that it will be consolidated into the new 75% business rates retention scheme (assuming this is implemented). This, however, remains uncertain as it is subject to agreement between the Ministry of Housing, Communities and Local Government; and the Department of Health – the latter may wish to impose requirements on how former Public Health Grant is spent in the future. We have no indication of the equivalent amount of grant we will receive in 2021/22.

6. 22 The department continues to contribute to the spending review programme, and has plans in place to achieve the remaining Spending Review 4 target for the department.

Corporate Resources & Support

6.23 The department primarily provides back office support services, but also some public facing services such as benefits and collection of council tax. It has made considerable savings in recent years in order to contribute to the Council's savings targets. It has nonetheless achieved a balanced budget each year.

6.24 The department is absorbing pressures within its overall budget envelope (including additional legal work associated with growing childcare caseloads, falling housing benefit administration grant and managing the change to Universal Credit). The department expects to live within budget in 2019/20 and 2020/21.

6.25 The department has achieved £2.4m towards the Council's Spending Review 4 Programme, and anticipates saving a further £0.9m principally through staffing reviews.

7. **<u>Corporately Held Budgets and Provisions</u>**

7.1 In addition to the service budget ceilings, some budgets are held corporately. These are described below.

7.2 The budget for **capital financing** represents the cost of interest and debt repayment on past years' capital spending. This budget is not controlled to a cash ceiling, and is managed by the Director of Finance. Costs which fall to be met by this budget are driven by the Council's treasury management strategy, which will also be approved by Council in February, and are affected by decisions made by the Director of Finance in implementation of this policy.

7.3 A one-off **corporate contingency** of £2m has been created in 2020/21 to manage significant pressures that arise during the year. This is particularly appropriate given the scale of reductions departments are having to make.

7.4 As set out in previous reports, **education funding reforms** have reduced the amount available to support centrally-managed services for schools and pupils, and for higher-needs pupils. These changes have a knock-on impact to general fund budgets. A provision has been made accordingly. (As well as the corporately held budget, some funding is now included in the departmental budget).

7.5 **Miscellaneous central budgets** include external audit fees, pensions costs of some former staff, levy payments to the Environment Agency, bank charges, general insurance costs, monies set aside to assist council taxpayers suffering hardship and other sums it is not appropriate to include in service budgets. These budgets are offset by the effect of charges from the general fund to other statutory accounts of the Council (which are reducing over time).

7.6 For 2021/22, amounts have also been included for future cost increases. These are indicative amounts – the budget for this year will be set in February 2021. A planning provision of £3m has also been included, to meet any future unavoidable cost pressures.

8. **<u>Resources</u>**

<u>Business Rates Retention Scheme</u>

8.1 Since 2013, local government has retained 50% of the business rates collected locally, with the other 50% being paid to central government. In Leicester, 1% is paid to the fire authority, and 49% has been retained by the Council. This is known as the "Business Rate Retention Scheme".

8.2 In recognition of the fact that different authorities' ability to raise rates do not correspond to needs, there are additional elements of the business rates retention scheme:

(a) a **top-up to local business rates**, paid to authorities with lower taxbases relative to needs (such as Leicester) and funded by authorities with greater numbers of higher-rated businesses.

(b) **Revenue Support Grant** (RSG), which has declined sharply in recent years as it is the main route for the government to deliver cuts in local government funding (and the methodology for doing this has disproportionately disadvantaged deprived authorities).

8.3 At the time of writing, allocations of the top up and RSG have not been finalised. This budget is based on the provisional settlement published in December 2019; no material changes are expected to these figures.

8.4 Our estimates of rates income take into account the amount of income we believe we will lose as a consequence of successful appeals. A significant number of appeals against the 2017 revaluation have not yet been decided, and appeals have been a source of volatility since business rates retention was introduced. Despite Government attempts to reduce this volatility, this is likely to continue as there are still a large number of outstanding appeals from earlier years (and any successful appeals will be backdated, potentially for several years). Valuations and appeals are not within the Council's control.

8.5 No figures have been made available for local government funding beyond 2020/21, either nationally or locally. While there have been moves in recent months to relax austerity in public spending, there are also significant pressures on the public finances and spending commitments (including schools, the NHS and police) which will need to be funded. It should not be assumed that there will be no further cuts to funding for "unprotected" departments, including local government.

8.6 Significant reforms to the funding system are planned from April 2021 (delayed from 2020), including increasing the proportion of rates retained locally to 75%. In itself, the change should be financially neutral, as other funding elements will be reduced to offset the additional retained rates. There may also be reforms to the system to cushion the impact of appeals.

8.7 There is likely to be a more substantial effect on the Council's finances from the "fair funding review" planned for the same date, which will redistribute resources between councils. At the time of writing, it is unclear what the impact will be on individual authorities. We should benefit from the new formula fully reflecting the differences in council taxbase between different areas of the country; however, there are other pressures on the funding available, including intensive lobbying from some authorities over perceived extra costs in rural areas.

8.8 For planning purposes, the budget figures for 2021/22 assume additional real-terms cuts of £3 million per year. This represents a significantly slower rate of cuts than we have seen in the period from 2013 to 2020. If the fair funding review and overall funding position are less favourable, these cuts could be significantly higher.

Council Tax

8.9 Council tax income is estimated at £122.8m in 2020/21, based on a tax increase of just below 4% (the maximum allowed without a referendum). For planning purposes, a tax increase of 2% has been assumed in 2021/22.

8.10 The proposed tax increase in 2020/21 includes the additional "social care levy" allowed since 2016/17, and designed to help social care authorities mitigate the growing costs of social care; the Government will expect us to demonstrate that the money is being used for this purpose (which it is).

8.11 The taxbase for 2020/21 has grown by 3% year-on-year, and is higher than estimated when the draft budget was prepared. This is the result of increased property numbers, declining costs of the Council Tax Support Scheme, and additional income from the higher rate of the Empty Homes Premium (following the Council decision in November 2018).

Other grants

8.12 The Government also controls a range of other grants. The majority of these are not shown in the table at paragraph 4.1, as they are treated as income to departments (departmental budgets are consequently lower than they would have been). Those held corporately are described below:

a) **New Homes Bonus (NHB)**. This is a grant which roughly matches the council tax payable on new homes, and homes which have ceased to be empty on a long term basis. The future of NHB is in doubt, and it may be rolled into the new business rates retention scheme from 2021/22.

b) Additional funding to support **Social Care** has been made available each year since 2017/18, although this has been as a series of one-off allocations rather than a stable funding stream. For 2020/21, the total funding nationally will be £1.65 billion (a £1 billion increase from 2019/20). Our share of this is £10 million; for comparison, this budget proposes increases to Adults' and Children's budgets totalling over £17 million in 2020/21.

Collection Fund surplus / deficit

8.13 Collection fund surpluses arise when more tax is collected than assumed in previous budgets. Deficits arise when the converse is true.

8.14 The Council has an estimated **council tax collection fund surplus** of £0.8m, after allowing for shares paid to the police and fire authorities. This has arisen because of growth in the number of homes liable to pay tax (which has been greater than was assumed when the budget was set) and a reduction in the costs of the council tax support scheme, linked to improvements in the local economy.

8.15 The Council has an estimated **business rates collection fund surplus** of £1.0m. This is largely due to a reduction in the forecast cost of appeals, following updated information from external advisers.

9. Managed Reserves Strategy

9.1 In the current climate, it is essential that the Council maintains reserves to deal with the unexpected. This might include continued spending pressures in demand led services, or further unexpected Government grant cuts.

9.2 The Council has agreed to maintain a minimum balance of £15m of reserves. The Council also has a number of earmarked reserves, which are further discussed in section 10 below.

9.3 In 2013, the Council approved the adoption of a managed reserves strategy. This involved contributing money to reserves in the early years of the strategy, and drawing down reserves in later years. This policy has bought time to more fully consider how to make the substantial cuts which have been necessary.

9.4 The managed reserves strategy is being extended by using in-year savings arising from spending reviews, and future reviews should enable a further extension of the strategy. Given the potential funding gaps from 2021/22 onwards, and the level of uncertainty around future funding, it is essential that these reviews are implemented promptly to ensure that managed reserves are available to mitigate the medium-term funding risks.

9.5 As at the end of the 2018/19 financial year, some £34m was available to support future budgets, a significant increase on the forecast when the 2019/20 budget was set. This increase is the result of savings in corporate budgets (as reported in the 2018/19 outturn) and a review of the accounting treatment of grant funding from previous years. Sums were also available to support demographic growth in social care.

9.6 The table below shows the forecast reserves available to support the managed reserves strategy:-

	£m
Brought forward 1st April 2019	33.6
Use planned in budget	(1.9)
Additional savings in-year	1.7
Forecast carry forward 1st April 2020	**33.4**
Required in 2020/21	(2.4)
Uncommitted balance	**31.0**

10. Earmarked Reserves

10.1 In addition to the general reserves, the Council also holds earmarked reserves which are set aside for specific purposes. These include ring-fenced funds which are held by the Council but for which we have obligations to other partners or organisations; departmental reserves, which are held for specific services; and corporate reserves, which are held for purposes applicable to the organisation as a whole.

10.2 Earmarked reserves are kept under review, and amounts which are no longer needed for their original purpose can be released for other uses, including the managed reserves strategy. At the time of preparing the budget report, this review process is ongoing.

11. Budget and Equalities

11.1 The Council is committed to promoting equality of opportunity for its residents; both through its policies aimed at reducing inequality of outcomes, and through its practices aimed at ensuring fair treatment for all and the provision of appropriate and culturally sensitive services that meet local people's needs.

11.2 In accordance with section 149 of the Equality Act 2010, the Council must "have due regard", when making decisions, to the need to meet the following aims of our Public Sector Equality Duty :-

(a) eliminate unlawful discrimination;

(b) advance equality of opportunity between those who share a protected characteristic and those who do not;

(c) foster good relations between those who share a protected characteristic and those who do not.

11.3 Protected groups under the public sector equality duty are characterised by age, disability, gender reassignment, pregnancy/maternity, race, religion or belief, sex and sexual orientation.

11.4 When making decisions, the Council (or decision maker, in this case the City Mayor) must be clear about any equalities implications of the course of action proposed. In doing so, it must consider the likely impact on those likely to be affected by the recommendation; their protected characteristics; and (where negative impacts are anticipated) mitigating actions that can be taken to reduce or remove that negative impact.

11.5 This report seeks approval to the proposed budget strategy. The report sets out financial ceilings for each service which act as maxima above which the City Mayor cannot spend (subject to his power of virement). However, decisions on services to be provided within the budget ceilings are taken by managers or the City Mayor separately from the decision regarding the budget strategy. Where appropriate, an individual Equalities Impact Assessment for these changes will be undertaken when these decisions are developed.

11.6 While this report does not contain details of specific service proposals, it does recommend a proposed council tax increase for the city's residents. The City Council's proposed tax for 2020/21 is £1,614.23, an increase of just below 4% compared to 2019/20. As the recommended increase could have an impact on those required to pay it, an assessment has been carried out to inform decision makers of the potential equalities implications. This analysis is provided at Appendix Three.

12. Risk Assessment and Adequacy of Estimates

12.1 Best practice requires me to identify any risks associated with the budget, and section 25 of the Local Government Act 2003 requires me to report on the adequacy of reserves and the robustness of estimates.

12.2 In the current climate, it is inevitable that the budget carries significant risk. In my view, although very difficult, the budget for 2020/21 is achievable subject to the risks and issues described below.

12.3 The most significant risks in the 2020/21 budget arise from:

(a) Social care spending pressures, specifically the risks of further growth in the cost of care packages and inability to contain the costs of looked after children;

(b) Ensuring spending reviews which have already been approved, but not yet implemented, deliver the required savings;

(c) Achievability of estimated rates income (although technically any shortfall will appear as a collection fund deficit in the 2020/21 budget), and particularly the extent of successful appeals against the 2017 revaluations. There is a further risk relating to a national legal challenge on NHS properties claiming charitable relief, where an appeal is likely. If successful, this would result in a major transfer of resources away from local authorities across the country;

(d) Increases in pay costs, over and above the 2.5% average pay award included in the proposed budget.

12.4 For 2021/22 and beyond, the budget projections are particularly uncertain. Risks to a balanced budget in these years include:-

(a) Non-achievement, or delayed achievement, of the remaining spending review savings; and/or further budget pressures within service departments meaning that any savings achieved cannot be used to reduce the overall budget gap;

(b) Loss of future resources. The funding landscape after 2020/21 is largely unknown, with the move to 75% business rates retention and the planned needs review (which could result in a gain or loss to the Council). Despite the Government's announcements of "the end of austerity", the risk of further cuts to funding from 2021/22 remains significant;

(c) Longer-term reforms to social care funding and expectations on local authorities, and the need to manage ongoing demographic pressures;

(d) Government policy includes above-inflation increases to the National Living Wage. This will put additional pressure on contract costs (particularly for independent sector care packages in Adults' Social Care).

12.5 A further risk is economic downturn, nationally or locally. This could result in new cuts to grant; falling business rate income; and increased cost of council tax reductions for taxpayers on low incomes. It could also lead to a growing need for council services and an increase in bad debts. The effect of Brexit remains to be seen.

12.6 The budget seeks to manage these risks as follows:-

(a) A minimum balance of £15m reserves will be maintained;

(b) A one-off corporate contingency of £2m is included in the budget for 2020/21;

(c) A planning contingency is included in the budget from 2021/22 onwards (£3m per annum);

(d) Spending Review savings are being implemented as soon as possible, and the resulting savings "banked" to support future budgets.

12.7 Subject to the above comments, I believe the Council's general and earmarked reserves to be adequate. I also believe estimates made in preparing the budget are robust. (Whilst no inflation is provided for the generality of running costs in 2020/21, some exceptions are made, and it is believed that services will be able to manage without an allocation).

13. **Consultation on the Draft Budget**

13.1 Comments on the draft budget have been sought from:-

(a) The Council's scrutiny function;

(b) Key partners and other representatives of communities of interest;

(c) Business community representatives (a statutory consultee);

(d) The Council's trade unions.

13.2 No comments have been received from partners. Scrutiny minutes will be circulated with your agenda, as will any response from trade unions.

14. **Financial Implications**

14.1 This report is exclusively concerned with financial issues.

14.2 Section 106 of the Local Government Finance Act 1992 makes it a criminal offence for any member with arrears of council tax which have been outstanding for two months or more to attend any meeting at which a decision affecting the budget is to be made unless the member concerned declares the arrears at the outset of the meeting and that as a result s/he will not be voting. The member can, however, still speak. The rules are more circumscribed for the City Mayor and Executive. Any executive member who has arrears outstanding for 2 months or more cannot take part at all.

15. **Legal Implications (Kamal Adatia, City Barrister)**

15.1 The budget preparations have been in accordance with the Council's Budget and Policy Framework Procedure Rules – Council's Constitution – Part 4C. The decision with regard to the setting of the Council's budget is a function under the constitution which is the responsibility of the full Council.

15.2 At the budget-setting stage, Council is estimating, not determining, what will happen as a means to the end of setting the budget and therefore the council tax. Setting a budget is not the same as deciding what expenditure will be incurred. The Local Government Finance Act, 1992, requires an authority, through the full Council, to calculate the aggregate of various estimated amounts, in order to find the shortfall to which its council tax base has to be applied. The Council can allocate greater or fewer funds than are requested by the Mayor in his proposed budget.

15.3 As well as detailing the recommended council tax increase for 2020/21, the report also complies with the following statutory requirements:-

(a) Robustness of the estimates made for the purposes of the calculations;
(b) Adequacy of reserves;
(c) The requirement to set a balanced budget.

15.4 Section 65 of the Local Government Finance Act, 1992, places upon local authorities a duty to consult representatives of non-domestic ratepayers before setting a budget. There are no specific statutory requirements to consult residents, although in the preparation of this budget the Council has undertaken tailored consultation exercises with wider stakeholders.

15.5 The discharge of the 'function' of setting a budget triggers the duty in s.149 of the Equality Act, 2010, for the Council to have "due regard" to its public sector equality duties. These are set out in paragraph 11. There are considered to be no specific proposals within this year's budget that could result in new changes of provision that could affect different groups of people sharing protected characteristics. As a consequence, there are no service-specific 'impact assessments' that accompany the budget. There is no requirement in law to undertake equality impact assessments as the only means to discharge the s.149 duty to have "due regard". The discharge of the duty is not achieved by pointing to one document looking at a snapshot in time, and the report evidences that the Council treats the duty as a live and enduring one. Indeed case law is clear that undertaking an EIA on an 'envelope-setting' budget is of limited value, and that it is at the point in time when policies are developed which reconfigure services to live within the budgetary constraint when impact is best assessed. However, an analysis of equality impacts has been prepared in respect of the proposed increase in council tax, and this is set out in Appendix Three.

15.6 Judicial review is the mechanism by which the lawfulness of Council budget-setting exercises are most likely to be challenged. There is no sensible way to provide an assurance that a process of budget setting has been undertaken in a manner which is immune from challenge. Nevertheless the approach taken with regard to due process and equality impacts is regarded by the City Barrister to be robust in law.

16. **Report Authors**

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Budget ceilings

	Revised 19/20 budget £000s	Remove one-off funding in 19/20 £000s	Spending Reviews approved £000s	Non-pay inflation £000s	Insurance costs & other changes £000s	Social care funding package £000s	**2020/21 budget ceiling £000s**
1. City Development & Neighbourhoods							
1.1 Neighbourhood & Environmental Services							
Divisional Management	**358.8**				(1.9)		**356.9**
Regulatory Services	**3,025.0**		(55.0)		(71.3)		**2,898.7**
Waste Management	**17,323.9**			458.0	(7.3)		**17,774.6**
Parks & Open Spaces	**3,727.0**				(155.9)		**3,571.1**
Neighbourhood Services	**5,390.2**				(68.3)		**5,321.9**
Standards & Development	**1,611.6**				(43.0)		**1,568.6**
Divisional sub-total	**31,436.5**	**0.0**	**(55.0)**	**458.0**	**(347.7)**	**0.0**	**31,491.8**
1.2 Tourism, Culture & Inward Investment							
Arts & Museums	**4,168.1**		(78.0)		(86.1)		**4,004.0**
De Montfort Hall	**515.4**				(33.1)		**482.3**
City Centre	**175.9**				(1.5)		**174.4**
Place Marketing Organisation	**375.3**				(3.0)		**372.3**
Economic Development	**2.6**				(19.4)		**(16.8)**
Markets	**(314.5)**		(80.0)		(8.3)		**(402.8)**
Adult Skills	**(870.4)**						**(870.4)**
Divisional Management	**208.5**				(2.7)		**205.8**
Divisional sub-total	**4,260.9**	**0.0**	**(158.0)**	**0.0**	**(154.1)**	**0.0**	**3,948.8**
1.3 Planning, Development & Transportation							
Transport Strategy	**10,012.6**		(150.0)		(56.3)		**9,806.3**
Highways	**4,027.5**		(100.0)		(678.1)		**3,249.4**
Planning	**974.4**				(41.7)		**932.7**
Divisional Management	**207.9**				(3.9)		**204.0**
Divisional sub-total	**15,222.4**	**0.0**	**(250.0)**	**0.0**	**(780.0)**	**0.0**	**14,192.4**
1.4 Estates & Building Services	**4,841.4**	(100.0)	(150.0)		(122.9)		**4,468.5**
1.5 Housing Services	**2,822.8**				(479.4)		**2,343.4**
1.6 Departmental Overheads							
School Organisation & Admissions	**454.3**				(12.0)		**442.3**
Overheads	**566.6**		50.0		(3.1)		**613.5**
Divisional sub-total	**1,020.9**	**0.0**	**50.0**	**0.0**	**(15.1)**	**0.0**	**1,055.8**
DEPARTMENTAL TOTAL	**59,604.9**	**(100.0)**	**(563.0)**	**458.0**	**(1,899.2)**	**0.0**	**57,500.7**

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Appendix One

Budget ceilings

	Revised 19/20 budget £000s	Remove one-off funding in 19/20 £000s	Spending Reviews approved £000s	Non-pay inflation £000s	Insurance costs & other changes £000s	Social care funding package £000s	2020/21 budget ceiling £000s
2.1 Adult Social Care & Safeguarding							
Other Management & support	**656.9**				(7.8)		**649.1**
Safeguarding	**172.4**				(3.5)		**168.9**
Preventative Services	**6,415.3**				(79.7)		**6,335.6**
Independent Sector Care Packages	**95,843.0**		(70.0)	2,035.7	(1,030.7)	12,393.0	**109,171.0**
Care Management (Localities)	**6,677.8**				(94.5)		**6,583.3**
Divisional sub-total	**109,765.4**	**0.0**	**(70.0)**	**2,035.7**	**(1,216.2)**	**12,393.0**	**122,907.9**
2.2 Adult Social Care & Commissioning							
Enablement & Day Care	**2,968.3**				(52.5)		**2,915.8**
Care Management (LD & AMH)	**4,945.1**				(67.9)		**4,877.2**
Preventative Services	**1,380.1**				(0.8)		**1,379.3**
Contracts,Commissioning & Other Support	**5,462.5**				(72.6)		**5,389.9**
Substance Misuse	**5,559.7**						**5,559.7**
Departmental	**(20,939.8)**	(570.0)			(8.4)	(9,308.0)	**(30,826.2)**
Divisional sub-total	**(624.1)**	**(570.0)**	**0.0**	**0.0**	**(202.2)**	**(9,308.0)**	**(10,704.3)**
DEPARTMENTAL TOTAL	**109,141.3**	**(570.0)**	**(70.0)**	**2,035.7**	**(1,418.4)**	**3,085.0**	**112,203.6**
3. Education & Children's Services							
3.1 Strategic Commissioning & Business Support	**1,039.4**				(13.6)	210.5	**1,236.3**
3.2 Learning Quality & Performance							
Raising Achievement	**331.2**				(18.7)	6.2	**318.7**
Learning & Inclusion	**1,903.4**				(35.0)	(914.3)	**954.1**
Special Education Needs and Disabilities	**8,316.2**				989.1	(299.7)	**9,005.6**
Divisional sub-total	**10,550.8**	**0.0**	**0.0**	**0.0**	**935.4**	**(1,207.8)**	**10,278.4**
3.3 Children, Young People and Families							
Children In Need	**11,183.4**				(102.4)	(444.0)	**10,637.0**
Looked After Children	**38,716.5**			188.3	(165.3)	4,229.8	**42,969.3**
Safeguarding & QA	**2,620.2**				(37.8)	(316.4)	**2,266.0**
Early Help Targeted Services	**5,214.8**				218.6	(123.1)	**5,310.3**
Early Help Specialist Services	**2,320.6**				(50.4)	798.8	**3,069.0**
Divisional sub-total	**60,055.5**	**0.0**	**0.0**	**188.3**	**(137.3)**	**4,145.1**	**64,251.6**

3.4 Departmental Resources	**(2,766.8)**	(6,000.0)			(58.0)	10,852.2	**2,027.4**
DEPARTMENTAL TOTAL	**68,878.9**	**(6,000.0)**	**0.0**	**188.3**	**726.5**	**14,000.0**	**77,793.7**
	Revised 19/20 budget £000s	Remove one-off funding in 19/20 £000s	Spending Reviews approved £000s	Non-pay inflation £000s	Insurance costs & other changes £000s	Social care funding package £000s	**2020/21 budget ceiling £000s**
4. Health & Wellbeing							
4.1 Health and Wellbeing							
Adults' Services	**4,250.6**				(77.0)		**4,173.6**
Children's 0-19 Services	**8,967.5**		(500.0)		77.0		**8,544.5**
Lifestyle Services	**1,259.2**		(45.0)		(12.3)		**1,201.9**
Staffing, Infrastructure & Other	**1,359.0**				(22.5)		**1,336.5**
Sports Services	**2,720.7**		(300.0)		(69.8)		**2,350.9**
DEPARTMENTAL TOTAL	**18,557.0**	**0.0**	**(845.0)**	**0.0**	**(104.6)**	**0.0**	**17,607.4**
5. Corporate Resources Department							
5.1 Delivery, Communications & Political Governance	**5,659.5**				(75.5)		**5,584.0**
5.2 Financial Services							
Financial Support	**4,801.1**				(232.6)		**4,568.5**
Revenues & Benefits	**6,414.4**	(100.0)			(125.7)		**6,188.7**
Divisional sub-total	**11,215.5**	**(100.0)**	**0.0**	**0.0**	**(358.3)**	**0.0**	**10,757.2**
5.3 Human Resources	**3,899.0**				(55.8)		**3,843.2**
5.4 Information Services	**9,256.3**		(132.0)		(78.0)		**9,046.3**
5.5 Legal Services	**2,673.8**				(68.0)		**2,605.8**
DEPARTMENTAL TOTAL	**32,704.1**	**(100.0)**	**(132.0)**	**0.0**	**(635.6)**	**0.0**	**31,836.5**
TOTAL -Service Budget Ceilings	**288,886.2**	**(6,770.0)**	**(1,610.0)**	**2,682.0**	**(3,331.3)**	**17,085.0**	**296,941.9**
***less* public health grant**	**(26,103.0)**				(496.0)		**(26,599.0)**
NET TOTAL	**262,783.2**	**(6,770.0)**	**(1,610.0)**	**2,682.0**	**(3,827.3)**	**17,085.0**	**270,342.9**
***add* provision for pay awards**							**4,400.0**
TOTAL ESTIMATED SERVICE SPENDING							**274,742.9**

Appendix Two

Scheme of Virement

1. This appendix explains the scheme of virement which will apply to the budget, if it is approved by the Council.

Budget Ceilings

2. Directors are authorised to vire sums within budget ceilings without limit, providing such virement does not give rise to a change of Council policy.

3. Directors are authorised to vire money between any two budget ceilings within their departmental budgets, provided such virement does not give rise to a change of Council policy. The maximum amount by which any budget ceiling can be increased or reduced during the course of a year is £500,000. This money can be vired on a one-off or permanent basis.

4. Directors are responsible, in consultation with the appropriate Assistant Mayor if necessary, for determining whether a proposed virement would give rise to a change of Council policy.

5. Movement of money between budget ceilings is not virement to the extent that it reflects changes in management responsibility for the delivery of services.

6. The City Mayor is authorised to increase or reduce any budget ceiling. The maximum amount by which any budget ceiling can be increased during the course of a year is £5m. Increases or reductions can be carried out on a one-off or permanent basis.

7. The Director of Finance may vire money between budget ceilings where such movements represent changes in accounting policy, or other changes which do not affect the amounts available for service provision.

8. Nothing above requires the City Mayor or any director to spend up to the budget ceiling for any service.

Corporate Budgets

9. The following authorities are granted in respect of corporate budgets:

   (a) the Director of Finance may incur costs for which there is provision in miscellaneous corporate budgets, except that any policy decision requires the approval of the City Mayor;

   (b) the Director of Finance may allocate the provision for the 2020/21 pay award;

   (c) the City Mayor may determine the use of the corporate contingency;

   (d) the City Mayor may determine the use of the provision for Education Funding reform.

Earmarked Reserves

10. Earmarked reserves may be created or dissolved by the City Mayor. In creating a reserve, the purpose of the reserve must be clear.

11. Directors may add sums to an earmarked reserve, from:

    (a) a budget ceiling, if the purposes of the reserve are within the scope of the service budget;

    (b) a carry forward reserve, subject to the usual requirement for a business case.

12. Directors may spend earmarked reserves on the purpose for which they have been created.

13. When an earmarked reserve is dissolved, the City Mayor shall determine the use of any remaining balance.

Appendix Three

Equality Impact Assessment

1. **Purpose**

1.1 This appendix presents the equalities impact of the proposed 3.99% council tax increase. This is the maximum increase that the Government will allow us without a referendum.

2. **Who is affected by the proposal?**

2.1 As at 30 November 2019, there are 129,117 properties liable for Council Tax in the city (excluding those registered as exempt, such as student households).

2.2 All working age households in Leicester are required to contribute towards their council tax bill. Our current council tax support scheme (CTSS) requires working age households to pay at least 20% of their council tax bill and sets out to ensure that the most vulnerable householders are given some relief in response to financial hardship they may experience.

2.3 Council tax relief for pensioner households follows different rules. Low-income pensioners are eligible for up to 100% relief.

3. **How are they affected?**

3.1 The table below sets out the financial impact of the proposed council tax increase on different properties, before any discounts or reliefs are applied. It shows the weekly increase in each band, and the minimum weekly increase for those in receipt of a reduction under the CTSS for working-age households.

3.2 For band B properties (almost 80% of the city's properties are in bands A or B), the proposed annual increase in council tax is £48.27; the minimum annual increase for households eligible under the CTSS would be £9.65 (for a working-age household, and excluding the impact of any other discounts).

Band	No. of Properties	Weekly increase	Minimum Weekly Increase under CTSS
A-	286	£0.66	£0.13
A	76,721	£0.79	£0.16
B	25,717	£0.93	£0.19
C	14,781	£1.06	£0.32
D	6,141	£1.19	£0.45
E	3,339	£1.45	£0.71
F	1,504	£1.72	£0.98
G	592	£1.98	£1.24
H	36	£2.38	£1.64
Total	**129,117**		

Notes: "A-" properties refer to band A properties receiving an extra reduction for Disabled Relief. Households may be entitled to other discounts on their council tax bill, which are not shown in the table above.

3.3 In most cases, the change in council tax (£0.93/week for a band B property with no discounts) is a small proportion of disposable income, and a small contributor to any squeeze on household budgets. A Council Tax increase would be applicable to all properties - the increase would not target any one protected group, rather it would be an increase that is applied across the board. However, it is recognised that this may have a more significant impact among households with a low disposable income.

3.4 Some households reliant on social security benefits are likely to be adversely affected due to the cumulative impact of further implementation of the Government's welfare reforms, in particular the rollout of Universal Credit full service which was implemented in Leicester in June 2018.

3.5 The ASDA income tracker for August 2019[1] shows relatively strong growth in disposable incomes over the past year, reflecting low unemployment, real-terms wage growth, and falling inflation rates. However, this is not evenly spread, with the lowest-income fifth of households seeing a 2.6% *fall* in discretionary spending power over the year.

3.6 Research by the Joseph Rowntree Foundation (JRF) has identified certain groups who are particularly likely to be on a low income[2] and may therefore see a disproportionate effect from a small (in absolute terms) increase in council tax. These include lone parents, single-earner couples and larger families (with 3 or more children).

3.7 The JRF report also highlights ongoing inflationary pressures on the household budgets of low-income groups. While overall CPI inflation has fallen recently, there have been higher increases in the costs of domestic fuel and public transport, which have a disproportionate effect on many low-income households. Increasing childcare costs, which are not fully met by tax credits or Universal Credit, are also identified as a particular pressure.

4. Alternative options

4.1 Within the current financial context, the alternative options of a lower (or no) increase would inevitably, over time, require even greater cuts to services. It is not possible to say where these cuts would fall; however, certain protected groups (e.g. older people; families with children; and people with disabilities) could face disproportionate impacts from reductions to services.

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[1] The ASDA income tracker is an indicator of the economic prosperity of 'middle Britain', taking into account income, tax and all basic expenditure. ASDA's customer base matches the UK demographic more closely than that of other supermarkets.

[2] *A Minimum Income Standard for the United Kingdom in 2019,* JRF, July 2019. The JRF report is based around a different measure of "low income" to the ASDA income tracker, based on the ability to afford an assessed minimum living standard.

5. **Mitigating actions**

5.1 For residents likely to experience short term financial crises as a result of the cumulative impacts of the above risks, the Council has a range of mitigating actions. These include: funding through Discretionary Housing Payments; the council's work with voluntary and community sector organisations to provide food to local people where it is required – through the council's or partners' food banks; through schemes which support people getting into work (and include cost reducing initiatives that address high transport costs such as providing recycled bicycles); and through support to social welfare advice services. The Council is also running a welfare benefits take-up campaign, to raise awareness of entitlements and boost incomes among vulnerable groups.

6. **What protected characteristics are affected?**

6.1 The table below describes how each protected characteristic is likely to be affected by the proposed council tax increase. The table sets out anticipated impacts, along with mitigating actions available to reduce negative impacts.

6.2 Some protected characteristics are not, as far as we can tell, disproportionately affected (as will be seen from the table) because there is no evidence to suggest they are affected differently from the population at large. They may, of course, be disadvantaged if they also have other protected characteristics that are likely to be affected, as indicated in the following analysis of impact based on protected characteristic.

Analysis of impact based on protected characteristic

Protected characteristic	Impact of proposal:	Risk of negative impact:	Mitigating actions:
Age	Older people are least affected by a potential increase in council tax. Older people (pension age & older) have been relatively protected from the impacts of the recession & welfare cuts, as they receive protection from inflation in the uprating of state pensions. Low-income pensioners also have more generous (up to 100%) council tax relief. However, in the current financial climate, a lower council tax increase would require even greater cuts to services. While it is not possible to say where these cuts would fall exactly, there are potential negative impacts for this group as older people are the primary service users of Adult Social Care. Working age people bear the brunt of the impacts of welfare reform reductions – particularly those with children. Whilst an increasing proportion of working age residents are in work, national research indicates that those on low wages are failing to get the anticipated uplift of the National Living Wage.	Working age households and families with children – incomes squeezed through low wages and reducing levels of benefit income.	Access to council discretionary funds for individual financial crises; access to council and partner support for food; and advice on managing household budgets.
Disability	Disability benefits have been reduced over time as thresholds for support have increased. The tax increase could have an impact on such household incomes. However, in the current financial climate, a lower council tax increase would require even greater cuts to services. While it is not possible to say where these cuts would fall exactly, there are potential negative impacts for this group as disabled people are more likely to be service users of Adult Social Care.	Further erode quality of life being experienced by disabled people as their household incomes are squeezed further as a result of reduced benefits.	Disability benefits are disregarded in the assessment of need for CTSS purposes. Access to council discretionary funds for individual financial crises; access to council and partner support for food; and advice on better managing budgets.
Gender Reassignment	No disproportionate impact is attributable specifically to this characteristic.		

Pregnancy and Maternity	Maternity benefits have not been frozen and therefore kept in line with inflation. However, other social security benefits have been frozen, but without disproportionate impact arising for this specific protected characteristic.		
Race	Those with white backgrounds are disproportionately on low incomes (indices of multiple deprivation) and in receipt of social security benefits. Some BME people are also low income and on benefits. Nationally, one-earner couples have seen particular falls in real income and are disproportionately of Asian background – which suggests an increasing impact on this group.	Household income being further squeezed through low wages and reducing levels of benefit income.	Access to council discretionary funds for individual financial crises, access to council and partner support for food and advice on managing household budgets. Where required, interpretation and translation will be provided in line with the Council's policy to remove barriers to accessing the support identified.
Religion or Belief	No disproportionate impact is attributable specifically to this characteristic.		
Sex	Disproportionate impact on women who tend to manage household budgets and are responsible for childcare costs. Women are disproportionately lone parents. Analysis has identified lone parents as a group particularly likely to lose income from welfare reforms.	Incomes squeezed through low wages and reducing levels of benefit income. Increased risk for women as they are more likely to be lone parents.	If in receipt of Universal Credit or tax credits, a significant proportion of childcare costs are met by these sources. Access to council discretionary funds for individual financial crises, access to council and partner support for food and advice on managing household budgets.
Sexual Orientation	No disproportionate impact is attributable specifically to this characteristic.		

Leicester
City Council

MINUTE EXTRACT

Minutes of the Meeting of the
ADULT SOCIAL CARE SCRUTINY COMMISSION

Held: TUESDAY, 4 FEBRUARY 2020 at 5:30 pm

P R E S E N T:

Councillor March (Vice-Chair in the Chair)

Councillor Batool
Councillor Kitterick
Councillor Kaur Saini
Councillor Thalukdar

In Attendance

Councillor Russell – Deputy City Mayor, Social Care and Anti-Poverty

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45. APOLOGIES FOR ABSENCE

Apologies were received from the Chair Councillor Joshi. Councillor March as Vice Chair to the Chair for the meeting.

Apologies for absence were also received from Councillor Khote and Ruth Lake.

Members wished Councillor Khote a speedy recovery.

46. DECLARATIONS OF INTEREST

No declarations of interest were made.

51. DRAFT GENERAL FUND REVENUE BUDGET REPORT 2020-21

The Director of Finance submitted a report setting out the City Mayor's proposed budget for 2020/21 to 2021/22. The Commission was recommended to consider and comment on the Adult Social Care element of the budget. The Commission's comments would be forwarded to the Overview Select Committee as part of its consideration of the report before presentation to the meeting of Council on 19th February 2020.

Councillor Russell, Deputy City Mayor, Social Care and Anti-Poverty introduced the report. The Commission was asked to note the budget presented was for one year, with no financial certainty beyond 2020/21, leaving the budget for Adult Social Care vulnerable. It was further noted that steadily increasing demand, with increased costs had made it a volatile service budget area.

Martin Judson, Head of Finance, said the Service was reliant on the Better Care Fund monies of £28.5m each year and the budget had to factor in the increasing needs of existing service users at 5.5% (£10m) per annum. A growth in service user numbers was also expected of 0.5% per annum and an increase in the National Living Wage at 6%, which equated to an annual overall growth in costs of rate of 11.5% for 2020/21. As a result an additional £3m of growth has been included in the 2020/21 budget. Beyond 2020/21 there would be an increasing gap between resources and expenditure of at least £15m per annum unless a long-term funding solution was provided by central government.

It was noted that £2.5m had been achieved towards a £5m savings target under the Spending Review 4 Programme so far, and work was ongoing to find further savings and the remaining £2.5m was not attached to any particular review.

The Deputy City Mayor informed the meeting that a report on the charging policy would be brought to the next meeting of the Scrutiny Commission. She noted the Enablement Service costs were approximately £1m but believed it offset costs of £1m and if funding was ceased the Department would see an increase in costs elsewhere in the budget in future years. It was noted the Department was currently meeting need but was under immense pressure as demand rose.

The Chair asked if the Council sought assurances from other health and social care providers in the city, for example, Leicester Partnership NHS Trust, that adequate, timely support and budgeting was provided to the increasing needs of vulnerable adults. The Deputy City Mayor affirmed that the range of partners working with the Council functioned together to maximise resources.

The Commission acknowledged the difference between available budget and expenditure and the lack of ability to forward plan, and the growing complexity of needs for people below retirement age with deep concern.

AGREED:

that:

1. The Commission note the report;
2. The Commission raise concerns relating to severe cost pressures on Adult Social Care services for the future.
3. Comments and recommendation from the Commission on the budget item go to Overview Select Committee to inform Budget Council.

Leicester City Council

MINUTE EXTRACT

Minutes of the Special Meeting of the
CHILDREN, YOUNG PEOPLE AND SCHOOLS SCRUTINY COMMISSION

Held: TUESDAY, 28 JANUARY 2020 at 5:30 pm

P R E S E N T :

Councillor Dawood (Chair)
Councillor Cole (Vice-Chair)

Councillor Hunter	Councillor Rahman
Councillor Pantling	Councillor Riyait

Councillor Whittle

In Attendance:

Councillor Cutkelvin, Assistant City Mayor - Education and Housing
Councillor Russell, Deputy City Mayor - Social Care and Anti-Poverty

Also Present:

Joseph Wyglendacz - Teaching Unions Representative
Janet McKenna - Unison

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51. APOLOGIES FOR ABSENCE

An apology for absence was received from Carolyn Lewis (Church of England Diocese).

52. DECLARATIONS OF INTEREST

There were no Declarations of Interest.

53. GENERAL FUND REVENUE BUDGET 2020/21 TO 2021/22

The Chair referred to the draft report due to be considered by Council on 19 February 2020 which outlined the City Mayor's proposed budget for 2020/2021 and invited the Deputy City Mayor (Social Care and Anti-Poverty) to introduce the item.

It was noted that an expected overspend had been identified due to the requirement to ensure the correct and appropriate levels of care services were in place. The Deputy City Mayor (Social Care and Anti-Poverty) advised that the safety and protection of children was an absolute priority of the Council as it was for all other local authorities.

To supplement the information in the report, data was also circulated which explained the pressures on the service, principally arising from increased costs of external care provision. The importance and impact of the early-help service to provide care and protection was recognised. The need to challenge placement companies in terms of their charging structures and competition policies was highlighted. It was accepted that this issue could not be tackled locally but required a national campaign and lobbying.

The Director of Finance then submitted the draft report due to be considered by Council and clarified that the proposed budget was for one year, as significant changes to local government finance were expected. The impact of delayed decisions concerning the extent of future Business Rates retention and the Fair Funding Review, due to pressures including Brexit and the General Election were reported and noted.

It was clarified that there would be a recommendation to allow a rise in Council Tax and that a proposed use of reserves would be effected to ensure that the overall funding gap could be filled, at least in part. In respect of the information circulated showing a summary of the situation, the Commission noted the impact of the spending review programme and the savings expected from revisions to services such as Connexions and the Educational Welfare Service were explained.

In response to data from comparable neighbouring authorities and the position nationally, the number of looked after children (LAC) was noted and it was recognised that the type and suitability of provision was the principal influencing factor in terms of overall cost. It was reported that numbers of new LAC entering the system was difficult to predict with any certainty and therefore some assumptions on likely trends had to be made. The Director of Social Care and Early Help commented on the monitoring of LAC as a cohort and advised of the work undertaken to ensure that suitable placement arrangements could be made, including family placements and increased delivery of fostering and adoption options. The internal monitoring efforts and the value of the work of the Placement Sufficiency Board in this regard were reported and recognised.

The proportions of cost by type of provision compared the proportion of LAC in those provisions was highlighted, and in response to a question from the Vice-Chair it was accepted that the internal placement costs were also significant when compared to the proportion of the overall cost. In response to a question from the Chair it was reported that options for providing a higher proportion of internal placements were being explored, including increasing the numbers of fostering placements.

In terms of local government finance and in response to questions, it was confirmed that no information was available on the likely level of funding beyond 2020/21. The increases in the average costs of placements and the effect of inflation were reported and noted.

In response to questions concerning staffing it was confirmed that the numbers of agency social workers had dramatically reduced and information concerning the savings from vacant posts was provided.

The challenges concerning mental health assessment and the role of the Child and Adolescent Mental Health Service (CAMHS) was discussed and it was noted that the Council did care for a number of children with very severe mental and emotional needs.

The Assistant City Mayor (Education) was invited to comment on the report and it was reported that the suggested changes to services, including Connexions, were currently subject of a consultation exercise.

AGREED:

1. That the report and proposed budget to Council be noted.

2. That the uncertainties concerning future government funding be noted and recognised.

3. That updates concerning the results of consultation on the proposed alterations to service provision be submitted to future meetings of the Commission at the appropriate time.

4. That any other significant impacts on services as a result of the Spending Review Programme be submitted to a future meeting of the Commission at the appropriate time.

Leicester City Council

MINUTE EXTRACT

Minutes of the Meeting of the
ECONOMIC DEVELOPMENT, TRANSPORT AND TOURISM SCRUTINY COMMISSION

Held: WEDNESDAY, 5 FEBRUARY 2020 at 5:30 pm

P R E S E N T :

Councillor Waddington (Chair)
Councillor Sandhu (Vice-Chair)

Councillor Broadwell
Councillor Rae Bhatia
Councillor Valand

In Attendance:

Sir Peter Soulsby – City Mayor

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52. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Fonseca and Councillor Joel.

53. DECLARATIONS OF INTEREST

Councillor Broadwell declared an Other Disclosable Interest in the general business of the meeting in that she was the Acting Chair of the Leicester Transport Users Union. In accordance with the Council's Code of Conduct, this interest was not considered so significant that it was likely to prejudice Councillor Broadwell's judgement of the public interest. She therefore was not required to withdraw from the meeting.

59. DRAFT GENERAL FUND REVENUE BUDGET 2020/21 - 2021/22

The Director of Finance submitted a report setting out the City Mayor's proposed General Fund Revenue budget for 2020/21 to 2021/22. Members noted a summary of revenue budgets for 2020/21 that were relevant to this Commission's areas of work that had been tabled at the meeting. A copy of the summary is attached at the end of these minutes for information.

The Deputy Director of Finance introduced the report, explaining that the Council had approved a one-year budget for 2019/20, as it had been expected that the system of local government funding would change during that period. It had been announced that there would be three elements to this, namely a "fair funding review" (determining the distribution of funding between councils), a review of business rates retention (to increase the proportion of business rates collected that local authorities could retain), and a review of total government funding. However, due to other national political priorities during the year, all three issues were deferred and would be implemented from 2021/22 at the earliest. Consequently, it was proposed that a one-year budget be agreed for 2020/21.

The Deputy Director of Finance drew attention to the proposed 4% increase in Council Tax for 2020/21, noting that 2% of this was for adult social care funding and the remaining 2% was for general expenditure.

It was recognised that cuts in government funding to local authorities made an increase in Council Tax necessary, but concern was raised at the impact this increase would have on households and the consequent effect on the local economy. As there was a projected £0.7m reduction in spend on the Council Tax Support Scheme, it was suggested that consideration could be given to using the Collection Fund surplus to support vulnerable households, for example by transferring it to the Council Tax Support Scheme.

During discussion on this, Members noted that the Council's policies on the collection of Council Tax were sensitive to those who could not pay what they owed, including strict policies regarding enforcement and the use of bailiffs. However, it was recognised that some people were able to pay their Council Tax but chose not to do so.

The Commission noted from media reports that intensive lobbying was being undertaken by some authorities as part of the "fair funding review" regarding perceived extra costs in rural areas. It was suggested that similar lobbying should be done by urban authorities, to seek recognition of the costs faced by those authorities. The Deputy Director of Finance assured the Commission that opportunities were taken to do so.

The following points also were noted during discussion on the report:

- The proposed budget for 2020/21 included a provision for inflation, as this was an anticipated pressure on the budget;

- Each year an estimate had to be made about what business rate and Council Tax income would be received in the Collection Fund during the following year. Any amount above this was a surplus, but was described as a one-off surplus, as it was not guaranteed that a surplus would be received and, if it was, the amount varied from year to year;

- Reductions in the cost of the Connexions and Education Welfare Services were projected due to continued pressure to devolve funding to schools, who now had to commission their own services. This would have implications for young people not in employment, education or training;

- The Adult Education Grant was not included in the grants referred to under paragraph 8.12 of the report, as those listed were corporate, or had a wide impact on the Council's finances, but the Adult Education Grant was ring-fenced to a specific service;

- Fine income from bus lane enforcement cameras reduced following the initial period after their introduction, as drivers' behaviour adjusted. Previous experience showed that fine income reduced quite quickly, but then stabilised;

- Savings had been made on Highways expenditure, as the Council no longer had to illuminate all bollards. Changes in regulations meant that high luminosity materials could now be used instead, thereby reducing power and maintenance costs;

- The future Revenue Support Grant settlement would arise from the "fair funding review". The Local Government Association had prepared a number of models of the proposals known about so far and figures recently reported in the press were based on those models, but to date no decisions on the review had been taken;

- The uncommitted balance of the managed reserves strategy would be fundamental to managing budget reductions in future years;

- The Council had a detailed treasury management strategy, which was reported annually to Council for adoption;

- At this stage, an Equality Impact Assessment had only been done for the whole budget, as Assessments were made on a scheme-by-scheme basis as they came on-line;

- When submitted to Council for approval, the final report on the General Fund Revenue Budget 2020/21 to 2021/22 would be updated with any new information received in the final Local Government Finance Settlement; and

- Councillors were encouraged to actively participate in the determination of the financial envelopes within which the City Mayor had authority to act.

AGREED:

1) That the draft General Fund Revenue Budget 2020/21 to 2021/22 be received; and

2) That the Overview Select Committee be asked to:

a) support the suggestion that consideration be given to using the projected Collection Fund surplus to support households particularly affected by the proposed Council Tax increase, for example by transferring it to the Council Tax Support Scheme;

b) support the suggestion that lobbying be undertaken by urban authorities under the government's "fair funding review", to seek recognition of the particular costs faced by those authorities; and

c) take the comments recorded above into account when scrutinising the draft General Fund Revenue Budget 2020/21 to 2021/22.

Leicester City Council

MINUTE EXTRACT

Minutes of the Meeting of the
HERITAGE, CULTURE, LEISURE AND SPORT SCRUTINY COMMISSION

Held: TUESDAY, 21 JANUARY 2020 at 5:30 pm

P R E S E N T :

Councillor Halford (Chair)

Councillor Dr Barton
Councillor Gee
Councillor Cole
Councillor Dr Moore
Councillor Shelton

In attendance:
Councillor Clair, Deputy City Mayor, Culture Leisure & Sport

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51. APOLOGIES FOR ABSENCE

There were no apologies for absence.

52. DECLARATIONS OF INTEREST

Councillor Dr Moore declared an interest in that she supplied books to the Richard III visitor/ reading centre.

59. GENERAL FUND REVENUE BUDGET 2020/21 TO 2021/22

The Director of Finance submitted a report setting out the City Mayor's proposed budget for 2020/21 to 2021/22.

The Deputy Director of Finance presented the report and outlined the following:

- Last year the Council approved a one-year budget.
- This was because the system of funding local government was to fundamentally change, these changes being; the fair funding review, business rates review, and the total amount of funding allocated to government departments.
- However, due to Brexit and latterly political turmoil resulting in the general election, these key issues had been deferred, probably to 2021/22.

- Therefore, the amount of funding that the Council would receive going into the future remains unknown.
- The Council was, therefore, again being presented with a one-year budget for 2020/21, which included a future ‘outlook’ based on optimistic and pessimistic views.
- Reference to points 6.4 to 6.7 was made, which outlined the impact on the City Developments and Neighbourhoods Department.

In response to Commission Members’ questions, the following issues were discussed and noted:

- A Member of the Commission raised concerns that the impact of the budget would mean reductions in the arts and museums budget.
- At this time, it was difficult to say what the impact of Brexit would be specific to individual services.
- There would continue to be some initiatives to help get people healthier, the budget wouldn’t take away in terms of budgetary services.
- It was aimed to still be able to achieve everything planned for, as a result of the budget.
- The Festivals and Events programmes would be maintained and there were no proposals to reduce any funding as a result of the budget.

AGREED:

1. That the Commission be assured that the Council budget had the capacity to deliver the festivals and events programme 2020/21 to the same levels as previous years and that there would be no proposals to reduce any of these allocations.

2. The Overview and Select Committee be advised that the Commission:-

    a. regretted that more funding had not been made available by the Government;
    b. noted concerns that the previously approved new budget reductions in 2020/21 might impact on service delivery; and
    c. welcomed officers’ assurances that services would nonetheless be maintained.

MINUTE EXTRACT

Minutes of the Meeting of the
HEALTH AND WELLBEING SCRUTINY COMMISSION

Held: THURSDAY, 30 JANUARY 2020 at 5:30 pm

P R E S E N T :

Councillor Kitterick (Chair)

Councillor Aldred
Councillor Chamund
Councillor March

In Attendance:

Councillor Clarke, Deputy City Mayor - Environment and Transportation
Councillor Dempster, Assistant City Mayor - Health

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54. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Fonseca (Vice Chair), Dr Sangster and Westley, and from Micheal Smith (Healthwatch).

55. DECLARATIONS OF INTEREST

There were no Declarations of Interest.

63. GENERAL FUND REVENUE BUDGET 2020/21 TO 2021/22

The Director of Finance submitted the draft report due to be considered by Council on 19 February 2020, which outlined the City Mayor's proposed budget for 2020/2021.

It was clarified that the proposed budget was for one year, as significant changes that were expected to local government finance, including the Fair Funding Review and delayed decisions concerning the extent of future Business Rates retention remained unclear.

It was noted that revised funding of the Public Health Grant had been cited within the review of business rates, but that decision had not been made by Government.

In response to questions the Director of Public Health confirmed that no significant changes had been included in the budget, although some pressures existed in terms of the delivery of some services. In this regard it was clarified that the provision of pre-exposure treatment to prevent HIV transmission will be a responsibility of the Council's Public Health service from 1 April 2020, but details of the likely funding stream had not been identified to date. It was confirmed that the necessary funding of the service would need to be met by the Council and would not be part of wider NHS budgets. It was currently unclear whether there would be any earmarked funding from NHS England or the Department of Health to support the Council and it was confirmed that the service would not be inexpensive and would likely have an adverse effect on the budgets of city authorities such as Leicester.

In terms of other pressures, the adverse effect on the budget of NHS salary increases to meet inflation was explained and recognised, where the Council acted as an employer through commissioning. It was noted that the Council was responsible for the uplift in payments with no support from government.

In conclusion, the Spending Review Programme was discussed and the Assistant City Mayor (Health) confirmed that items would be submitted to and discussed by scrutiny. It was noted that there were no expected items during the period of the proposed budget that involved any significant impacts on existing services.

AGREED:

1. That the report and proposed budget to Council be noted.

2. That updates concerning the impact of the Pre-exposure to HIV service and its funding be submitted to a future meeting of the Commission at the appropriate time.

3. That any other significant impacts on services as a result of the Spending Review Programme be submitted to a future meeting of the Commission at the appropriate time.

MINUTE EXTRACT

Minutes of the Meeting of the
NEIGHBOURHOOD SERVICES SCRUTINY COMMISSION

Held: WEDNESDAY, 15 JANUARY 2020 at 5:30 pm

P R E S E N T:

Councillor Thalukdar (Chair)

Councillor Ali	Councillor Aqbany
Councillor Govind	Councillor Solanki

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33. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Joshi and Councillor Khote.

The Chair wished Councillor Khote a speedy recovery.

34. DECLARATIONS OF INTEREST

There were no declarations of interest.

38. GENERAL FUND REVENUE BUDGET 2020/21 TO 2021/22

The Director of Finance submitted a report setting out the City Mayor's proposed budget for 2020/21 to 2021/22. Members of the Commission were asked to consider the proposed budget that would be proposed at Council in February.

It was noted that the proposed budget was set for a year and the General Fund Budget was proposed on a year on year basis. Fundamental proposed changes were pushed through Parliament last year, but the funding review was side lined due to the uncertainty with Brexit. The gap going forward, and the level of uncertainty was unprecedented with cost drivers such as rurality and deprivation having a huge impact on the budget. However, the Councils strategy of having a well-managed reserve, had allowed the Council to be prepared for uncertain times.

In relation to this particular Commission the Director of Finance noted that the Revenues and Benefits division were under financial constraints as the Department for Work and Pensions continued to cut the grant provided to administer the work load. The service was able to integrate roles within staff to meet the demand and reduce cost. Channel shifting the service online was also a means of meeting the service demands.

The Director of Neighbourhood Services noted that the area currently delivers 28 services such as Community Safety, Waste Management, 2 Household Waste Recycle Centres and others. The funding received through the General Revenue Fund Budget, payed for and delivered a lot in the city. The service was living within its means and had still been able to achieve an effective delivery of services. The past year had seen a food-outlets with a hygiene rating of 5 double, a 90% satisfaction levels of neighbourhood buildings and a 14.9 reduction in fly tipping cases. Although nationally fly tipping cases were on a rise, the city were able to reduce the number of local fly tipping cases as a result of a robust strategy and the great facilities the service had on offer, including the weekly waste collection service and a further recruitment for two additional City Wardens.

During discussions, members were concerned with what impact the proposed budget would have on the delivery of service and how the increase in Council Tax would benefit the service. It was suggested that channel shifting was part of the strategy to reduce cost and still maintain the level of service. The increase in Council Tax which was slightly under 4% was a means of recuperating the 50% loss in government funding. It was noted that business rates were set by a national multiplier and 50% of these rates were retained locally.

Members of the commission were assured that there were not specific areas that would see improvements rather it was a transformation process and all areas would see continuous improvements to existing services.

AGREED:

1) That the report be noted;
2) That the director of Finance be requested to consider the comments made by Members of the Commission;
3) That the minute extract be shared with the Overview Select Committee and Council; and
4) That the Information on the Council's website regarding Council Tax increase for properties that have added extensions and planning advice to inform of possible increases to Council Tax to be shared with Councillor Ali.

MATTER RESERVED TO COUNCIL

3.b Capital Programme 2020/21

The Council is asked to:-

(a) Consider the City Mayor's proposed Capital Programme for 2020/21 to be published prior to the Budget Meeting and which will be attached to the Council Script;

(b) Consider the views of the Overview Select Committee meeting on 12 February 2020 which will be submitted prior to the Council meeting, a copy of which will be attached to the Council Script;

The Council is recommended to:-

(a) Approve the capital programme described in the report and summarised at Appendices Two to Four, subject to any amendments proposed by the City Mayor;

(b) For those schemes designated immediate starts, delegate authority to the lead director to commit expenditure, subject to the normal requirements of contract procedure rules and finance procedure rules;

(c) Delegate authority to the City Mayor to determine a plan of spending for each policy provision, and to commit expenditure up to the maximum available;

(d) For the purposes of finance procedure rules:

- Determine that service resources shall consist of service revenue contributions; HRA revenue contributions; and government grants/third party contributions ringfenced for specific purposes (but see below for the Local Growth Fund);
- Designate the highways maintenance programme and transport improvement programme as programme areas, within which the director can reallocate resources to meet operational requirements.

(e) As in previous years, delegate to the City Mayor:

- Authority to increase any scheme in the programme, or add a new scheme to the programme, subject to a maximum of £10m corporate resources in each instance;
- Authority to reduce or delete any capital programme provision, subject to a maximum of 20% of scheme value for "immediate starts"; and
- Authority to transfer any "policy provision" to the "immediate starts" category.

(f) In respect of the Local Growth Fund (LGF), (which the Council receives as the accountable body to the Leicester and Leicestershire Enterprise Partnership LLEP):-

- Delegate to the City Mayor approval to accept the Government's funding offer each year, and to add this to the capital programme;
- Delegate to the Strategic Director, City Development and Neighbourhoods, in consultation with the Director of Finance, authority to allocate the funding to individual projects (in effect, implementing decisions of the LLEP);
- Agree that City Council schemes funded by LGF can only commence after the City Mayor has given approval;
- Delegate to the Director of Finance authority to reallocate LGF funding between projects to ensure the programme as a whole can be delivered; and
- Note that City Council contributions to LGF projects will follow the normal rules described above.

(g) Apply the rules in (f) above to any similar Government scheme that replaces LGF;

(h) Delegate to directors, in consultation with the relevant deputy/assistant mayor, authority to incur expenditure in respect of policy provisions on design and other professional fees and preparatory studies, but not any other type of expenditure;

(i) Approve the earmarked reserves transfer as detailed in paragraph 5.7, of this report; and

(j) Approve the capital strategy as described at paragraph 8 and Appendix 5.

Leicester
City Council

Council **19th February 2020**

Capital Programme 2020/21

Report of the Director of Finance

1. Purpose

1.1 The purpose of this report is to ask the Council to approve a capital programme for 2020/21.

2. Summary

2.1 Capital expenditure is incurred on works of lasting benefit and is principally paid for by grant, tenants' rents, and the proceeds of asset sales (capital receipts). Money can also be borrowed for capital purposes, but the scope for this is limited as borrowing affects the revenue budget.

2.2 Traditionally, the Council has prepared a multi-year capital programme. The last programme was approved on 30th November 2017 and covered two years: 2018/19 to 2019/20.

2.3 This programme is a one year programme for 2020/21. This programme only includes projects that are going to start in 2020/21, but the capital projects may continue into future years. The reason for the one year programme, is the current uncertainty over future resources beyond 2020/21, as detailed in the General Fund Revenue Budget Report for 2020/21 (also on the Council agenda). Schemes already approved and in the current programme 2019/20, will continue to form part of the programme.

2.4 The proposed programme set out in this report for the "General Fund" element of the capital programme is £53m. In addition to this the HRA capital programme which is elsewhere on this agenda is £17m and the Council's approved commitment to increase the supply of affordable housing is £70m.

2.5 The table below summarises the proposed spending for capital projects starting in 2020/21, as described in this report:-

	£m
Proposed Programme	
People & Neighbourhoods*	5.9
Highways, Transport & Infrastructure	10.2
Promoting Business	4.5
Tourism & Culture	16.3
Corporate	5.2
Policy Provisions	11.3
Total New Schemes	**53.4**
Funding	
Monies ringfenced to Schemes	7.2
Unringfenced Resources	47.0
Total Resources	**54.2**
Contingency	**0.8**

*HRA is spending £87.3m on affordable housing and improvements, putting the total spend in People & Neighbourhoods up to £93m.

2.6 The table below presents the total spend on General Fund and Housing revenue account schemes:

	£m
General Fund	53.4
Housing Revenue Account	17.4
Affordable Housing	70.0
Total	**140.8**

2.7 In addition to the above, the current programme is still being delivered and therefore a number of significant schemes will be carried forward into future years. These include £55m for schools, £9m for Waterside Regeneration and £17.5m for Connecting Leicester.

2.8 The Council's total capital expenditure now forecast for 2020/21 and beyond is expected to be over £300m, including the HRA.

2.9 The Council continues to bid for significant sums from government initiatives such as the Transforming Cities Fund and these will be reported and added to the programme in due course, if successful.

2.10 The capital programme is split into two parts:-

(a) "**Immediate starts**", being schemes which directors have authority to commence once the council has approved the programme. These are fully described in this report;

(b) "**Policy provisions**", where the purpose of the funding is described but money will not be released until specific spending proposals have been approved by the Executive.

2.11 Immediate starts have been split into three categories:-

(a) **Projects** – these are discrete, individual schemes such as a road scheme or a new building. These schemes will be monitored with reference to physical delivery rather than an annual profile of spending. (We will, of course, still want to make sure that the overall budget is not going to be exceeded);

(b) **Work Programmes** – these will consist of minor works or similar schemes where there is an allocation of money to be spent in a particular year;

(c) **Provisions** – these are sums of money set aside in case they are needed, but where low spend is a favourable outcome rather than indicative of a problem.

3. <u>Recommendations</u>

3.1 The Council is asked to:-

(a) Approve the capital programme described in this report and summarised at Appendices Two to Four, subject to any amendments proposed by the City Mayor;

(b) For those schemes designated immediate starts, delegate authority to the lead director to commit expenditure, subject to the normal requirements of contract procedure rules and finance procedure rules;

(c) Delegate authority to the City Mayor to determine a plan of spending for each policy provision, and to commit expenditure up to the maximum available;

(d) For the purposes of finance procedure rules:

- Determine that service resources shall consist of service revenue contributions; HRA revenue contributions; and government grants/third party contributions ringfenced for specific purposes (but see below for the Local Growth Fund);
- Designate the highways maintenance programme and transport improvement programme as programme areas, within which the

director can reallocate resources to meet operational requirements.

(e) As in previous years, delegate to the City Mayor:

- Authority to increase any scheme in the programme, or add a new scheme to the programme, subject to a maximum of £10m corporate resources in each instance;
- Authority to reduce or delete any capital programme provision, subject to a maximum of 20% of scheme value for "immediate starts"; and
- Authority to transfer any "policy provision" to the "immediate starts" category.

(f) In respect of the Local Growth Fund (LGF), (which the Council receives as the accountable body to the Leicester and Leicestershire Enterprise Partnership LLEP):-

- Delegate to the City Mayor approval to accept the Government's funding offer each year, and to add this to the capital programme;
- Delegate to the Strategic Director, City Development and Neighbourhoods, in consultation with the Director of Finance, authority to allocate the funding to individual projects (in effect, implementing decisions of the LLEP);
- Agree that City Council schemes funded by LGF can only commence after the City Mayor has given approval;
- Delegate to the Director of Finance authority to reallocate LGF funding between projects to ensure the programme as a whole can be delivered; and
- Note that City Council contributions to LGF projects will follow the normal rules described above.

(g) Apply the rules in (f) above to any similar Government scheme that replaces LGF;

(h) Delegate to directors, in consultation with the relevant deputy/assistant mayor, authority to incur expenditure in respect of policy provisions on design and other professional fees and preparatory studies, but not any other type of expenditure;

(i) Approve the earmarked reserves transfer as detailed in paragraph 5.7, of this report

(j) Approve the capital strategy as described at paragraph 8 and Appendix 5.

4. Key Policy Issues

4.1 In preparing the 2020/21 capital programme, the key focus is to deliver strategic objectives and meet (as far as possible) a level of need which considerably exceeds available resources.

4.2 The capital programme therefore is primarily focussed around some key priorities of the Council. The themes are:

- People & Neighbourhoods
- Highways, Transport & Infrastructure
- Promoting Business
- Tourism & Culture

4.3 The capital programme is just for 2020/21 because of the continued uncertainty around our budgets. Nonetheless, it explicitly aims to support the City Mayor's delivery plan. Most notably, this is the case with housing where the Council has already committed to £70m to assist with meeting its commitment to deliver 1,500 new council, social and extra care homes before 2023.

4.4 In addition, the already approved schools capital programme as described in paragraph 2.7 will assist us in achieving this.

4.5 It is important to note that the council's commitment to tackling the climate emergency is most obviously but not exclusively addressed within the transport capital programme. This is part the wider Connecting Leicester Programme, a sum which could substantially increase to over £100m should we succeed with our Transforming Cities bid.

4.6 However, addressing the energy and bio diversity requirements of all our capital projects is absolutely central to the entire capital programme. Recent years' capital projects have included energy saving and generating elements across the corporate estate as well as a raft of energy efficiency measures being delivered in our schools and on our council estates.

4.7 Similarly, our commitment to invest in the whole city cuts right across our capital programme. The housing, schools and transport capital investment programmes represent by far the largest components of this and future capital programmes. These capital investment strands will benefit the entire city from our outer estates to city centre, with the majority planned to be spent on our neighbourhoods and communities. The categorisation at Appendix 2A is to some extent subjective, so for example the £5.9m allocated to People & Neighbourhood budgets represents only a fraction of what we intend to spend on improving our neighbourhoods and communities. In addition to the above, the Council is estimated to be spending over £150m on schools (in the current programme) and affordable housing.

5. Resources

5.1 Resources available to the programme consist primarily of Government grant and capital receipts (the HRA programme is also supported by tenants' rent monies). Most grant is unringfenced, and the Council can spend it on any purpose it sees fit.

5.2 Appendix One presents the unringfenced resources available to fund the proposed programme., which total some £47m. The key funding sources are detailed below.

(a) £13.5m of resources brought forward from 2018/19;

(b) £10.5m of general capital receipts and £0.7m of Right to Buy Receipts;

(c) £5m of capital receipts in relation to Ashton Green;

(d) £7.3m of unringfenced grant funding;

(e) £10m of one-off additional resource that has become available following a recent review of BSF and Insurance Fund reserves.

5.3 The bought forward savings relate to capital financing, savings in some projects and grant monies reported in 2018/19 outturn reports and set aside for this purpose.

5.4 The Council has a policy of not committing capital receipts until they are received. This increases the resilience of the capital programme at a time when revenue budgets continue to be under pressure.

5.5 The exception to not committing receipts in advance is the expected receipts from the sale of council housing. Where tenants exercise their "Right to Buy" the RTB receipts are now layered, with different layers being available for different purposes. A sum of £0.7m will be available for general purposes. Further tranches are available to us but must be used for new affordable housing or returned to government.

5.6 In this year there is a further exception in relation to the capital receipt due shortly for £5m in relation to Ashton Green.

5.7 During the year the Council has completed a review of the BSF and Insurance Fund reserves. As part of this £10m of one-off monies have been made available to support the capital programme.

5.8 As noted above, £0.7m is forecast to be available from Right to Buy receipts, and a further £10.5m had been received from general capital receipts by November 2019. Any receipts received subsequently will support the programme for 2021/22 onwards.

5.9 For some schemes the amount of unringfenced resources required is less than the gross cost of the scheme. This because resources are ringfenced directly to individual schemes. Ringfenced resources are shown throughout Appendix Two and include the following:

(a) Disabled Facilities Grant – an estimated £1m will be received from the Government for the year to support the making of grants to householders in the private sector requiring disabled adaptations;

(b) Borrowing. Because borrowing has an impact on the revenue budget, it is only used for reasons detailed in Capital Strategy in Appendix 5 of this report.

5.10 The Council has submitted bids to the local business rates pool to fund capital works as part of the Museums Investment Strategy. Once the outcome of this bid is known, this will be included in the capital programme.

5.11 Finance Procedure Rules enable directors to make limited changes to the programme after it has been approved. For these purposes, the Council has split resources into corporate and service resources. These are similar to, but not quite the same as, ringfenced and unringfenced resources. Whilst all unringfenced resources are corporate, not all ringfenced monies are service resources. Borrowing, for instance, is treated as a corporate resource requiring a higher level of approval.

5.12 Directors have authority to add schemes to the programme, provided they are funded by service resources, up to an amount of £250,000. This provides flexibility for small schemes to be added to the programme without a report to the Executive.

6. <u>Proposed Programme – Immediate Starts</u>

6.1 Schemes classified as immediate starts can commence as soon as required, once the Council has approved the capital programme. No further approval is necessary. The whole programme is summarised at Appendix 2.

6.2 £5.9m is provided for People & Neighbourhoods. This area is focused around improving the neighbourhoods of the City but also improving the lives of the City's residents.

(a) The main scheme within this area will be the **Disabled Facilities Grant**, with £2m being put in to support the scheme in 2020/21. This is a continual annual programme which has existed for many years. These grants provide funding to eligible disabled people for adaption work to their homes, and help them maintain their independence. Part of this cost is met by government grant of £1m. (see paragraph 5.9 above). Each grant costs, on average £7.1k.

(b) **Additional Disabled Facilities Grant** is being made available to clear a current backlog of approximately 140 applications. Hence the total investment is some £3m.

(c) £905,000 has been set a side to fund maintenance and improvements to **Council Housing Estate Shops.**

(d) £400,000 has been provided to continue supporting a **Parking Improvement Programme.** This programme addresses local neighbourhood issues related to residential parking, local safety, cycle ways, shopping precincts, community lighting and green infrastructure improvements. Works will directly contribute towards addressing priorities identified through ward member consultations.

(e) £400,000 has been provided to continue the annual programme of **Local Environmental Works** in 2020/21. This programme addresses local neighbourhood issues related to residential parking, local safety, cycle ways, shopping precincts, community lighting and green infrastructure improvements. Works will directly contribute towards addressing priorities identified through ward member consultations.

(f) £330,000 is allocated to replace the customer facing **Library Self-Service System**, as the current equipment is now outdated. This self-service system enables multi-service working, as well as enabling customers to borrow, renew and return library items and pay any charges.

(g) £250,000 has been provided for a new **Foster Carer Capital Contribution Scheme**. Money has been provided to invest in the homes of foster carers of looked after children, to ensure that foster care is an option in as many cases as possible.

(h) £210,000 has been set aside to introduce **Library Improved Self-Access Pilots** at two Leicester libraries. This will enable improved use of library buildings and the ability to target opening hours more effectively. The project will include improved security within the buildings.

(i) £200,000 is provided in 2020/21 to continue the programme of **Repayable Home Repair Loans**. This grant aids vulnerable, low income home owners to carry out repairs or improvements to their homes, to bring properties up to decent homes standards. Any loan will remain in place until a change of ownership or sale of the property is triggered, at which point the loan is repayable in full.

(j) £150,000 is provided for **Parks Plant and Equipment** to replace aging machinery with up to date, energy efficient models to provide continued maintenance of our parks and open spaces. The replacement of this equipment is met from borrowing, and a revenue budget exists for this purpose.

(k) £50,000 is continued to be made available to top up the **Administration Fee for Long Term Empty Home Acquisitions** pot in 2020/21. Under the empty homes strategy, some 300 long term empty homes are bought back into use annually. The Empty Homes Team gives advice and assistance to owners, helping them bring homes back into occupation. As a last resort, when all avenues have been exhausted, we have to use compulsory purchase. £50,000 covers the incidental costs associated with acquisition where CPO or negotiated purchase is required, where such costs cannot be recouped from the sale proceeds. £50,000 will cover 4 transactions (the most difficult cases).

(l) £50,000 is set aside for **Conservation Building Grants.** These grants are provided to city residents and organisations to repair historic buildings or reinstate original historic features that have been lost. The funding seeks to acknowledge the additional cost of owning an historic building.

(m) No new funding is required for school capital maintenance, as some £5m was released in November 2019, to fund improvement works through to September 2021. Funding for new school places is already provided for within the existing policy provision, of £41.9m.

6.3 £10.2m is provided to support Highways, Transport & Infrastructure capital works within the city. Much of the capital works in this area are work programmes and regular capital schemes.

(a) £3.4m is provided for a continuing programme of **Connecting Leicester** street works. The Connecting Leicester programme will continue the improvements and security enhancements of streets within the city centre. Examples of the projects to be included in this programme are City Centre security bollards and resurfacing of Belvoir Street.

(b) £2.6m is provided in 2020/21 to continue the rolling programme of works constituting the **Transport Improvement Programme**. This includes sums for:-

- Potential additional walking and cycling facilities at Putney Road.
- Local safety schemes
- 20mph schemes in neighbourhoods
- Bus lane enforcement

(c) £2.1m is provided as part of the continued **Highway Capital Maintenance Programme**. This is a rolling annual programme and spending is prioritised to reflect asset condition, risk and local neighbourhood priorities.

(d) £1.5m has been provided to continue the support of the annual **Operational Estate Capital Maintenance Programme**. This money is used to carry out remedial works to the properties the Council uses itself.

(e) £300,000 is provided to continue the **Flood Strategy, Flood Defence and Watercourse Improvements Programme** into 2020/21. The programme supports the Local Flood Risk Management Strategy and action plan, and the delivery of our statutory role to manage and reduce flood risk in collaboration with the Environment Agency & Severn Trent Water.

(f) £200,000 has been made available to fund a new version of a **City-wide Parkmap TRO system Upgrade**. The system records all Traffic Regulation Orders, which will assist with more efficient management of parking and traffic.

(g) Following the success of a pilot scheme of **Front Wall Enveloping**, £200,000 has been provided to continue the scheme in 2020/21. The scheme, which commenced in the last programme, involves the enclosure of small spaces in front of housing. Enveloping schemes can make a significant improvement to local neighbourhoods and enable occupiers to tend house fronts more effectively.

6.4 £4.5m has been provided to **promote business** in the city, which will be used for a number of projects.

(a) £1.8m has been made available to fund **Leicester Market Phase 3.** The refurbishment will help support the market within the city centre by improving the environment for traders and shoppers.

(b) £1m has been provided in the programme to fund an **Onsite Construction Skills Hub** at the Ashton Green development site. The scheme is part funded from the Construction Industry Training Board.

(c) £600,000 has been made available to replace the **Corporate LAN/WAN Network Cisco Infrastructure**. The current infrastructure is now outdated, but we are also seeing increased demand on the current system, due to the support required for the Smart Cities and digital transformation projects.

(d) Following the success of the **Reuse Shop** on the site at Gypsum Close Household Waste Recycling, £530,000 has been provided to support an expansion. The expansion will enable more items to be reused, will improve the shopping experience and protect the income currently generated from the shop.

(e) £350,000 has been provided for the **Corporate Storage Area Network (SAN) Replacement**. This is the Council's ICT network storage and is part of the Council's infrastructure.

(f) £200,000 has been set a side for **Smart Cities Pilot Projects**. This will be used for readying and enabling a range of capital projects involving infrastructure, such as low-carbon buildings and retrofits, heating districts and mobility solutions. The work to be procured and undertaken would include the master-planning of a low energy districts, the procurement of smart meters and energy monitors.

(g) £50,000 has been provided for **Touchdown** projects. This will provide additional desk space on the outskirts of the city in existing Council properties. The project supports flexible working, allowing staff greater control and ability to work more effectively across the city.

6.5 £16.3m has been made available to support **Tourism & Culture** in the City, focusing on improvements within museums.

(a) The **Jewry Wall Museum Redevelopment:** this £11.6m project is based around the building infrastructure (new reception, café area etc), as well as new gallery spaces including new displays, cases and interactives.

(b) £2.45m has been provided to make improvements at **New Walk Museum**. The improvements will see significant investment in updating the spaces. This will include the creation of a modern art gallery and improved educational facilities for school groups.

(c) £593,000 has been provided for the **Haymarket Theatre – Internal Completion Works.** The works will allow persons with limited mobility access to the stage, improvements to the lobby area, including a new box office and a dry bar, and re-roofing the external stair tower.

(d) £546,000 has been made available to fund repairs at **Abbey Park Precinct Wall**. Recently the wall was put on the Heritage at Risk Register: the repairs should prevent further deterioration.

(e) £450,000 has been provided for the **Expansion & Refurbishment of the Toilets at Haymarket Bus Station**. The toilets have been suffering from vandalism and problems with antisocial behaviour, along with issues in relation to the entrance space and current drainage. The refurbishment will aim to reduce the vandalism and antisocial behaviour, along with making a larger toilet space and making the space easier to clean.

(f) As part of the recent transfer of the King Richard III centre to the Council, the **Visit Leicester Centre** will be relocated there. To enable this work to be completed, £320,000 has been made available.

(g) £125,000 has been made available as part of the **Museums Security Programme**.

(h) £100,000 is being provided to fund the rollout of new **Street Nameplates** in the City. This will ensure that the style of the name plates is in keeping with the character and heritage of the area.

(i) As part of a continued rolling programme to replace **Festive Decorations**, £50,000 has been provided.

6.6 £5.2m has been made available to fund three general corporate budgets.

(a) £3.7m has been made available to fund the annual **Fleet Replacement Programme.** This is part of the usual cycle of works and covers all fleet. This programme is funded from borrowing, which is repaid from existing budgets.

(b) £862,000 is available to fund the **Capital Projects Team**, which will support the delivery of the construction projects in the capital programme.

(c) £600,000 is set aside for **Feasibility Studies**. This will enable studies to be done, typically for potential developments not included elsewhere in the programme or which might attract grant support, without requiring further decisions.

7. Proposed Programme – Policy Provisions

7.1 Policy provisions are sums of money which are included in the programme for a stated purpose, but for which a further report to the Executive (and decision notice) is required before they can be spent. Schemes are usually treated as policy provisions because the Executive needs to see more detailed spending plans before full approval can be given.

7.2 Executive reports seeking approval to spend policy provisions must state whether schemes, once approved, will constitute projects, work programmes or provisions; and, in the case of projects, identify project outcomes and physical milestones against which progress can be monitored.

7.3 Policy provisions in the proposed programme are identified at Appendix Three, and total £11.3m.

7.4 £3.1m is provided to support projects within People & Neighbourhoods. The focus of this policy provision is around improving the neighbourhoods of the city. Whilst also improving the lives of the city's residents.

7.5 Tourism & Culture have a policy provision of £550k to support improvements in museums.

7.6 £3.6m will be available to support projects within Highways, Transport & Infrastructure.

7.7 £4m will be available to support potential strategic acquisitions of land and buildings within the City.

8. Capital Strategy

8.1 Local authorities are required to prepare a capital strategy each year, which sets out our approach for capital expenditure and financing at high level.

8.2 The proposed capital strategy is set out at Appendix 5. This also includes the policy on repaying debt and the prudential indicators which assess the affordability of new borrowing.

9. Consultation

9.1 This report was subject to consultation with stakeholders along with the revenue budget. No comments have been received.

9.2 No changes have been made to the schemes proposed in the draft report.

10. <u>Equality Assessment</u> (Hannah Watkins, Equalities Manager)

10.1 Under the Equality Act 2010, public authorities have statutory duties, including the Public Sector Equality Duty (PSED) which means that, in carrying out their functions they have to pay due regard to the need to eliminate unlawful discrimination, harassment and victimisation, to advance equality of opportunity between people who share a protected characteristic and those who don't and to foster good relations between people who share a protected characteristic and those who don't.

10.2 Protected characteristics under the Equality Act 2010 are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

10.3 People from across all protected characteristics will benefit from the improved public good arising from the proposed capital programme. However, as the proposals are developed and implemented, consideration should continue to be given to the equality impacts of the schemes in question, and how it can help the Council to meet the three aims of the Public Sector Equality Duty.

10.4 Some of the schemes focus on meeting specific areas of need for a protected characteristic: disabled adaptations within homes (disability), home repair grants which are most likely to be accessed by elderly, disabled people or households with children who are living in poverty (age and disability), provision of funds for festive decorations (religion and belief).

10.5 Other schemes target much larger groups of people who have a range of protected characteristics reflective of the diverse population within the city. Some schemes are place specific and address environmental issues that also benefit diverse groups of people. The delivery of the capital programme contributes to the Council fulfilling our Public Sector Equality Duty (PSED). For example, schemes which support people in being able to stay in their homes, to continue to lead independent lives, and to participate in community life help promote equality of opportunity, one of the aims of the PSED.

10.6 The capital programme includes schemes which improve the city's infrastructure and contribute to overall improvement of quality of life for people across all protected characteristics. By doing so, the capital programme promotes another PSED aim: fostering good relations between different groups of people by ensuring that no area is disadvantaged compared to other areas as many services rely on such infrastructure to continue to operate.

10.7 Where there are any improvement works to buildings or public spaces, (for example, the planning improvement programme, Leicester Market, New Walk Museum, Reuse Shop) considerations around accessibility (across a range of protected characteristics) must influence design and decision making. This will ensure that people are not excluded (directly or indirectly) from accessing a building, public space or service, on the basis of a protected characteristic.

11. <u>Sustainability Assessment</u> (Aidan Davis, Sustainability Officer)

11.1 In February 2019 the City Council declared a climate emergency, and is aiming to make Leicester a carbon neutral city. The City Council is one of the largest employers and land owners in the city, with carbon emissions of 40,000 tCO^2e in 2018/19, and has a high level of influence in the city. The council has a vital role to play in reducing emissions from its buildings and operations, and leading by example on tackling the climate emergency in Leicester. As discussed in this report, many of the projects outlined will play a positive role in reducing carbon emissions in the city.

11.2 There is not sufficient information within this report to provide specific details of climate change implications for individual projects. Detailed implications should therefore be produced for individual projects as and when plans are finalised. At a high level, there are some general principles that should be followed during the planning, design and implementation of capital projects, as detailed below.

11.3 Where funding provides for the construction of new buildings, these should be built to a high standard of energy efficiency, and incorporate renewable energy sources where possible. Projects should aim to achieve carbon neutral development or as close as possible to this. Maintenance and refurbishment works should also seek to improve energy efficiency where possible. This will reduce energy use and therefore bills, delivering further benefits. Major projects will also need to meet Climate Change policy CS2 in the Leicester City Core Strategy planning document, which requires best practice in terms of minimising energy demand for heating, ventilation and lighting, achieving a high level of fabric efficiency, and the use of low carbon or renewable sources of energy.

11.4 Projects involving procurement, including for construction works, should follow the Council's sustainable procurement guidelines. This includes the use of low carbon and sustainable materials, low carbon equipment and vehicles and reducing waste in procurement processes. Transport projects should seek to enable a greater share of journeys to be safely and conveniently undertaken by walking, cycling or public transport wherever possible, and many of the planned works will directly contribute to this.

11.5 A number of other projects detailed also have high level impacts not covered above. Flood risk works are a key part of increasing resilience to a changing climate in the city. Improvements to the reuse shop at Gypsum Close will help to increase re-use and refurbishment of items that would otherwise be disposed of. Many of the Smart Cities pilot projects have a direct role to play in identifying opportunities to reduce carbon emissions in the city.

12. Financial Implications

12.1 This report is exclusively concerned with financial matters.

(a) There is some proposed prudential borrowing in the programme for replacement of vehicles, equipment and housing estate shops £4.8m. The anticipated revenue costs arising will be £0.5m per year, for which revenue budget exists.

12.2 No schemes are expected to lead to higher ongoing costs and some will lead to savings.

13. Legal Implications (Kamal, City Barrister & Head of Standards)

13.1 As the report is exclusively concerned with financial matters, there are no direct legal implications arising from the report. There will be procurement and legal implications in respect of individual schemes and client officers should take early legal advice. In accordance with the constitution, the capital programme is a matter that requires approval of full Council.

14. Other Implications

14.1

Equal Opportunities	Yes	Paragraph 10.
Policy	Yes	The capital programme is part of the Council's overall budget and policy framework, and makes a substantial contribution to the delivery of Council policy.
Sustainable and Environmental	Yes	Paragraph 11.
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	Yes	A number of schemes will benefit elderly people and those on low income.

Report author: Amy Oliver
Date: 4th February 2020

Appendix One

Corporate Resources

Unringfenced Capital Resources

	20/21
	{£000}
Resources Saved in 18/19	13,475
General Capital Receipts	10,544
Council Housing - Right to Buy Receipts	700
Ashton Green Receipts	5,000
Total	**29,719**
Unringfenced Capital Grant	
Education Maintenance	2,500
Integrated Transport	2,556
Transport Maintenance	2,200
Total Unringfenced Grant	**7,256**
Earmarked Reserves Review	**10,000**
Total Unringfenced Resources	**46,975**

Appendix 2a

Immediate Starts – People & Neighbourhoods

Immediate Start	Scheme Type	Corporate Programme Funding	Ringfenced Funding	Total Approval
		{£000}	*{£000}*	*{£000}*
People & Neighbourhoods				
Disabled Facilities Grant	WP	1,000	1,000	**2,000**
Additional Disabled Facilities Works	WP	1,000	0	**1,000**
Housing Estate Shops	PJ	0	905	**905**
Parking Improvement Programme	WP	400	0	**400**
Local Environmental Works	WP	400	0	**400**
Library RFID Self-Service System	PJ	330	0	**330**
Foster Care Capital Contribution Scheme	WP	250	0	**250**
Library Improved Self-Access Pilot	PJ	210	0	**210**
Repayable Home Repair Loans	WP	200	0	**200**
Parks Plant and Equipment	WP	0	150	**150**
Administration Fee for the Acquisition of Long Term Empty Homes	PV	50	0	**50**
Conservation Building Grants	WP	50	0	**50**
		3,890	**2,055**	**5,945**

Key to Scheme Types : PJ = Project ; WP = Work Programme ; PV = Provision ; Oth = Other

Summary of Ringfenced Funding

	{£000}
Disabled Facilities Grant	1,000
Prudential Borrowing	1,055
TOTAL RINGENCED FUNDING	**2,055**

Appendix 2b

Immediate Starts – Highways, Transport & Infrastructure

Immediate Start	Scheme Type	Corporate Programme Funding	Ringfenced Funding	Total Approval
		{£000}	*{£000}*	*{£000}*
Highways, Transport & Infrastructure				
Connecting Leicester	PJ	3,350	0	**3,350**
Transport Improvement Works	WP	2,556	0	**2,556**
Highways Capital Maintenance Programme	WP	2,102	0	**2,102**
Operational Estate Capital Maintenance Programme	WP	1,450	0	**1,450**
Flood Strategy, Flood Defence & Watercourse Improvements Programme	WP	300	0	**300**
City-wide Parkmap TRO review, signs and lines upgrades	PJ	200	0	**200**
Front Walls Enveloping Programme	WP	200	0	**200**
		10,158	**0**	**10,158**

Key to Scheme Types : PJ = Project ; WP = Work Programme ; PV = Provision ; Oth = Other

Appendix 2c

Immediate Starts – Promoting Business

Immediate Start	Scheme Type	Corporate Programme Funding	Ringfenced Funding	Total Approval
		{£000}	*{£000}*	*{£000}*
Promoting Business				
Leicester Market Improvements Phase 3	PJ	1,800	0	**1,800**
Onsite Construction Skills Hub	PJ	300	700	**1,000**
Corporate LAN/WAN Network Cisco Infrastructure Replacement	PJ	600	0	**600**
Reuse Shop Expansion	PJ	530	0	**530**
Corporate Storage Area Network (SAN) Replacement	PJ	350	0	**350**
Smart Cities Pilot Projects	PJ	0	200	**200**
Touchdown Project	PJ	50	0	**50**
		3,630	**900**	**4,530**

Key to Scheme Types : PJ = Project ; WP = Work Programme ; PV = Provision ; Oth = Other

Summary of Ringfenced Funding

	{£000}
Ringfenced Grant Funding	700
Departmental Reserves	200
TOTAL RINGENCED FUNDING	**900**

Appendix 2d

Immediate Starts – Tourism & Culture

Immediate Start	Scheme Type	Corporate Programme Funding	Ringfenced Funding	Total Approval
		{£000}	*{£000}*	*{£000}*
Tourism & Culture				
Jewry Wall Museum Redevelopment	PJ	11,140	500	**11,640**
New Walk Museum Phase 1	PJ	2,450	0	**2,450**
Haymarket Theatre - Internal Completion Works	PJ	593	0	**593**
Abbey Park Precinct Wall	PJ	516	30	**546**
Haymarket Bus Station - Toilet Expansion and Refurbishments	PJ	450	0	**450**
Visit Leicester Relocation	PJ	320	0	**320**
Museums Security Programme	PJ	125	0	**125**
Street Nameplates City Branding Programme	WP	100	0	**100**
Festive Decorations Replacement	WP	50	0	**50**
		15,744	**530**	**16,274**

Key to Scheme Types : PJ = Project ; WP = Work Programme ; PV = Provision ; Oth = Other

Summary of Ringfenced Funding

	{£000}
LLEP funding	500
Ringfenced Grant Funding	30
TOTAL RINGENCED FUNDING	**530**

Appendix 2e

Immediate Starts – Corporate

Immediate Start	Scheme Type	Corporate Programme Funding	Ringfenced Funding	Total Approval
		{£000}	*{£000}*	*{£000}*
Corporate				
Fleet Replacement Programme	WP	0	3,700	**3,700**
Capital Projects Team	Oth	862	0	**862**
Feasibility Studies	Oth	600	0	**600**
		1,462	**3,700**	**5,162**

Key to Scheme Types : PJ = Project ; WP = Work Programme ; PV = Provision ; Oth = Other

Summary of Ringfenced Funding	
	{£000}
Prudential Borrowing	3,700
TOTAL RINGENCED FUNDING	**3,700**

Appendix 3

Policy Provisions

Policy Provision	Corporate Programme Funding	Ringfenced Funding	Total Approval
	{£000}	*{£000}*	*{£000}*
People & Neighbourhoods	3,100	0	**3,100**
Tourism & Culture	540	10	**550**
Highways, Transport & Infrastructure	3,600	0	**3,600**
Strategic Acquisitions	4,000	0	**4,000**
POLICY PROVISIONS TOTAL	**11,240**	**10**	**11,250**

Appendix 4

Project Milestones

Project	Completion Date
People & Neighbourhoods	
Library RFID Self-Service System	Mar 21
Library Self-Access Pilot	Mar 21
Highways, Transport & Infrastructure	
Connecting Leicester	Mar 21
City-wide Parkmap TRO review, signs and lines upgrades	Mar 21
Promoting Business	
Leicester Market Improvements Phase 3	Dec 21
Onsite Construction Skills Hub	Dec 22
Corporate LAN/WAN Network Cisco Infrastructure Replacement	Dec 21
Reuse Shop Expansion	Jul 20
Corporate Storage Area Network (SAN) Replacement	Jun 21
Smart Cities Pilot Projects	Dec 20
Touchdown Project	Mar 21
Tourism & Culture	
Jewry Wall Museum Redevelopment	Mar 23
New Walk Museum Phase 1	Mar 22
Haymarket Theatre - Internal Completion Works	Mar 21
Abbey Park Precinct Wall	Mar 22
Haymarket Bus Station - Toilet Expansion and Refurbishments	Dec 20
Visit Leicester Relocation	Nov 21
Museums Security Programme	Nov 21

Appendix 5

Capital Strategy 2020/21

1. Introduction

1.1 It is a requirement on local authorities to prepare a capital strategy each year, which sets out our approach to capital expenditure and financing at a high level. The requirement to prepare a strategy arises from Government concerns about certain authorities borrowing substantial sums to invest in commercial property, often outside the vicinity of the Council concerned (something Leicester City Council has never done).

1.2 There is also a requirement on local authorities to prepare an investment strategy, which specifies our approach to making investments other than day to day treasury management investments (the latter is included in our treasury management strategy, as in previous years). The investment strategy is presented as a separate report on your agenda.

1.3 This appendix sets out the proposed capital strategy for the Council's approval. It incorporates our policy on repaying debt, which used to be approved separately.

2. Capital Expenditure

2.1 The Council's capital expenditure plans are approved by the full Council, on the basis of two reports:-

(a) The corporate capital programme – this covers periods of one or more years, and is always approved in advance of the period to which it relates. It is often, but need not be, revisited annually (it need not be revisited if plans for the subsequent year have already been approved);

(b) The Housing Revenue Account (HRA) capital programme – this is considered as part of the HRA budget strategy which is submitted each year for approval.

2.2 The capital programme is split into:-

(a) Immediate starts – being schemes which are approved by the Council and can start as soon as practical after the council has approved the programme. Such schemes are specifically described in the relevant report;

(b) Policy provisions, which are subsequently committed by the City Mayor (and may be less fully described in the report). The principle here is that further consideration is required before the scheme can start.

2.3 The corporate capital programme report sets out authorities delegated to the City Mayor. Decisions by the City Mayor are subject to normal requirements in the constitution (e.g. as to prior notice and call-in).

2.4 Monitoring of capital expenditure is carried out by the Executive and the Overview Select Committee. Reports are presented on 3 occasions during the years, and at outturn. For this purpose, immediate starts have been split into three categories:-

(a) **Projects** – these are discrete, individual schemes such as a road scheme or a new building. These schemes are monitored with reference to physical delivery rather than an annual profile of spending. (We will, of course, still want to make sure that the overall budget is not going to be exceeded);

(b) **Work Programmes** – these will consist of minor works or similar schemes where is an allocation of money to be spent in a particular year.

(c) **Provisions** – these are sums of monies set aside in case they are needed, but where low spend is a favourable outcome rather than indicative of a problem.

2.5 When, during the year, proposals to spend policy provisions are approved, a decision on classification is taken at that time (i.e a sum will be added to projects, work programmes or provisions as the case may be).

2.6 The authority does not capitalise expenditure, except where it can do so in compliance with proper practices: it does not apply for directions to capitalise revenue expenditure.

2.7 The table below forecasts the past and forecast capital expenditure for the current year and 2020/21. It therefore, includes expenditure from the 2019/20 programme that will be rolled forward.

Department / Division	**2019/20 Estimate £m**	**2020/21 Estimate £m**
People & Neighbourhoods	4.7	17.0
Highways, Transport & Infrastructure	33.8	62.5
Promoting Business	12.1	18.6
Tourism & Culture	2.6	6.8
Corporate	2.8	7.0
Schools	28.0	27.8
Strategic Acquisitions	0.0	3.0
Total General Fund	**84.0**	**142.7**
Housing Revenue Account	49.4	75.5
Total	**133.4**	**218.2**

2.8 The Council's Estates and Building Services Division provides professional management of non-housing property assets. This includes maintaining the properties, collecting any income, rent reviews, ensuring that lease conditions are complied with and that valuations are regularly updated at least every 5 years. A capital programme provision is made each year for significant improvements or renovation: spending need is initially prioritised by the division and formally approved by the City Mayor.

2.9 The Housing Division provides management of tenanted dwellings. Apart from the new build, the HRA capital programme is almost entirely funded from tenants' rents. The criteria used to plan major works are in the table below:-

Component for Replacement	**Leicester's Replacement Condition Criteria**	**Decent Homes Standard: Maximum Age**
Bathroom	All properties to have a bathroom for life by 2036	40 years / 30 years
Central Heating Boiler	Based on assessed condition	15 years (future life span of new boilers is expected to be on average 12 years)
Chimney	Based on assessed condition	50 years
Windows & Doors	Based on assessed condition	40 years
Electrics	Every 30 years	30 years
Kitchen	All properties to have an upgraded kitchen by 2036	30 years / 20 years
Roof	Based on assessed condition	50 years (20 years for flat roofs)
Wall finish (external)	Based on assessed condition	80 years
Wall structure	Based on assessed condition	60 years

3. Financing Capital Expenditure

3.1 Most capital expenditure of the Council is financed as soon as it is spent (by using grants, capital receipts, revenue budgets or the capital fund). The Council will only incur spending which cannot be financed in this way in strictly limited circumstances. Such spending is termed "prudential borrowing" as we are able to borrow money to pay for it. (The treasury management strategy explains why in practice we don't need to borrow on the external market: we must still, however, account for it as borrowing and make "repayments" from revenue each year). Circumstances in which the Council will use "prudential borrowing" are:-

(a) Where spending facilitates a future disposal, and it is estimated that the proceeds will be sufficient to fully cover the initial costs;

(b) Where spending can be justified with reference to an investment appraisal (this is further described in the separate investment strategy). This also includes social housing, where repayment costs can be met from rents;

(c) Other "spend to save" schemes where the initial cost is paid back from revenue savings or additional income;

(d) Where, historically, the Council has used leasing for vehicles or equipment, and revenue budgets already exist to meet the cost;

(e) “Once in a generation” opportunities to secure significant strategic investment that will benefit the city for decades to come.

3.2 The Council measures its capital financing requirement, which shows how much we would need to borrow if we borrowed for all un-financed capital spending (and no other purpose). This is shown in the table below:-

	2019/20 **Estimate** **£m**	**2020/21** **Estimate** **£m**	**2021/22** **Estimate** **£m**	**2022/23** **Estimate** **£m**
HRA	226	242	259	278
General Fund	259	251	243	235

(The table above excludes PFI schemes).

3.3 Projections of actual external debt are included in the treasury management strategy, which is elsewhere on your agenda.

4. **Debt Repayment**

4.1 As stated above, the Council usually pays for capital spending as it is incurred. However, this has not always been the case. In the past, the Government encouraged borrowing and money was made available in Revenue Support Grant each year to pay off the debt (much like someone paying someone else’s mortgage payments).

4.2 The Council makes charges to the general fund budget each year to repay debt incurred for previous years’ capital spending. (In accordance with Government rules, no charge needs to be made to the Housing Revenue Account: we do, however, make charges for newly built and acquired property).

4.3 The general underlying principle is that the Council seeks to repay debt over the period for which taxpayers enjoy the benefit of the spending it financed.

4.4 Where borrowing pays for an asset, debt is repaid over the life of the asset.

4.5 Where borrowing pays for an investment, debt is repaid over the life of the Council’s interest in the asset which has been financed (this may be the asset life, or may be lower if the Council’s interest is subject to time limits). Where borrowing funds a loan to a third party, repayment will never exceed the period of the loan.

4.6 Charges to revenue will be based on an equal instalment of principal, or set on an annuity basis, as the Director of Finance deems appropriate.

4.7 Debt repayment will normally commence in the year following the year in which the expenditure was incurred. However, in the case of expenditure relating to the construction of an asset, the charge will commence in the year after the asset becomes operational or the year after total expenditure on the scheme has been completed.

4.8 The following are the maximum asset lives which can be used:-

(a) Land – 50 years;
(b) Buildings – 50 years;
(c) Infrastructure – 40 years;
(d) Plant and equipment – 20 years;
(e) Vehicles – 12 years.

4.9 Some investments governed by the treasury strategy may be accounted for as capital transactions. Should this require debt repayment charges, an appropriate time period will be employed. Share capital has a maximum “life” of 20 years.

4.10 Authority is given to the Director of Finance to voluntarily set aside sums for debt repayment, over and above the amounts determined in accordance with the above rules, where she believes the standard charge to be insufficient, or in order to reduce the future debt burden to the authority.

4.11 Voluntary set aside has been made in past years, in line with approved budget strategies. Prior to 2015/16, the Council had a policy requiring higher sums to be set aside than the current policy requires. In November 2015, the policy was changed by the Council to one which is essentially the one stated above. Subsequent budgets, however, deliberately topped up the amount of repayment to previous levels. In this way, the Council postponed potential budget savings until Government grant cuts made implementation essential (after all, the “budget savings” only arise from slower payment of debt).

4.12 The law permits the Council to “claim back” sums set aside voluntarily in previous years by reducing subsequent years’ debt repayment. The Council will only do this in the following circumstances:-

(a) To support the Council’s treasury management strategy. For instance, using these sums gives the Council access to a wider pool of collective property investments than we could otherwise use because of accounting restrictions (and hence access to better investment opportunities). We have used this flexibility to invest in £8m of investments in pooled property funds.

(b) For the acquisition of other investments permitted by the investments strategy, where it is appropriate to capitalise spending so that revenue savings can be delivered immediately.

4.13 Once investments acquired through sums “claimed back” are redeemed, the receipt will be set aside again for debt repayment. The amount available now stands at £5m.

4.14 In circumstances where the investment strategy permits use of borrowing to support projects which achieve a return, the Director of Finance may adopt a different approach to debt repayment to reflect the financing costs of such schemes. The rules governing this are included in the investment strategy.

4.15 The ratio of financing costs to net revenue budget is estimated to be:-

	2019/20 %	2020/21 %	2021/22 %
General Fund	2.0	2.0	2.2
HRA	9.9	11.1	11.6

5. Commercial Activity

5.1 The Council has for many decades held commercial property. It may decide to make further commercial investments in property, or give loans to others to support commercial investment. Our approach is described in the investment strategy, which sets the following limitations:-

(a) The Council will not make such investments purely to generate income. Each investment will also benefit the Council's service objectives (most probably, in respect of economic regeneration and jobs). It will, however, invest to improve the financial performance of the corporate estate;

(b) The Council will not make investments outside of the LLEP area (or just beyond its periphery) except as described below. We would not, for instance, borrow money to buy a shopping centre 100 miles from Leicester;

(c) There is one exception to (b) above, which is where the investment meets a service need other than economic regeneration. An example might be a joint investment in a solar farm, in collaboration with other local authorities; or investment in a consortium serving local government as a whole. In these cases, the location of the asset is not necessarily relevant.

5.2 Such investments will only take place (if they are of significant scale) after undertaking a formal appraisal, using external advisors if needs be. Nonetheless, as such investments also usually achieve social objectives, the Council is prepared to accept a lower return than a commercial funder might, and greater risk than it would in respect of its treasury management investments. Such risk will always be clearly described in decision reports (and decisions to make such investments will follow the normal rules in the Council's constitution).

5.3 Although the Council accepts that an element of risk is inevitable from commercial activity, it will not invest in schemes whereby (individually or collectively) it would not be able to afford the borrowing costs if they went wrong. As well as undertaking a formal appraisal of schemes of a significant scale, the Council will take into account what "headroom" it may have between the projected income and projected borrowing costs.

5.4 In addition to the above, the Council's treasury strategy may permit investments in property or commercial enterprises. Such investments may be to support environmental and socially responsible aims, and are usually pooled with other bodies. For the purposes of the capital strategy, these are not regarded as commercial activities under this paragraph where activity is carried out under the treasury strategy.

6. **Knowledge and Skills**

6.1 The Council employs a number of qualified surveyors and accountants as well as a specialist team for economic development who can collectively consider investment proposals. It also retains external treasury management consultants (currently Arlingclose). For proposed investments of a significant scale, the Council may employ external specialist consultants to assist its decision making.

MATTER RESERVED TO COUNCIL

3.c Housing Revenue Account Budget (including Capital Programme) 2020/21

The Council is asked to:-

a) Consider the Assistant City Mayor – Education and Housing's proposed Housing Revenue Account Budget (HRA) 2019/20 to be published prior to the Budget Meeting and which will be attached to the Council Script;

b) Consider the views of the Overview Select Committee meeting on 12 February 2020 which will be submitted prior to the Council meeting and a copy attached to the Council Script); and

c) Approve the proposed Housing Revenue Account budget (including Capital Programme) for 2020/21 as described in the report subject to any changes proposed by the Assistant City Mayor.

Attached in the report is a minute extract from the Housing Scrutiny Commission on 13 January 2020 which considered the HRA budget.

Subject to any changes proposed by the Assistant City Mayor, the Council is recommended to:

i) Approve the Housing Revenue and Capital budgets for 2020/21
ii) Note the financial pressures on the HRA and comment on the proposals for delivering a balanced budget;
iii) Note the equality assessment of the proposed revenue and capital reductions required to present a balanced budget;
iv) Approve a 2.7% increase in core dwellings rent for 2020/21;
v) Approve the increase in service charges of 2%, and increase in garage rent of 2.7% for 2020/21;
vi) Approve the proposal for Hostel rents to increase by 2% for 2020/21;
vii) Note that the scheme of virement (included within the General Fund Revenue Budget report which is also on your agenda) applies also to the HRA budget with total expenditure and total income acting as budget ceilings for this purpose;
viii) Agree that the capital strategy and the delegations and determinations applicable to main Capital Programme, which is also on your agenda, shall also apply to the capital programme in this report.

Housing Revenue Account Budget (including Capital Programme) 2020/21

Full Council: 19th February 2020

Assistant Mayor for Housing: Cllr. Elly Cutkelvin

Lead director: Chris Burgin

Useful information

- Ward(s) affected: All
- Report authors: Chris Burgin, Director of Housing & Stuart McAvoy, Principal Accountant

1. Purpose

1.1 The purpose of this report is for Full Council to consider and approve the proposed Housing Revenue Account (HRA) budget for 2020/21, with indicative budgets for the following two years.

2. Summary

2.1 The financial landscape of the four-year period from 2016 to 2020 has been dominated by the government requirement that rents be reduced by 1% each year. Despite this pressure, the HRA delivered balanced budgets. The government announced in October 2017 that for the 5 years from 2020 rents can be increased by up to CPI+1%. Whilst this relaxation is welcome from the perspective of financing the HRA and investing in housing, a number of other external pressures and changes brought about by central government persist; these include the impact of increasing Right to Buy (RTB) sales, the rollout of Universal Credit and inflationary pressures.

2.2 This report recommends that the budget for 2020/21 is set as a balanced budget, continuing the approach of only drawing on reserves to fund time-limited or one-off schemes. The provisional budgets for 2021/22 and 2022/23 are also shown as balanced budgets.

3. Recommendations

3.1 Taking in to account the views of Housing Scrutiny Commission, the Tenants and Leaseholders Forum and any comments made by the Overview & Scrutiny Commission at its meeting on the 12th February (to be notified before the Council meeting) it is proposed;

i) To approve the Housing Revenue and Capital budgets for 2020/21
ii) To note the financial pressures on the HRA and comment on the proposals for delivering a balanced budget;
iii) To note the equality assessment of the proposed revenue and capital reductions required to present a balanced budget;
iv) To approve a 2.7% increase in core dwellings rent for 2020/21;
v) To approve the increase in service charges of 2%, and increase in garage rent of 2.7% for 2020/21;
vi) To approve the proposal for Hostel rents to increase by 2% for 2020/21;
vii) Note that the scheme of virement (included within the General Fund Revenue Budget report which is also on your agenda) applies also to the HRA budget with total expenditure and total income acting as budget ceilings for this purpose;
viii) Agree that the capital strategy and the delegations and determinations applicable to main Capital Programme, which is also on your agenda, shall also apply to the capital programme in this report.

4. Report

4.1 Rents & Service Charges

4.1.1 The HRA operates in a self-financing environment. Spending priorities are made in the context of needing to achieve the right balance between investing in, maintaining and improving the housing stock, providing landlord services to tenants, building new homes and supporting and repaying housing debt of £220m.

4.1.2 The HRA budget is set by modelling future levels of income and expenditure. Following four years of mandatory 1% rent reductions, which reduced rental income by £3.1m p.a. by 2019/20, 2020/21 is the first of 5 years in which rents may be increased by up to CPI+1%. CPI as at the end of September 2019 was 1.7%, meaning that rental increases of up to 2.7% are permitted. The recommendation of this report is to apply a rental increase of the full 2.7%, based on the unavoidable pressures detailed in this report; had 4 years of rent reductions not taken place then such an increase may have been avoidable. Whilst any decision on rents for 2021 and 2022 will be taken by Council at the appropriate time, the planning assumption is that CPI will be 2% and that rents will increase by the full CPI+1%. Since a decision is not being sought for rents beyond 2020/21, the capital and revenue budgets for these years are provisional and are shown for information only.

4.1.3 Service charges and garage rents are set separately to core rent. This report proposes an increase in service charges for 2020/21 of 2% which will raise an additional £37k a year. It is proposed to increase garage rents by 2.7% (September CPI+1%) in line with the core rental increase, which would increase the average weekly rent to £9.43. It is proposed that the sundry payments and charges listed at Appendix C remain unchanged.

4.1.4 Hostels fall outside the policy statement on social housing rents; these are periodically re-set to ensure that they are aligned with the actual cost of running the service. This re-set is scheduled to take place during 2020/21. For the coming financial year it is proposed that Hostel rents are increased by 2%, in line with the assumption on staffing costs.

4.2 Revenue Cost Pressures

4.2.1 The primary external pressure on the HRA continues to be the reduced rental income due to loss of stock through RTB sales. Table 1, below, summarises the known pressures and budget growth requirements within the HRA:

Table 1: Revenue Cost Pressures	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
Rent Impact of RTB Stock Loss	1,544	3,079	4,558
Staffing Inflation	1,461	2,234	2,866
Other Inflation	691	1,261	1,846
Interest & Debt Repayment	1,184	1,754	2,312
Total Cost Pressures	**4,880**	**8,328**	**11,582**

Right to Buy
Sales of properties through Right to Buy can give discounts to tenants of up to 70% of the property value. From 2012 the government 'reinvigorated' the scheme by increasing the maximum discount, such that for Leicester it is now £82,800 compared with £24,000 in 2012. Sales have increased as a result, with a loss of over 1,275 properties in the last 3 years alone. The HRA loses rental income from properties sold in this way, and the economies of scale that come from managing a large portfolio are gradually being eroded. Over the next 3 years it is forecast that rental income will be £4.6m lower as a result of 1,200 Right to Buy sales.

Inflation
Employee costs are forecast to rise by £2.9m over the next 3 years based on assumed annual pay increases of 2%, and known increases to pension contributions. Material costs are expected to rise and provision is being made for increases of 2.5% per year, increasing annual spend by £0.5m. Inflation on running costs (including vehicle fleet) are expected to add a further £1.3m to total costs.

Interest & Debt Repayment
Countering the loss of stock through RTB, the HRA is undertaking a significant programme of acquiring and building properties. In November 2019, Council approved a £70m addition to the HRA capital programme for this investment. Part of this is being funded from borrowing, with interest payable on the debt. It is prudent to repay debt on an annual basis over the life of the assets being acquired and provision is being made for this. These costs will be fully funded from the additional income stream associated with the properties. In 2018 a tranche of Council debt was repaid leading to a significant reduction in the interest chargeable to the HRA.

4.3 Revenue Savings

4.3.1 The proposals within this report meet the identified budget gap of £4.9m in 2020/21 rising to £11.6m in 2022/23. Table 2, below, summarises the proposed budget reductions.

Table 2: Additional Income & Reductions in Expenditure	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
Dwelling Rent & Service Charges	(2,170)	(4,203)	(6,140)
New Build & Acquired Rental Income	(1,014)	(2,154)	(3,471)
Homelessness Management Review	(108)	(108)	(108)
Stores Streamlining	(92)	(92)	(92)
Capital Funded from Revenue	(846)	(1,121)	(1,121)
Savings to be Identified	(650)	(650)	(650)
Total Savings	**(4,880)**	**(8,328)**	**(11,582)**

Rent & Service Charges
As outlined in section 4.1, the additional income shown here reflects the recommendation that rents, including garage rents, be increased by CPI plus 1%. The working assumption is that this approach continues in 2021/22 and 2022/23. It is proposed that service charges and hostel rents be increased by 2%, in line with the

assumed rate of increase in staff pay since the costs of these services are heavily driven by such costs.

Rental income on New Build and Acquired Properties
The HRA has embarked on an extensive programme of acquiring properties on the open market to increase the number of homes available at an affordable rent. In addition, a programme of building new properties on Council-owned land is underway. Additional rental income will accrue of £1m in 2020/21, rising to £3.5m by 2022/23.

Homelessness Management Review
The management structure within homelessness services was reviewed during 2019 to ensure that it best meets the revised statutory responsibilities set out in the Homelessness Reduction Act, as well as delivering the homelessness strategy. The financial effect of this review is to save the HRA £0.1m.

Stores Streamlining
The Stores function holds the materials required by craft operatives to undertake repairs to the Housing stock. The function is currently consolidating from 2 sites within the city to a single site, allowing for the deletion of 3 vacant posts. This will generate a saving of £0.1m.

Capital Expenditure Funded from Revenue
The default source of funding for the HRA capital programme is from revenue resources, which in 2019/20 amounted to £17.1m. In 2020/21 the figure falls to £16.2m and is then forecast to drop again to £15.9m from 2021/22, freeing up revenue resources to meet the identified pressures. These schemes are detailed in section 4.4, below.

Savings to be Identified
Changes to the way in which accommodation services are being delivered are currently being considered, and are expected to deliver savings in the order of £0.7m.

4.3.2 In summary, the HRA revenue budget savings proposed for the next 3 years will meet the amount required to balance the revenue budget without drawing upon reserves. Appendix A shows a high-level breakdown of the proposed HRA revenue budgets for the next 3 years.

4.4 Capital Expenditure

4.4.1 The 2019/20 capital programme (excluding budgets slipped from previous years) is £48m, with more than half of this relating to the Council House Acquisition and New Build programmes. In addition, a further £70m has been added in November 2019 following Council approval to extend the programme of increasing affordable housing.

4.4.2 Appendix E outlines the way in which capital works are identified as being required in council dwellings. Appendix F provides wider details of the priorities which direct HRA expenditure, including achievements throughout 2019/20.

4.4.3 Appendix B shows the proposed capital programme for 2020/21 and provisional budgets for the 2 following years. Other than one-off schemes falling out of the programme, the following projects are those for which changes are proposed:

Kitchens and Bathrooms

It is proposed that the capital budget for kitchens and bathrooms be reduced by £0.4m. Budget monitoring throughout the year has identified a forecast underspend on this budget, and in part this reflects the number of properties lost to RTB.

Re-roofing
Analysis of the remaining life of roofs has identified that a greater number of properties will need to be re-roofed over coming years than the current budget allows for. The budget increased by £400k in 2019/20 with a further increase of £150k identified for 2021/22.

Property Conversions
Overcrowding can be an issue within some properties, so work will be undertaken in 2020/21 to deliver a mix of loft conversions and extensions at a cost of £0.5m. This will create properties with the capacity to house larger families in a more cost-effective manner than purchasing such properties on the open market.

Sheltered Housing
Following visits to schemes in other council areas, it is envisaged that refurbishment of some Sheltered Housing blocks may be required. Introducing a budget of £250k will enable feasibility works to explore this in more detail.

Public Realm Works
Whilst the existing budget includes £750k for Communal and Environmental works continuing to be shared equally across all Council Housing Wards, an injection of £5m over the next 3 years will allow for significant improvements to the appearance of low-rise flats, communal areas and open estate areas with this funding focussed primarily upon the St Peters & St Matthews estates. Provision of £1.2m is included for 2020/21, rising to £1.9m for 2021/22 and 2022/23. Reserves will be used fund the full amount in 2020/21, with a mix of reserves and revenue contributions planned for financing the following 2 years.

Maintenance of Non-Dwellings
It is anticipated that additional work will be required in relation to the maintenance of non-dwellings, and the creation of a policy provision of £0.7m will facilitate this.

Business Systems
A long-standing budget for making improvements to Housing IT systems, including the increasing use of mobile working solutions requires a top-up of £175k to provide sufficient budget for 2020/21. Budgets for 2021/22 onwards will be considered during the next 12 months, taking into account any procurement requirements.

4.4.4 The funding of the proposed capital programme is shown in the table below. This results in a reduction in funding from revenue of £846k in 2020/21 and £1,121k from 2021/22, reflecting the figures at paragraph 4.3.1. The table reflects the programme for which approval is being sought from Council, and as such excludes the £70m affordable housing approval, which is largely funded from RTB receipts and borrowing.

Table 3: Funding of HRA Capital Programme	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
Funded From Revenue	17,081	16,235	15,960	15,960
Funded From Reserves	12,269	1,200	700	700
Funded From Right to Buy Receipts	8,430	0	0	0
Funded from Borrowing	10,250	0	0	0
	48,030	**17,435**	**16,660**	**16,660**

4.4.5 Authority for amendments to the HRA capital programme is in line with that for the corporate programme as set out in Capital Programme Report to Council on 19th February 2020.

4.5 **HRA Reserves**

4.5.1 Drawing down on reserves in an attempt to avoid the need to make savings is only viable as a short-term approach to meeting any budget shortfall. Reserves are better utilised in meeting one-off costs, to support the delivery of long-term efficiencies and in the replenishment of dwelling stock to increase the long-term financial viability of the HRA. In keeping with this approach, the only use of reserves in the proposed 2020/21 budget is for a time-limited enhancement of public realm works.

4.5.2 At the end of 2019/20, the total HRA unallocated reserves are forecast to be £1.1m. This is the amount available to support unplanned one-off expenditure or to meet in-year deficits.

5. Financial, legal and other implications

5.1 Financial implications

5.1.1 This report is exclusively concerned with financial issues.

Colin Sharpe, Deputy Director of Finance (37 4081)

5.2 Legal implications

5.2.1 The Council is obliged to set a budget for an accounting year that will not show a deficit (S76 Local Government and Housing Act 1989).

5.2.2 The Council is also required to ring-fence the HRA to ensure that only monies received and spent for obligations and powers under the Housing Act 1985 can be paid into and out of the HRA (S75 and Schedule 4 Local Government and Housing Act 1989).

Jeremy Rainbow - Principal Lawyer (Litigation) – 37 1435

5.3 Climate Change and Carbon Reduction implications

5.3.1 Housing is responsible for a third of Leicester's overall carbon emissions. Following the council's declaration of a climate emergency in February 2019, addressing these emissions is vital to meeting our ambition to make Leicester a carbon neutral city.

5.3.2 Opportunities to reduce the energy use and carbon emissions of properties should be identified and implemented wherever possible. In the case of newly built or purchased dwellings this means meeting a high standard of energy efficiency, as provided in climate change implications for relevant reports. Additionally, the programme of maintenance for existing housing properties should provide opportunities to improve their energy efficiency, which should be investigated where practical.

5.3.3 Improving energy efficiency should also help to ensure that housing reaches a high standard and reduce energy bills for tenants.

Aidan Davis, Sustainability Officer, Ext 37 2284

6. Background information and other papers:

None

7. Summary of appendices:

Appendix A: Proposed HRA Budget 2020/21 to 2022/23

Appendix B: Proposed HRA Capital Programme 2020/21 to 2022/23

Appendix C: Other Service Charges and Payments 2020/21

Appendix D: Leicester Average Rents Comparison

Appendix E: Planning Capital Works in Council Dwellings

Appendix F: How Priorities are Assessed for HRA Expenditure

Appendix G: Feedback from Consultation with Tenants' and Leaseholders' Forum

Appendix H: Minutes of the Housing Scrutiny Commission

Appendix I: Equality Impact Assessment (EIA)

8. Is this a private report (If so, please indicated the reasons and state why it is not in the public interest to be dealt with publicly)?

No

9. Is this a "key decision"?

No, as the decision will be taken by full Council.

Appendix A

Proposed HRA Revenue Budget
2020/21 to 2022/23

		- 2020/21 -			- 2021/22 – Provisional – For Info			- 2022/23 – Provisional – For Info		
	2019/20 Current Budget £000	2020/21 Budget Pressures £000	2020/21 Savings & Reductions £000	Proposed 2020/21 Budget £000	2021/22 Budget Pressures £000	2021/22 Savings & Reductions £000	Draft 2021/22 Budget £000	2022/23 Budget Pressures £000	2022/23 Savings & Reductions £000	Draft 2022/23 Budget £000
Income										
Dwelling & Non-Dwelling Rent	(72,961)	1,544	(3,147)	(74,564)	1,535	(3,133)	(76,162)	1,479	(3,213)	(77,896)
Service Charges	(5,671)	0	(37)	(5,708)	0	(40)	(5,748)	0	(41)	(5,789)
Total Income	**(78,632)**	**1,544**	**(3,184)**	**(80,272)**	**1,535**	**(3,173)**	**(81,910)**	**1,479**	**(3,254)**	**(83,685)**
Expenditure										
Management & Landlord Services	18,366	798	(484)	18,680	422	0	19,102	382	0	19,484
Repairs & Maintenance	24,795	1,272	(92)	25,975	838	0	26,813	750	0	27,563
Interest on Borrowing	7,766	1,184	0	8,950	570	0	9,520	558	0	10,078
Charges for Support Services	4,702	3	0	4,705	3	0	4,708	3	0	4,711
Contribution to GF Services	5,922	79	(274)	5,727	80	0	5,807	82	0	5,889
	61,551	**3,336**	**(850)**	**64,037**	**1,913**	**0**	**65,950**	**1,775**	**0**	**67,725**
Capital Funded From Revenue	**17,081**	**0**	**(846)**	**16,235**	**0**	**(275)**	**15,960**	**0**	**0**	**15,960**
(Surplus) / Deficit Before Reserves	**0**	**4,880**	**(4,880)**	**0**	**3,448**	**(3,448)**	**0**	**3,254**	**(3,254)**	**0**
Funding From Reserves	0	0	0	0	0	0	0	0	0	0
Contributions To Reserves	0	0	0	0	0	0	0	0	0	0
(Surplus) / Deficit	**0**	**4,880**	**(4,880)**	**0**	**3,448**	**(3,448)**	**0**	**3,254**	**(3,254)**	**0**

Appendix B

HRA Capital Programme 2020/21 to 2022/23

The table below shows the 2019/20 capital programme as at October 2019 (excluding budgets slipped from previous years' programmes and the £70m Council approval for affordable housing). Other than non-dwellings maintenance, all of the schemes listed for 20/21 are immediate starts.

	2019/20 Capital Programme £000	Proposed 20/21 Programme £000	Provisional 21/22 Programme £000	Provisional 22/23 Programme £000
Kitchens & Bathrooms	4,000	3,600	3,600	3,600
Boilers	3,425	3,425	3,425	3,425
Re-wiring	1,760	1,760	1,760	1,760
Re-roofing	750	750	900	900
Soffits & Facia	350	350	350	350
Windows and Doors	150	150	150	150
Door Entry	150	150	150	150
District Heating Maintenance	725	725	725	725
Communal Improvements & Environmental Works	750	750	750	750
Disabled Adaptations	1,200	1,200	1,200	1,200
Fire Risk Works	1,000	1,000	1,000	1,000
Safety Works including Targeted Alarms	300	300	300	300
Loft Insulation	100	100	100	100
Waylighting	150	150	150	150
Sheltered Housing Improvements (ASC)	100	100	100	100
Concrete Paths Renewal	100	100	100	100
Sprinkler Systems	1,350	0	0	0
Goscote House Demolition	2,800	0	0	0
Parking - Spend to Save	250	0	0	0
Supporting Neighbourhood Hubs	550	0	0	0
New Build Housing	6,200	0	0	0
Property Acquisitions	21,180	0	0	0
Other Additions Within 2019/20	690	0	0	0
Property Conversions	0	500	0	0
Feasibility Study for Sheltered Housing	0	250	0	0
Public Realm Works	0	1,200	1,900	1,900
Maintenance of Non-Dwellings (policy provision)	0	700	0	0
Business Systems	0	175	0	0
Total Capital Programme	**48,030**	**17,435**	**16,660**	**16,660**

Appendix C

Other Service Charges and Payments

It is proposed that the payments and charges shown in the table below remain unchanged for 2020/21:

Service Charge	Details of Charges
Replacement Rent Swipe Cards	The charge for a replacement swipe card is £5.00.
Pre-sale questionnaires from solicitors and mortgage providers	Housing Services receive a large number of requests from mortgage providers and solicitors for information in connection with property type / condition and tenancy history. A charge is levied to recover the cost to the council of providing this information. The charge for this is £125 (Note that requests in connection with tenants' statutory rights under Right to Buy legislation are excluded from this charge).
Security Fob Replacements	Where tenants and leaseholders require a replacement security fob these are charged at £10 each.

Payments	Details of Payments
Disturbance Allowance	Disturbance allowances are paid when a full property electrical rewire is carried out to an occupied LCC-owned property. A disturbance allowance can also be paid where it is necessary to undertake major works in an occupied property. The disturbance allowance is £155 per dwelling.
Decorating Allowances	Decorating allowances are paid to new tenants based on the condition of the property on a per room basis. The allowances are paid through a voucher scheme with a major DIY chain. Current allowances are set out below: Bathroom £45.00 Kitchen £56.25 Lounge £67.50 Dining Room £67.50 WC (where separate) £22.50 Halls (flats/bungalows) £45.00 Hall/Stairs/Landing £78.75 Large Bedroom £67.50 Middle Bedroom £56.25 Small Bedroom £36.00 The amount payable is capped as follows: 3+ bed house / maisonette £300 3+ bed bungalow / flat £250 2 bed house / maisonette £250 2 bed flat / bungalow £200 1 bed flat / bungalow £150 Bedsit £100

Appendix D

Average Rents Comparison

The table below compares the rent levels for different types of property in the HRA with rents for similar sized properties across the city.

<table>
<tr><th>Property Type</th><th>HRA 2019/20</th><th>Formula Rent 2019/20</th><th>Housing Assoc. 2018/19</th><th>Private Sector (LHA rate) 2019/20</th><th>Private Sector (city wide) 2018/19</th></tr>
<tr><td>Room only</td><td>-</td><td>-</td><td>-</td><td>£63.22</td><td>£84.69</td></tr>
<tr><td>Bedsit (studio)</td><td>£53.20</td><td>£62.75</td><td>£56.24</td><td>£86.30</td><td>£95.08</td></tr>
<tr><td>1 bed</td><td>£61.56</td><td>£66.99</td><td>£64.58</td><td>£86.30</td><td>£115.85</td></tr>
<tr><td>2 bed</td><td>£72.63</td><td>£77.20</td><td>£82.11</td><td>£109.32</td><td>£143.31</td></tr>
<tr><td>3 bed</td><td>£80.32</td><td>£85.76</td><td>£89.70</td><td>£130.38</td><td>£168.00</td></tr>
<tr><td>4 bed</td><td>£92.32</td><td>£96.99</td><td>£106.10</td><td rowspan="3">£163.16</td><td rowspan="3">£249.00</td></tr>
<tr><td>5 bed</td><td>£100.02</td><td>£104.77</td><td>£110.63</td></tr>
<tr><td>6 bed</td><td>£115.32</td><td>£110.74</td><td>£123.90</td></tr>
</table>

Appendix E

Planning Capital Works in Council Dwellings

Each defined element within a council property is upgraded or renewed in line with good practice, legislative requirements and the changing needs and expectations of our tenants. The table below identifies some of the main criteria for planning major works in council dwellings:

Component for replacement	Leicester's replacement condition criteria	Decent Homes Standard minimum age
Bathroom	All properties to have a bathroom for life by 2036	30 - 40 years
Central heating boiler	Based on assessed condition from annual service	15 years (future life expectancy of boilers is expected to be on average 12 years)
Chimney	Based on assessed condition from the Stock Condition Survey / Housing Health and Safety Rating System	50 years
Windows and Doors	Based on assessed condition from the Stock Condition Survey / Housing Health and Safety Rating System	40 years
Electrics	Every 30 years	30 years
Kitchen	All properties to have an upgraded kitchen by 2036	20 – 30 years
Roof	Based on assessed condition for the Stock Condition Survey / Housing Health and Safety Rating System	50 years (20 years for flat roofs)
Wall finish (external)	Based on assessed condition from the Stock Condition Survey / Housing Health and Safety Rating System	80 years
Wall structure	Based on assessed condition from the Stock Condition Survey / Housing Health and Safety Rating System	60 years

Asset data for all HRA stock is held on the Northgate IT system. This includes the age, construction type, number of bedrooms, type and age of boiler, the last time the lighting and heating circuits were rewired etc. Condition survey data is also held for certain external elements such as roofs and chimneys, external paths, windows and doors etc.

The 3-year plan outlined within this report is not purely based on life cycle and condition survey data; major elements are pre-inspected before they are added to the programme and the repairs history for the property is checked. For example, all roofs are pre-inspected before the order is sent to the contractor. Likewise, all electrical installations are tested at 30 years and a decision is made whether to carry out a full rewire or part upgrade of the circuits. Properties are not added to the kitchen programme if they have had major repair work carried out in the previous 5 years.

Requests for additions to the capital programme are also received from the Repairs Team if an element requires replacement rather than repair. For example, a roof repair may result in the property being added to the programme.

Some works are reactive such as Disabled Adaptations. There is a joint working protocol between Housing and Adult Social Care, which allocates priority points to each case.

Appendix F

How Priorities are Assessed for HRA Expenditure

1. Labour's Manifesto, For the Many not the Few, contains 12 main commitments that the Housing Division has primary responsibility for delivering. Most of the commitments sit under the Manifesto section Homes for all. These are to:

   - Provide 1,500 more council, social and extra care homes;
   - Use our Housing company to tackle housing shortages;
   - Reduce the number of families and individuals placed in temporary accommodation;
   - Ensure that no-one has to sleep rough on our streets;
   - Establish a residential facility for people experiencing multiple and complex needs, many of whom are rough sleeping;
   - Support further work to meet complex needs experienced by women and Black and Minority Ethnic communities who may not be sleeping on our streets but are homeless;
   - Make Leicester a place of refuge for those fleeing conflict across the world, with a comprehensive offer of housing, support and learning;
   - Maintain our existing adaptations service for all homeowners and undertake a programme of council housing adaptations to allow people with disabilities to remain or move into our properties;
   - Undertake an ongoing £80m council home improvement programme;
   - Continue our environmental investment programme on council land and estates;
   - Provide free Wi-Fi on estates;
   - Establish a home extension fund for council tenants to reduce overcrowding in council properties.

2. The overall aim of Leicester City Council's Housing Division is to provide a decent home within the reach of every citizen of Leicester. Under this aim the priorities for the HRA budget, incorporating support to deliver the Labour Manifesto commitments, are:

   - Providing Decent Homes;
   - Making our communities and neighbourhoods where people want to live and keeping in touch with our tenants;
   - Making Leicester a low carbon city by improving the energy efficiency of homes;
   - Providing appropriate housing to match people's changing needs;
   - Making Leicester a place to do business by creating jobs and supporting the local economy.

3. This appendix sets out how we meet our five major priorities for investment in our 20,830 council homes and their neighbourhoods.

Priority One – Providing Decent Homes

Why is this a priority and what is our planned approach to achieving this?

4. Nearly one in six homes in Leicester is a council house, flat, maisonette or bungalow. It is crucially important that we look after these assets, not just for current tenants but for those who will live in them for many years to come. When we plan the Housing Capital Programme we must consider what investment will be needed over at least the next 40 years, not just the next three or four years. We must ensure we do not let the programmes for essential items with long life spans fall behind, for example roofs, boilers, wiring, kitchens and bathrooms.

5. Providing decent homes is not just about 'bricks and mortar', it can also lead to improvements in educational achievement and health, help tackle poverty and reduce crime.

6. The Government's Decent Homes target was met in 2011/12. However, to meet the standard on an on-going basis further investment for major works is required.

7. Major works are planned for all council housing following an assessment of condition, age, tenant priorities and other criteria set as part of the Decent Homes Standard. We have a bespoke software package that enables us to analysis stock condition and plan major work accordingly, when it is required.

8. The Governments current definition of a Decent Home was set in 2006. A Decent Home must meet the following four criteria:

   - It meets the current statutory minimum standard for housing;
   - It is in a reasonable repair;
   - It has reasonably modern facilities and services; and
   - It provides a reasonable degree of thermal comfort

   The Governments green paper "A new deal for social housing" was published and consulted upon in 2018. This document stated the Government was considering a review of the Decent Homes Standard. To date no new update on the Decent Homes Standard has been made as a result of this green paper, but the wider housing sector anticipate changes to the current criteria at some point in the future, for which we will need to respond to.

9. As well as achieving the Decent Homes Standard we also address tenants' priorities. The majority of tenants see improvements made within their home as a priority and the priority element for improvement is kitchens and bathrooms. Our current commitment is to refurbish all kitchens and bathrooms by 2036.

10. From time to time major refurbishment or redevelopment projects are required. The current ones are the kitchen and bathroom refurbishment programme, St Peters tower block refurbishment, St Leonards Court lift replacement and installation of a second lift,

demolition of Goscote House, central heating and boiler upgrades and the electrical improvement programme.

11. It is crucial we continue to repair and maintain homes. During 2019/20 90,039 repairs were completed and we anticipate a similar number for 2020/21. At the end of July 2019 737 responsive repairs were outstanding that were out of category and 205 jobs relating to gas repairs and district heating.

12. Work is taking place to reduce the length of time homes are vacant to ensure that new tenants are rehoused into suitable accommodation as quickly as possible and loss of income is minimised. During 2018/19 the average time to re-let a routine void property was 62.1 days. For the first 3 months of 2019/20 this had been reduced to 43.1 days.

Achievements in 2019/20 and Proposals for 2020/21

13. In 2019/20 approximately £25m has been invested in maintaining our homes and a further £17m for improvements through the Capital Programme.

Programmed element	Achievements and proposals
Kitchens and bathroom	We expect to have installed 710 kitchens / bathrooms in 2019/20. During 2020/21 we are expected to install a further 780 kitchens / bathrooms. As at the 1st April 2019 75% of all council properties have had either a Leicester Standard kitchen or bathroom.
Rewiring	We expect to have rewired 810 homes in 2019/20 and a further 800 during 2020/21
Central heating boilers	Investment is calculated to replace boilers every 15 years based on condition data from the annual gas service. We expect to have replaced 1,148 boilers in 2019/20 and a further 1,150 2020/21
Roofing and chimneys	We expect to have installed 97 new roofs in 2019/20 and 100 in 2020/21. An additional £450k was invested in re-roofing activities during 2019/20 to enable the increased demand for this work to be undertaken.
Central heating systems	We have 143 properties without any form of central heating. In these cases tenants have refused to have central heating installed. Provision is made in the programme to install central heating on tenant request or when these properties become vacant.
Windows and doors	Excluding properties in Conservation Areas where there are often restrictions on the use of UPVC, we have 49 properties that do not have UPVC double glazed windows. In these cases tenants have refused our previous offers of installing double glazing. Provision is made in the programme to install windows / doors on tenant request or when these properties become vacant. Future investment will be targeted at installing secondary glazing to properties in Conservation Areas.
Structural works	Investment is required to address any structural works identified each year. As well as dealing with structural problems such as

	subsidence, issues such as woodwork treatment and failed damp proof courses are also dealt with when identified
Soffits, fascia's and guttering	By replacing these items with UPVC we reduce long term maintenance costs. During 2019/20 we anticipate replacing 142 soffits, facias and gutters and a further 150 in 2020/21.
Condensation works	Investment is required to target those properties that have been identified as being more susceptible to condensation related problems because of their construction type or location. A multi option approach is adopted along with the use of thermal imaging technology to produce property specific solutions. In 2019/20 we expect to complete work on 520 properties and a further 550 in 2020/21. Advice to tenants is also important as their actions can alleviate condensation problems, for example opening windows when cooking.
Safety and fire risk work	Investment is required to implement the planned programme of fire safety measures, as agreed with the Fire Service (see point 15 below.) During 2019/20 an additional £0150k was allocated to install fire doors that required replacement.

14. Fire safety is of paramount importance to us as a landlord. We have policies and procedures in place to reduce the risk of fires, for example our Assistant Housing Officers carry out regular fire inspections to properties with communal areas such as flats, maisonettes and houses in multiple occupation. All these buildings have their own fire risk assessments and people are provided with a personal evacuation plan in case a fire starts. We have a no tolerance policy on items left in communal areas. If found these are removed so evacuation routes remain clear and combustible items are not left to encourage the spread of fire. Our fire safety work includes implementing recommendations made by the fire service. None of our 6 tower blocks contain external cladding, which contributed to the spread of the fire at Grenfell Tower in 2017, nor do they have gas supplies. 4 of the 5 tower blocks in St Peters have had passive fire protection upgraded as part of the refurbishment work taken place. This includes communal fire doors and emergency lighting. During 2018 a decision was made to draw up plans to demolish Goscote House. The reason for this is that, although it is currently safe to live in, the projected longer-term structural costs of keeping it safe would be unviable. This demolition work is to be progressed during 2020/21. St Leonards Court has passive fire protection measures in place. The installation of a second lift at St Leonards Court is scheduled for completion during 2019/20. We have agreed to fit sprinkler systems at our 5 high storey tower blocks. Work installing sprinklers at Maxwell House has been completed and work on the 4 other blocks has been programmed to be completed by 2021.

15. During 2019/20 £50k was invested from the Housing Division's Spend to Save budget to introduce a programme to remove asbestos from void bungalows. This ensures that the new tenant does not have the upheaval of moving out of their property for this work to be carried out at a later date.

16. During 2019/20 £150k was also invested to improve the racking in Operatives vans to enable them to have materials readily available to complete more repairs on first visit.

17. In February 2019 a new mobile working solution called Total Mobile was rolled out to over 180 repairs Operatives. This improved technology has the ability to assign a qualified Operative and material to a repair job automatically. It also has the function of sending text messages to tenants reminding them of appointments and informing them an Operative is on the way. As part of this new technology, customer satisfaction monitoring of repairs work has been introduced. Between July and September 2019 8,365 tenants who had repairs completed had been surveyed, 99.9% of these people stated they were satisfied with the work.

Priority Two – Making our communities and neighbourhoods places where people want to live and keeping in touch with our tenants

Why is this a priority and what is our planned approach to achieving this?

18. Creating sustainable communities is about more than housing, it means cleaner, safer, greener neighbourhoods in which people have confidence and pride.

19. The environmental works and communal areas fund helps deliver significant environmental improvements on estates, such as landscaping, new security measures, community facilities, pocket parks, fencing and communal area improvements. Tenants and ward councillors help decide where this money should be spent, based on their local needs and priorities. These schemes have helped improve the overall image, appearance and general quality of life within our estates.

20. As part of the council's Transforming Neighbourhood Services programme housing office services are now in shared buildings within local communities.

Achievements in 2019/20 and Proposals for 2020/21

21. In 2019/20 the budget for environmental and communal works was £750,000. It was shared across the city in all neighbourhood housing areas. Works included parking improvements, resurfacing courtyards, improving the security of estates by the installation of gates and removal of bushes. Specific examples include:

- Painting of communal areas of flats on Bridlespur Way, Modbury Avenue, Jersey Road, Hipwell Crescent and Millwood Close, Mowmacre;
- The fitting of bird spikes on blocks of flats in Mowmacre to deter pigeons;
- Removal of shrubs and slabs on Wymar Close, Beaumont Leys to improve the look of the area;
- Removing tamac from the existing path of Collett Road, Beaumont Leys, to improve the appearance of the area and to create a clear pathway for residents;

- Demolition of garages on Beatty Avenue and Rowlatts Hill Road that are in poor condition, to create new parking spaces;
- Footpath refurbishment to The Crossway, Saffron, where these are in disrepair and a trip hazard;
- Creation of external bin storage areas for the flats on Neston Gardens and Heathcott Road, Saffron;
- Carrying out a pilot project to steam clean the communal flooring to flats on Edmonton Road, St Matthews;
- A joint project with Highways to remove overgrown trees/bushes and resolve parking congestion around Oak Street flats in Humberstone;
- Re-configuring the entrance to Framland House on St Peters to improve security.

22. A further £250k has been invested from the Housing Division’s Spend to Save scheme to introduce a pro-active programme to repair and maintain our 1,035 communal areas on estates.

23. During 2019/20 the HRA contributed £114k to the General Fund for investigating and enforcement work, such as fly tipping on estates, undertaken by City Wardens.

24. The Leicester to Work scheme (see also priority 5) carries out painting, clearing of alleyways, removal of graffiti and other works to improve the look of the local environment.

25. The Housing Division works closely with the Probation Service through the Community Payback scheme. During 2018/19 240 days of work was provide by people undertaking tasks such as litter picking and painting.

26. The programme of upgrading door entrance schemes will continue based on condition surveys. We expect to upgrade 10 door entrance schemes during 2019/20 and a further 12 in 2020/21.

27. We continue to provide our housing management service with local teams so that our staff know the neighbourhoods and communities in which they work. Housing Officers are out and about on their ‘patches’ and our craft workforce is fully mobile. During 2019 we have revised and consulted on our Conditions of Tenancy.

28. District Managers attend ward community meetings and other local forums. We work closely with the police and are involved in the local Joint Action Groups.

29. We publish an Annual Report to Tenants and information is also communicated through the Your Leicester electronic newsletter and the Council’s Twitter and Facebook accounts.

30. The Customer Services Centre runs a telephone advice line during working hours where tenants can report repairs and tenancy issues. Out of hours emergency calls are taken by an external provider. Last year the Customer Service Centre received 206,900 calls

during the working day on the tenants' advice line. 119,556 of these calls were about repairs. A further 13,857 calls were made out of hours.

31. We are now working on a programme to provide greater on-line access to our services, through a portal on the Council's website. We have already set up the facility for tenants to view and download rent statements, register for direct debit rent payments, view repairs and send us an enquiry related to a repair they have reported. Further on-line developments we are working on include the ability for tenants to request a repair and select an appointment slot. Work has also started to look at providing free Wi-Fi on estates.

32. We respond vigorously to reports of anti-social behaviour and have CCTV on many parts of our estates. We also offer security packages to tenants who are victims of anti-social behaviour, such as secure letter boxes and alarms, to help them feel safe in their homes, whilst reports are investigated. In 2018/19 we received 1,322 reports of anti-social behaviour that were investigated and, where necessary, action was taken against perpetrators. This was 476 more reports than the previous year. In the first 3 months of 2019/20 we had received a total of 422 reports. During 2019/20 the HRA contributed £32k to the Council's Crime and Anti-Social Behaviour Team to support the resolution of serious anti-social behaviour cases.

33. We work closely with the Tenants' and Leaseholders' Forum which has representatives from across the city. During 2019/20 the topics the Tenants and Leaseholders' Forum have discussed include:

- The voids management process
- The supply of new council housing
- Free Wi-Fi on council estates
- The Tenancy Management Service
- The Housing Register and Homelessness service
- Customer Services
- Fire safety
- The Repairs Service
- Rent collection

The action log from the Tenants' and Leaseholders' Forum is attached to the documents for each Housing Scrutiny meeting. The Chair and/or Vice Chair of the Tenants' and Leaseholders' Forum will also attend Housing Scrutiny meetings to provide an update on the work of the Forum. The Tenants' and Leaseholders' Forum have also been consulted on this year's HRA budget proposals.

34. To address the needs of leaseholders we have established a Leaseholders Liaison Team who are responsible for responding to leaseholder queries and improving services to meet their needs. Quarterly Leaseholder Forums now take place, to which all leaseholders are invited. Some of the topics discussed at these meetings during 2019 has included parking, grounds maintenance and trees and service expectations for leaseholders.

Priority Three – Making Leicester a low carbon city by improving the energy efficiency of homes

Why is this a priority and what is our planned approach to achieving it?

35. The council and its partners have committed to cut carbon emissions by 50%, relative to 1990 levels by 2025. Part of this target was to reduce residential CO2 emissions from 651,000 tonnes in 2006 to 530,000 tonnes by 2012, a reduction of 121,000 tonnes. Council housing accounts for approximately 16% of all residential housing in the city. Therefore, its pro rata contribution towards carbon reduction target is 20,268 tonnes. Through the Housing Capital Programme CO2 emissions from council houses reduced by 58,523 tonnes between 2005 and March 2017. This means that we have already exceeded our target by 180%.

36. This has been achieved by window replacements, new central heating installations, new energy efficient boilers and controls, internal and external wall and roof insulation and solar panels.

37. The most cost effective opportunities for carbon savings in the council stock are diminishing now that all properties have double glazed UPVC windows and all cavity walls have been insulated. However, any further reductions will help towards the city target and will improve energy efficiency for individual tenants and reduce fuel poverty.

38. There are three areas of energy efficiency work to prioritise as funds become available. These are:
    - Completing external wall insulation on all suitable properties.
    - Installing individual meters for tenants on district heating schemes.
    - Doing specialist work on the hardest to heat houses. For example, those properties with small wall cavities which are not suitable for typical wall installation programmes.

Achievements in 2019/20 and proposals for 2020/21

39. During 2019/20 we continued our programme of installing more efficient boilers as boilers need replacing, increasing loft insulation to 250 mm and putting in double glazed windows and doors as demand arises. This work will continue in 2020/21.

40. Approximately 2,900 properties are on our district heating scheme. These tenants can control the heat in their radiators. However, without individual heat meters they cannot be charged exactly for the heating and hot water they use. A pilot scheme of installing 50 meters showed that, on average, tenants saved 33% when they could see the link between their heating and hot water consumption and the bill they pay.

41. We have been installing heat meters to our homes as part of the St Peters tower block scheme. 340 properties have been fitted with meters under this scheme. heating.

42. During 2019/20 £750k has been invested in the district heating scheme to upgrade pumps and heating exchanges in sub stations.

Priority Four – Providing appropriate housing to match people's changing needs

Why is this a priority and what is our planned approach to achieving this?

43. Leicester is a city with relatively low household incomes. For many, renting from the council or a housing association is the only hope of a decent and settled home. In October 2019 there were 6,178 households on the Housing Register.

44. Right to Buy sales reduce the number of council homes available at an affordable rent. In 2018/19 we sold 424 homes. It is estimated that we will have sold a similar number by the end of 2019/20.

45. The most recent Housing and Economic Development Needs Assessment in 2017 identified that Leicester's net affordable housing need is 786 additional affordable housing homes per year to meet current and future demand from households who cannot afford to enter the private housing market. The city's average annual new supply of affordable homes has been less than a quarter of this need over the past 10 years.

46. Issues affecting our ability to provide new affordable housing include:

- The limited land available in the city for residential development (including for Affordable Housing). The council has been reviewing its landholdings and, as part of its new Local Plans process, inviting others to put forward sites in any ownership which might be suitable for development.

- The Government's requirement that funds available to invest in the new supply of Affordable Housing from either Homes England's programme or from Right to Buy receipts can only meet a portion of the total costs of new supply. Homes England funds and Right to Buy receipts cannot be used together towards the funding of any dwelling. The balance of the costs must be funded by other means.

47. Despite these constraints the Council has embarked on a new council house acquisition and building programme to help address housing need.

48. When a property, sold under Right to Buy, is placed back onto the market the council has the first opportunity to buy this property back before it goes onto the open market. We are increasingly taking this option to increase our supply of affordable housing.

49. Each year the Capital Programme funds the adaptions of tenants existing homes where Adult Social Care and Children's Services identify the current tenant or family members needs those adaptions.

50. The service also works closely with Children's Services to help looked after children, foster families, children leaving care and other vulnerable families.

51. During 2019 the Housing Allocations Policy was reviewed to strengthen the re-housing priority for people experiencing overcrowding and to address other needs, many of which can have an impact on health and mental health.

52. The Supporting Tenants and Residents (STAR) service provides one-to-one support for council tenants who might otherwise lose their homes. Priority is given to support those in rent arrears, those who have been previously homeless and those who have other problems which means they are not coping or complying with tenancy conditions.

53. Housing Officers undertake a programme of Welfare Visits to tenants who may be vulnerable. This is an opportunity for us to check whether the tenant is coping in their home and where appropriate we signpost or refer people to support services. This is a preventative measure to help sustain tenancies, ensure people are safe, well and enables us to act before a crisis point is reached

<u>What will we achieve in 2019/20 and what are we proposing for 2020/21?</u>

54. The Affordable Housing Programme delivered 224 new homes in 2018/19 and it is predicted that 302 will be delivered by the end of 2019/20.

55. During the first phase of council housebuilding 29 properties will be built on Ambassador Road, Selby Avenue, Maplin Road, Brocklesby Way, Felstead Road and Rosehill Crescent at a cost of £3.8m. These developments are due for completion in July 2020. Phase 2 of house building is also being planned, with potential sites at The Velodrome and Austin Rise being considered. In addition to this 2 Adult Social Care extra care schemes are in development which will provide an additional 155 units.

56. In 2018 a decision was made to set up a Housing Company, to further enable the supply of new affordable housing in the city. Although owned by the council, this is a private company. A Housing Company provides opportunities to build new accommodation for social or affordable housing, for market price sale and private sector rent. Whilst the focus is on council house building within the HRA at the present time the Housing Company may be used to develop further housing in the city in the future.

57. In 2018/19 the council bought back 33 homes that had previously been sold through the Right to Buy scheme. Between April and October, a further 23 had been purchased with offers made and accepted on 64 that were progressing through to completion.

58. During 2018/19 474 minor adaptations took place in tenants' homes, such as ramps and door widening. There were also 100 major adaptations, such as level access showers, stair lifts and through floor lifts. This work will continue in 2020/21 in response to assessments by Adult Social Care. To supplement this, a £3m programme of Disabled Facilities Grants (DFGs) will support homeowners and those renting properties to continue living in their homes; this is a £1m increase on previous years' programmes.

59. Work has started on looking at a scheme to undertake extension work at properties where households are experiencing overcrowding, rather than them having to move through the Housing Register. We are currently reviewing our properties where there is over crowding to establish the feasibility of carrying out this work.

60. Vacant council and housing association properties are advertised through Leicester HomeChoice. Last year 194 council tenants transferred within the stock to homes better suited to their need and 704 households became new council tenants. A further 327 households obtained housing association tenancies. In the first 6 months of 2019/20 142 tenants had transferred properties, there were 343 new tenants and 178 had obtained housing association tenancies.

61. We subscribe to the national Home Swapper Scheme that enables tenants to identify mutual exchanges. This is particularly important for those tenants who want to move, but have a low priority on the Housing Register,

62. The Income Management Team continues to ensure rent is paid and tenants with arrears are given support to clear their debt. In 2018/19 99.46% of rent was collected, slightly less than 2017/18 due to the direct impact of the introduction of Universal Credit in Leicester. Total rent arrears, at the end of 2018/19, stood at £1,627,034. The team works closely with the Housing Benefits service and makes referrals for Discretionary Housing Benefit. In 2017/18 £234k in Discretionary Housing Benefit payments were made to council tenants. Only 43 tenants were evicted for rent arrears in 2018/19, the lowest number in the last 4 years. There are now greater challenges to collect rental income with the introduction of Universal Credit in Leicester in June 2018. The rent costs of the new benefit are now paid directly to the claimant and therefore tenants will be responsible for paying the rent themselves, unlike having their housing benefit paid directly to the council. At the end of 2018/19 1,879 tenants had made a new claim for Universal Credit. The council has taken steps to mitigate the risk of increasing rent arrears by recruiting to 4 new posts, Rent Management Advisors, to support tenants apply for Universal Credit, manage their claim and pay their rent. By the end of 2018/19 these officers had provided support to 798 tenants. The Department of Work and Pensions has granted the council Trusted Partner status. One of the benefits of this is that we can automatically apply for managed rent payments directly to us, for those tenants that are vulnerable or are likely not to pay their rent.

63. 89.8% of tenancies were sustained in 2018/19. This means that 89.8% of people who became new tenants in 2017/18 remained in their tenancy 12 months later. For the first quarter of 2019/20 this sustainment had increased to 90.6%. During 2018/19 STAR provided short term support to 1,759 tenants and longer-term support to 513. In the first quarter of 2019/20 the STAR service was providing longer term support for 509 tenants and provided short term support for 365 tenants. The STAR service also provides an intensive package of support to help Syrian refugees settled into their new homes and improve pathways into employment.

Priority Five – Making Leicester a place to do business, by creating jobs and supporting the local economy

What is our planned approach for achieving this?

64. Contracts are placed through the corporate procurement team which takes steps to use council spending to stimulate the local economy. All contracts have local labour and social value clauses.

65. The service will continue the excellent record of training craft apprentices so they can develop the skills and knowledge to join the workforce and help maintain the stock. Many steps are taken to encourage women and people from Ethnic and Minority backgrounds to join the craft workforce.

66. The Council's Leicester to Work initiative provides opportunities to the long term unemployed and work experience for school students, graduates and ex-offenders.

Achievements in 2019/20 and proposals for 2020/21

67. The total value of our contracts, funded through the HRA, is £132m in 2019/20. The Housing Division employs a workforce of over 850 staff funded through the HRA.

68. 11 Apprentice Maintenance Technicians completed their apprenticeships in 2019/20 and 7 of these successfully achieved permanent employment with the Repairs Service, 1 person moved within the Council to a follow-on apprenticeship and 1 person gained full time employment outside of the Council. 15 people started new Maintenance Technician Apprenticeships in September 2019. This scheme will be reviewed regularly to ensure it meets the needs of the service and the apprentices.

69. In addition to the apprentices in the Repairs Service we employed 5 people as apprentice Admin and Business Support Officers in 2018/19. This has increased to 13 in 2019/20.

70. Housing's Neighbourhood Improvement scheme continues to help the long term unemployed by giving pre-employment training and a period of work experience. During 2019/20 10 people completed 6-month fixed employment contracts as Neighbourhood Improvement Officers and a further 10 people have started employment with the Council under this scheme. Their work on our estates includes painting, clearing overgrown areas, tidying unsightly spots, cleaning UPVC windows and removing rubbish.

Appendix G

Feedback from Consultation with Tenants' and Leaseholders' Forum

On December 5th, 2019 the Tenants' and Leaseholders' Forum was presented with an overview of how housing services were performing, and the key proposals contained within the HRA rent setting and budget report for 2020/21. The forum was consulted on the proposals and provided the following feedback.

The Forum agreed that the Housing Division should have a balanced budget; members felt it was important that Housing Services live within their means.

The Forum members raised concerns about Right to Buy and they felt that this should be abolished. Members also felt that monies from Right to Buy should not be returned to the government but instead used to build more affordable housing locally. They did not think it was fair that the discount transferred with the tenant when the tenant moved property. Forum members also felt that the number of years discounted should be limited. One member of the forum felt that if Right to Buy was to carry on, it should be allowed for Housing Association tenants too. Members of the Forum stated that they were going to approach local MPs about their concerns around Right to Buy.

Feedback on rent and service charge proposals:

- **Increase rents by 2.7%**. Although members of the Forum understood the need for a balanced budget, they thought this increase was too high and suggested that rents were increased by 2.5%.
- **Increase service charges by 2%**. Members of the Forum stated that they preferred service charges to be increased by 1.7%.
- **Increase garage rents by 2.7%.** Forum members agreed with this increase, but stated that they thought the garages were too small for most cars to be parked in.
- **Increase hostel rents by 2%**. Members did not agree with this rent rise in case it discouraged homeless people from going into a hostel.

Feedback on Capital Programme proposals:

- **£0.4m reduction in the kitchen and bathroom programme.** All forum members strongly disagreed with any reduction in this programme and felt that it should be a priority for the Housing Division to replace kitchens and bathrooms in all properties that required them.
- **Increasing the budget for re-roofing by £150k.** The forum agreed with this proposal and they recognised that roofs did need replacing. It was suggested by some Forum members that the Council should be replacing roofs rather than patching them up.
- **Budget of £0.5m to carry out property conversions**. Forum members agreed with increasing the property size to deal with overcrowding. Members of the Forum also suggested that the council build more three-bedroom houses. To address the housing shortage Forum members suggested that we buy Hospital Close and the 6000 empty student properties in the City.

- **Budget of £250k to enable feasibility work to take place on Sheltered Housing Blocks.** There were mixed views on this, some Forum members wanted to know exactly how many council owned sheltered schemes there were in the City. One member of the Forum agreed with this proposal.
- **Budget of £1.2m to carry out Public Realm works.** The Forum agreed with this spend as long as it did not leave the reserves significantly depleted. The Forum would like more information about how much money would be left in the reserves.
- **£0.7m for additional maintenance work on non-dwellings**. The Forum agreed that if this work was required then they agreed with this spend. One Forum member did state that they did not want any more money spent on dishwashers for St Marks.
- **Additional £175k for IT Systems.** The Forum members said that they did not agree with this spend as the Council's IT systems were unreliable and the Council should stop changing the systems.

Comments on capital budgets with no proposals for change:

- **Boiler replacements** - £3,425k – Tenant's Forum agreed with this spend.
- **Re-wiring** - £1,760k – Forum members were not sure about this, they wanted to know how many properties still required rewiring.
- **Soffits and facias** - £350k – Forum members agreed with this spend.
- **Windows and doors** - £150k – Forum members agreed with this spend.
- **Door entry** - £150k - Forum members agreed with this spend.
- **District heating maintenance** – Forum members agreed with this spend.
- **Communal and environmental works** - £750k – Forum members agreed with this spend
- **Fire risk work** - £1m - Forum members agreed with this spend and thought this area of work should be a priority.
- **Safety works including targeted alarms** - £300k – Forum members agreed with this spend. Members wanted to know what the Council policy was on chains being fitted on doors for extra security.
- **Loft insulation** - £100k – Forum members agreed with this spend
- **Waylighting -** £150k - Forum members agreed with this spend
- **Concrete path renewal** - £100k – Forum members agreed with this spend. Members particularly highlighted the need for this work in the St Matthews and Neston Garden areas of the City.

Appendix H

MINUTE EXTRACT

Minutes of the Meeting of the
HOUSING SCRUTINY COMMISSION

Held: MONDAY, 13 JANUARY 2020 at 5:30 pm

P R E S E N T :

Councillor Westley (Chair)
Councillor Nangreave (Vice Chair)

Councillor Aqbany
Councillor Gee
Councillor O'Donnell
Councillor Willmott

In attendance:
Councillor Cutkelvin – Assistant City Mayor, Housing and Education
Councillor Clarke – Deputy City Mayor, Environment and Transportation

* * *   * *   * * *

43. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Pickering.

44. DECLARATIONS OF INTEREST

Councillor Aqbany declared an Other Disclosable Interest in the general business of the meeting that he had family members who were council tenants.

Councillor Westley declared an Other Disclosable Interest in the general business of the meeting that he had family members who were council tenants.

In accordance with the Council's Code of Conduct, these interests were not considered so significant that they were likely to prejudice the Councillors' judgement of the public interests. The Councillors were not therefore required to withdraw from the meeting during consideration and discussion of the agenda items.

49. HOUSING REVENUE ACCOUNT BUDGET (INCLUDING CAPITAL PROGRAMME) 2020/21

The Director of Housing submitted a report, which considered the proposed Housing Revenue Account (HRA) budget for the 3 years from 2020/21 to 2022/23.

In presenting the report, the following was noted:

- Several pressures bought about by government were noted, including the requirement to reduce rents by 1% during 2016-2020, despite this the HRA still delivered balanced budgets. However, further pressures from central government included Right to Buy sales whereby Leicester City Council lost in excess of 400 properties last year, the rollout of Universal Credit and inflationary pressures, reference was made to 4.2.1 table 1.
- The 2019/20 capital programme was £48m, with more than half of this relating to the Council House Acquisition and New Builds Programme. A further £70m was added in November 2019 following Council approval to extend the programme of increasing affordable housing, this would also help to deliver the commitment of quality, energy efficient new homes and acquisitions.
- Appendix B detailed the proposed HRA Capital Programme 2020/21 to 2022/23 and it was noted that there would be an investment of £5m for Public Realm Works including communal areas and estates.
- Reference to Appendix E noted planned Capital works in Council dwellings, it was noted that works were only undertaken after the item was inspected and the repair history for the property was checked ensuring money was only spent where it was absolutely necessary.
- The report recommended that the budget for 2020/21 was set as a balanced budget, continuing the approach of only drawing on reserves to fund time-limited or one-off schemes.

In response to Commission Members' questions, the following issues were discussed and noted:

- In order to see where money would be best spent for housing and estates, district managers had been meeting with Ward Councillors to get information on priorities that would be included in proposals and a satisfaction survey to tenants would be carried out to obtain input of improvement areas.
- The Assistant City Mayor for Housing had offered to do housing briefings with Ward Councillors, for members to provide information as to what the priorities were for their ward areas.
- The Director of Housing clarified the proposed rent and service charges percentage increase in terms of costs. On average a two-bedroom property house with the 2.7% increase converts to approximately £2.76 on average. Service charge increase was pence, the increased hostel rents were to cover additional financial pressures. To not increase the rent and service charges would mean that investment would have to be reduced from the proposed budget. It was noted that 99% of hostel rents were covered by Housing Benefit.
- The core programme remained at a consistent level.
- Talks were in progress with the Sustainability Section of Estates and Building Services regarding proposals to improve energy efficiency and reduce carbon emissions from existing properties including installing PV panels, further external wall installation, with the overall aim of reducing carbon emissions and reducing tenants' heating costs.

- Over 340 heat metres had already been installed in properties connected to the District Heating. Consideration would now be given to the other 2000 units on District Heating.
- Increases to loft insulation and the installation of energy efficient boilers would also continue to take place. The district heating scheme was proposed to have further investment to upgrade pumps and heating exchanges in sub stations.
- Time would be spent this year looking into what could replace gas Boilers e.g. hydrogen boilers and ground source heating. In addition, the installation of solar PV panels – possibly with battery storage – would be considered as longer-term solutions to provide renewable electricity for waylighting of communal areas. However, due diligence would need to be first carried out prior to any proposals.
- It was noted that the figures for the demolition of Goscote House were provisional until a detailed specification could be provided, and procurement completed.
- It was agreed that the Director of Housing would circulate papers to Members of the Commission about the free WIFI proposal and also papers on the social value of Goscote House were requested.

Discussion took place on the feedback provided from the consultation with Tenants and Leaseholders' Forum in relation to rent and service charge proposals which was to;

I. Increase rents by 2.5% (not the proposed 2.7%)
II. Increase service charges by 1.7% (not the proposed 2.0%)
III. Increase the hostel rents by 0.0% (not the proposed 2.0%)

It was proposed that the Commission should support Tenants and Leaseholders' Forum views. Upon being put to the vote the proposal was carried.

Agreed:

1. To note the financial pressures on the HRA and comment on the proposals for delivering a balanced budget.
2. To recommend to Council that the increases proposed by the Tenants and Leaseholders' Forum should be supported.
3. All other aspects of the budget were agreed.

Appendix I

Equality Impact Assessment (EIA)
Service Reviews/Service Changes

Title of spending review/service change/proposal	Housing Revenue Account Budget (including Capital Programme 2020/21)
Name of division/service	Housing
Name of lead officer completing this assessment	Helen McGarry, Business Change Manager, Ext 454 5129 helen.mcgarry@leicester.gov.uk
Date EIA assessment completed	
Decision maker	Full Council
Date decision taken	19th February 2020

EIA sign off on completion:	Signature	Date
Lead officer		
Equalities officer		
Divisional director		

Please ensure the following:

(a) That the document is understandable to a reader who has not read any other documents, and explains (on its own) how the Public Sector Equality Duty is met. This does not need to be lengthy, but must be complete.

(b) That available support information and data is identified and where it can be found. Also be clear about highlighting gaps in existing data or evidence that you hold, and how you have sought to address these knowledge gaps.

(c) That the equality impacts are capable of aggregation with those of other EIAs to identify the cumulative impact of all service changes made by the council on different groups of people.

1. Setting the context

Describe the proposal, the reasons it is being made, and the intended change or outcome. Will current service users' needs continue to be met?

The financial landscape of the four-year period from 2016 to 2020 has been dominated by the government requirement that rents be reduced by 1% each year. For the 5 years from 2020 rents can be increased by up to CPI+1%. Whilst this relaxation is welcome, a number of other external pressures and changes brought about by central government persist; these include the impact of increasing Right to Buy sales (where it is predicted £4.6m rental income will be lost over the next 3 years, leaving a gap in the budget), the rollout of Universal Credit and inflationary pressures. The Housing Revenue Account budget report recommends that the budget for 2020 / 21 is set as a balanced budget, continuing the approach of only drawing on reserves to fund time-limited or one-off schemes.

The Housing Revenue Account Budget report is proposing a 2.7% increase to the core rents of Council homes, which is the maximum increase allowed under the government's new criteria. As well as this rent increase for 2020/21 the report is recommending:

- Increasing service charges by 2%
- Increasing hostel rent by 2%
- Increasing garage rents by 2.7%

In terms of spend, the Housing Revenue Account budget report is proposing an:

- Increase to the annual spend on employee costs (£0.5m) as a result of assumed pay increases and increased pension contributions
- Increase to spend on running costs by £1.3m (over the next 3 years) due to inflation
- A spend of £1,184k for interest and debt repayment
- It is proposed the £4.9m budget gap in 2020 / 21 will be addressed through:
    - Additional income from the increased rents and service charges mentioned above - £2m
    - Rental income from new build properties - £1m
    - Ongoing savings as a result of the Homelessness Management Review in 2019 - £0.1m
    - Reducing the amount given to the Capital Expenditure Fund - £950k
    - Expected savings from changes to the way accommodation services are delivered - £0.7m
    - Consolidation of the Stores facilities into one site to save £0.1m.
    - A further £600k savings to be identified

Apart for capital spend already agreed for new build properties a budget of £17,435k is proposed for the Capital Programme Fund. The following projects are those where it is proposed that changes will be made to the allocation of funding through this fund:

- As result of a predicted underspend during 2020/21 and to reflect the number of properties reduced through Right to Buy it is proposed that funding for kitchens and bathrooms is reduced by £0.4m.
- An increased budget of £150k for re-roofing to ensure this work takes place on the greater number of properties requiring this work during 2020/21.
- The allocation of £0.5m to carry out property conversions to create more space for households living in overcrowded conditions.
- Introduction of a £250k budget to enable feasibility work to be carried out in relation to the refurbishment of sheltered housing schemes
- In addition to the current Communal and Environmental works budget it is proposed an additional £1.2m from reserves, increasing to a total of £5m over the next 3 years, to improve the appearance of low-rise flats, communal areas and estates.
- £0.7m is added to support the work required to non-dwellings.
- The £175k allocated to improve IT systems will require a top up with the increase in mobile working solutions. Budgets for 2021/22 onwards will be considered during the next 12 months, taking into account any procurement requirements.

The main service need of tenants is that they have a suitably sized, Decent Home, maintained through an effective repairs service with quality tenancy and estate management services. Current service user needs will continue to be met with the recommendations being made.

2. Equality implications/obligations Which aims of the Public Sector Equality Duty (PSED) are likely be relevant to the proposal? In this question, consider both the current service and the proposed changes.	
	Is this a relevant consideration? What issues could arise?
Eliminate unlawful discrimination, harassment and victimisation How does the proposal/service ensure that there is no barrier or disproportionate impact for anyone with a particular protected characteristic	From this equality impact assessment no significant impacts have been identified.
Advance equality of opportunity between different groups How does the proposal/service ensure that its intended outcomes promote equality of opportunity for users? Identify inequalities faced by those with specific protected characteristic(s).	The proposals continue to commit to the provision of decent homes to council tenants and equality of opportunity for people to have decent homes to live in. The standard of accommodation in council owned properties is higher than in some areas of the private sector.
Foster good relations between different groups Does the service contribute to good relations or to broader community cohesion objectives? How does it achieve this aim?	Maintaining properties and making improvements on estates creates an environment where people are satisfied with their homes and the area they live in, reducing the likelihood of anti-social behaviour and community tensions.

3. Who is affected? Outline who could be affected, and how they could be affected by the proposal/service change. Include current service users and those who could benefit from but do not currently access the service.
The proposal to increase rents will affect all Leicester City Council tenants across the city. Approximately 27% of tenants are in receipt of full housing benefit at present and will continue to have any rent payable covered by their benefit entitlement. We currently have over 2000 tenants in receipt of Universal Credit. These tenants will have their housing costs covered by the new benefit, even though the majority will be responsible for paying the full rent themselves. The negative impact of having to pay more rent will affect approximately 64% of tenants who are in receipt of partial or no housing benefit or Universal Credit. The impact of the rent increase will be dependent on the tenants' financial situation rather than any protected characteristic. Service charges are added to rent when improvement work has been completed in a property or extra services are provided, for example, new central heating systems. All tenants who pay these charges will need to pay 2% more each week for these. The charge will depend on what improvement work has taken place over time at each property. Work is carried out as a result of the condition of a property through the capital programme and is therefore not based on a persons' protected characteristic. Approximately 27% of tenants are in receipt of full housing benefit and they will continue to have the majority of service charge payable covered by their benefit entitlement. Tenants in receipt of Universal Credit will also continue to have the cost of service charges included in their housing cost element of the benefit. The negative impact of having to pay more for service charges will affect approximately 64% of tenants who are in receipt of partial or no housing benefit or Universal

Credit. The impact of the service charge increase will in general be dependent on tenants' financial situations rather than any protected characteristic. The exception is the service charge for district heating, which is not covered by Housing Benefit or Universal Credit. All tenants will have to pay this charge and any increase proposed. A high number of properties that are provided with district heating are located within the Centre area. We know a higher proportion of BME households live in this area. However, the impact of the district heating charge will still be dependent on a person's financial situation rather than their protected characteristic.

The impact of the proposed 2% increase to hostel rents will impact upon all homeless households currently living in temporary accommodation provided by the Council, and those who become homeless in the future and use these services. Our records show the majority of people accommodated receive full entitlement to Housing Benefit or Universal Credit and therefore this additional charge will be covered by these benefits. The impact of having to pay more will be for those people on partial or no Housing Benefit or Universal Credit. However, we know there are low numbers of people in this situation using the services. As with the proposed increase in Council core rents the impact will be determined as a result of a person's financial situation and not as a result of a particular protected characteristic.

Council owned garages are rented out to members of the public generally, not just council tenants. The charge is not covered by housing benefit or Universal Credit. We currently have around 1300 garages available for rent, so the proposed 2.7% increase could impact upon 1300 people, dependant on how many garages are actually let at any one time. Our protected characteristic profiling information in relation to people renting garages is currently limited, so it is not known whether there will be a bigger impact on a particular group. However, the impact is more likely to be as a result of a person's financial situation and ability to pay the extra rent rather than as a result of having a particular protected characteristic.

The Housing Capital Programme generally benefits all tenants in the city. Projects to improve individual properties are decided on their condition to meet health and safety regulations, rather than a protected characteristic of a tenant. Decisions on the Capital Programme are based on the age of properties, the predicted lifespan of when items will need to be replaced and health and safety regulations. The impact for tenants will generally be positive as properties and areas are improved.

- £0.4m reduction in the kitchens and bathroom budget – Decisions to replace kitchens and bathrooms are made on the condition and age of a property, not on the particular circumstances of tenants. Despite the reduction, the proposed budget allocation is £3.6m which will ensure funding is still available to carry out work where this is required.

- Increased funding for re-roofing - this proposal relates to properties across the city to meet health and safety requirements, all tenants effected will benefit from this work, not just those with a protected characteristic

- £0.5m budget allocation for property conversions to address overcrowding - This proposal is to address individual overcrowding situations of tenants irrespective of their protected characteristic. The properties where this work is to take place will largely be determined by the suitability of properties to be converted.

- £250k budget to undertake feasibility work to refurbishment of sheltered housing schemes - In general this accommodation is available to tenants over the age of 50. These people will benefit from the changes made but may be disrupted whilst the work is taking place.

- Additional £5m (over the next 3 years) to improve the appearance of low-rise flats, communal areas and estates – This work will be determined as a result of the condition of flats and communal areas and the appearance and safety of our estates. The work will not be determined as a result of the protected characteristic of a particular group or groups. Where improvements are made the benefits will be felt by all tenants living in the area.

- Potential increased budget to improve IT systems – This is internal funding to improve IT systems to enable increased mobile working opportunities for staff. However, the spend will have a knock-on benefit for all tenants, irrespective of their protected characteristic, providing a more flexible and responsive service to meet people's needs.

4. Information used to inform the equality impact assessment

What **data, research, or trend analysis** have you used? Describe how you have got your information and what it tells you. Are there any gaps or limitations in the information you currently hold, and how you have sought to address this, e.g. proxy data, national trends, etc.

Tenant profiling information has been collected and analysed from the Northgate IT system (Appendix 1). This includes information on ages, ethnic origin, disability, gender, sexuality and religion. There are gaps in data in relation to gender re-assignment, marriage and civil partnership, pregnancy and maternity and sexual orientation. There is also limited information collected specifically about disabilities. An action within Housing's Equality Action Plan is to increase the monitoring data we collect and over time the profiling information available will increase.

5. Consultation

What **consultation** have you undertaken about the proposal with current service users, potential users and other stakeholders? What did they say about:

- What is important to them regarding the current service?
- How does (or could) the service meet their needs?
- How will they be affected by the proposal? What potential impacts did they identify because of their protected characteristic(s)?
- Did they identify any potential barriers they may face in accessing services/other opportunities that meet their needs?

A meeting of the Tenants' and Leaseholders' Forum took place on the 5th December 2019 and they were presented with the proposals for the Housing Revenue Account rent setting and capital programme for 2020 / 21. The feedback the Forum provided is contained within Appendix G of the budget report.

Two particular areas identified that are important to Forum members regarding the current service is the availability of social housing in the city and property improvements through the kitchens and bathrooms scheme. Forum members felt the Right to Buy scheme, which is resulting in the reduction of properties owned by the City Council, is a barrier to those people in housing need, which in turn is reducing their access to social housing. Also, it was felt increasing hostel rents may impact upon homeless people in terms of them accessing temporary accommodation, due to affordability issues. Although these barriers were raised, no potential impacts were identified for any particular group with a protected characteristic.

6. Potential equality Impact
Based on your understanding of the service area, any specific evidence you may have on service users and potential service users, and the findings of any consultation you have undertaken, use the table below to explain which individuals or community groups are likely to be affected by the proposal because of their protected characteristic(s). Describe what the impact is likely to be, how significant that impact is for individual or group well-being, and what mitigating actions can be taken to reduce or remove negative impacts. Looking at potential impacts from a different perspective, this section also asks you to consider whether any other particular groups, especially vulnerable groups, are likely to be affected by the proposal. List the relevant that may be affected, along with their likely impact, potential risks and mitigating actions that would reduce or remove any negative impacts. These groups do not have to be defined by their protected characteristic(s).

Protected characteristic	**Impact of proposal:** Describe the likely impact of the proposal on people because of their protected characteristic and how they may be affected. Why is this protected characteristic relevant to the proposal? How does the protected characteristic determine/shape the potential impact of the proposal?	**Risk of negative impact:** How likely is it that people with this protected characteristic will be negatively affected? How great will that impact be on their well-being? What will determine who will be negatively affected?	**Mitigating actions:** For negative impacts, what mitigating actions can be taken to reduce or remove this impact? These should be included in the action plan at the end of this EIA.
Age[1]	People living in sheltered housing are generally over the age of 50 and therefore	People over 50 may be disrupted whilst improvements to	Effective communication as to changes taking place and interim changes to

[1] Age: Indicate which age group is most affected, either specify general age group - children, young people working age people or older people or specific age bands

	any improvements to this type of accommodation will benefit these people	sheltered housing is taking place	service provision, if required. Some tenants may need to be temporary re-housed whilst the work is being carried out.
Disability[2]	No potential impact	No group will be proportionally impacted upon by this proposal	Not applicable
Gender Reassign-ment[3]	No potential impact	No group will be proportionally impacted upon by this proposal	Not applicable
Marriage and Civil Partnership	No potential impact	No group will be proportionally impacted upon by this proposal	Not applicable
Pregnancy and Maternity	No potential impact	No group will be proportionally impacted upon by this proposal	Not applicable
Race[4]	Tenants from a BME background in the Centre area of the City may be more impacted upon by the increased service charges for district heating	No group will be proportionally impacted upon by this proposal	The Income Management Team to continue to monitor rent arrears and provide support for those people struggling to pay as a result of the increased charges.

[2] Disability: if specific impairments are affected by the proposal, specify which these are. Our standard categories are on our equality monitoring form – physical impairment, sensory impairment, mental health condition, learning disability, long standing illness or health condition.

[3] Gender reassignment: indicate whether the proposal has potential impact on trans men or trans women, and if so, which group is affected.

[4] Race: given the city's racial diversity it is useful that we collect information on which racial groups are affected by the proposal. Our equalities monitoring form follows ONS general census categories and uses broad categories in the first instance with the opportunity to identify more specific racial groups such as Gypsies/Travellers. Use the most relevant classification for the proposal.

Religion or Belief[5]	No potential impact	No group will be proportionally impacted upon by this proposal	Not applicable
Sex[6]	No potential impact	No group will be proportionally impacted upon by this proposal	Not applicable
Sexual Orientation[7]	No potential impact	No group will be proportionally impacted upon by this proposal	Not applicable

Summarise why the protected characteristics you have commented on, are relevant to the proposal?

All protected characteristics have been commented on because work to improve the condition of properties and the environment of estates impact on all tenants.

Summarise why the protected characteristics you have not commented on, are not relevant to the proposal?
N/A

Other groups	**Impact of proposal:** Describe the likely impact of the proposal on children in poverty or any other people who we consider to be vulnerable. List any vulnerable groups likely to be affected. Will their needs continue to be met? What issues will affect their take up of services/other opportunities that meet	**Risk of negative impact:** How likely is it that this group of people will be negatively affected? How great will that impact be on their well-being? What will determine who will be negatively affected?	**Mitigating actions:** For negative impacts, what mitigating actions can be taken to reduce or remove this impact for this vulnerable group of people? These should be included in the action plan at the end of this EIA.

[5] Religion or Belief: If specific religious or faith groups are affected by the proposal, our equalities monitoring form sets out categories reflective of the city's population. Given the diversity of the city there is always scope to include any group that is not listed.

[6] Sex: Indicate whether this has potential impact on either males or females

[7] Sexual Orientation: It is important to remember when considering the potential impact of the proposal on LGBT communities, that they are each separate communities with differing needs. Lesbian, gay, bisexual and transgender people should be considered separately and not as one group. The gender reassignment category above considers the needs of trans men and trans women.

	their needs/address inequalities they face?		
Children in poverty	Children living in over-crowded conditions may benefit from the proposals to convert properties to address overcrowding.	There may be disruption in the home whilst conversation work is taking place	Provide temporary accommodation whilst conversion work is taking place, if necessary.
Other vulnerable groups			
Other (describe)			

7. Other sources of potential negative impacts
Are there any other potential negative impacts external to the service that could further disadvantage service users over the next three years that should be considered? For example, these could include: other proposed changes to council services that would affect the same group of service users; Government policies or proposed changes to current provision by public agencies (such as new benefit arrangements) that would negatively affect residents; external economic impacts such as an economic downturn.

8. Human Rights Implications Are there any human rights implications which need to be considered (please see the list at the end of the template), if so please complete the Human Rights Template and list the main implications below:
The budget proposals continue to support the Human Right of protection of property / peaceful enjoyment
9. Monitoring Impact You will need to ensure that monitoring systems are established to check for impact on the protected characteristics and human rights after the decision has been implemented. Describe the systems which are set up to: • monitor impact (positive and negative, intended and unintended) for different groups • monitor barriers for different groups • enable open feedback and suggestions from different communities • ensure that the EIA action plan (below) is delivered.
Monitoring systems in place include: • Monitoring and analysing complaints received • Feedback received from Tenants and Residents Associations and the Tenants' and Leaseholders' Forum • Progress on actions resulting from the equality impact assessment will be monitored and reviewed by the Senior Management Team within Housing.

10. EIA action plan

Please list all the equality objectives, actions and targets that result from this Assessment (continue on separate sheets as necessary). These now need to be included in the relevant service plan for mainstreaming and performance management purposes.			
Equality Outcome	**Action**	**Officer Responsible**	**Completion date**
Actions are progressed to mitigate the potential negative impacts that are associated with the budget proposals	Effectively communicate proposed improvements to Sheltered Housing tenants. Provide temporary accommodation whilst improvement work is taking place, if necessary	Suki Supria	TBC
	Provide temporary accommodation to households where conversion work is taking place to address overcrowding, if necessary.	Suki Supria	TBC
	The Income Management Team to continue to monitor rent arrears and provide support for people struggling to pay rent / service charges as a result of any increase.	Charlotte McGraw	Ongoing

Human Rights Articles:

Part 1: **The Convention Rights and Freedoms**

Article 2: Right to Life
Article 3: Right not to be tortured or treated in an inhuman or degrading way
Article 4: Right not to be subjected to slavery/forced labour
Article 5: Right to liberty and security
Article 6: Right to a fair trial
Article 7: No punishment without law
Article 8: Right to respect for private and family life
Article 9: Right to freedom of thought, conscience and religion
Article 10: Right to freedom of expression
Article 11: Right to freedom of assembly and association
Article 12: Right to marry
Article 14: Right not to be discriminated against

Part 2: **First Protocol**

Article 1: Protection of property/peaceful enjoyment
Article 2: Right to education
Article 3: Right to free elections

Profiling Information – Council Tenants

Breakdown by age band

Age of Applicant	Number of Tenants	Percentage of Tenants
16 to 19	116	0.58%
20 to 24	411	2.05%
25 to 34	2,465	12.32%
35 to 44	4,049	20.24%
45 to 54	4,168	20.83%
55 to 64	3,642	18.20%
65 to 74	2,685	13.42%
75+	2,173	10.86%
Not known	300	1.50%

Breakdown by disability

Disabled	Number of Tenants	Percentage of Tenants
Yes	167	0.83%
No / Not Recorded	19,842	99.17%

Breakdown by ethnic origin

Ethnicity	Number of Tenants	Percentage of Tenants
White British	9,436	47.16%
White – Irish	147	0.73%
Other Ethnic Group – Gypsy/Romany/Irish Traveller	14	0.07%
White – Other white background	486	2.43%
White – European	361	1.80%
Dual Heritage	415	2.07%
Asian	2,332	11.65%
Chinese	25	0.12%
Black	2,130	10.65%
Any other ethnic group	335	1.67%
Prefer not to say	501	2.50%
Not Recorded	3,827	19.13%

Breakdown by religion

Religion	Number of Tenants	Percentage of Tenants
Atheist	250	1.25%
Buddhist	14	0.07%
Christian	2,054	10.27%
Hindu	326	1.63%
Muslim	1,555	7.77%
Sikh	75	0.37%
No Religion	2,027	10.13%
Other	290	1.45%
Prefer not to say	709	3.54%
Not known / specified	12,709	63.52%

Breakdown by sexuality

Sexuality	Number of Tenants	Percentage of Tenants
Bisexual	139	0.69%
Gay female / lesbian	30	0.15%
Gay male	34	0.17%
Heterosexual / straight	5,951	29.74%
Other	173	0.86%
Prefer not to say	964	4.82%
Not known / specified	12,718	63.56%

Breakdown by Gender

Gender	Number of Tenants	Percentage of Tenants
Male	8,620	43.08%
Female	11,159	55.77%
Not Known	230	1.14%

Leicester City Council

OVERVIEW SELECT COMMITTEE — **12th February 2020**
COUNCIL — **19th February 2020**

TREASURY POLICY

Report of the Director of Finance

1. Purpose of Report

1.1 This report proposes a framework for the governance of the Council's borrowing and investments.

1.2 This policy is important as part of our governance structure, and because banks and other organisations with whom we enter into treasury transactions will look to it to confirm that authority exists for such transactions. We have updated and clarified the list of transaction types that we can enter into.

2. Summary

2.1 Treasury management is the process that ensures the Council always has enough cash to make the payments that are necessary for its operations, and this involves both borrowing and investment.

2.2 The treasury policy is a framework document stating how the activity is governed. It is supported by an annual strategy (the strategy for 2020 is elsewhere on your agenda).

3. Recommendations

3.1 Members of Overview Select Committee are recommended to note the report and make any comments to the Director of Finance as they wish, prior to Council consideration.

3.2 The Council is recommended to approve the treasury policy appended to this report.

4. Overview of Treasury Management

4.1 There are two main elements to treasury management.

4.2 The first element is **borrowing money** to finance capital expenditure. Most capital spending is now funded by capital grant, but we still have historic borrowing dating back many years (when the Government chose to use borrowing approvals to support capital).

4.3 The revenue budget approved by the Council each year includes provision for the interest payable on this borrowing. It also includes a provision for repaying the borrowing over a number of years (broadly speaking, over the economic life of the assets acquired).

4.4 The second element is **cash management** which involves managing the Council's investments to ensure the optimum amount of money is held in our bank account on a day-to-day basis – so that there is enough money to cover payments made on the day, but no more (cash held in the bank account earns virtually no interest).

4.5 The Council has substantial investments but this is not "spare cash". Whilst there are links to the budget process, these sums do not form part of the budget. To the extent that the Council has money it can spend, this is reflected in the budget report.

4.6 There is a provision for interest earned on investments in the Council's revenue budget.

4.7 Treasury activities are governed by the treasury policy which this report updates. The policy specifies how borrowing and investments should be organised, the responsibilities of officers, and the limits placed on officers' discretion to act without further approval. It should be noted that as decisions on borrowing individual sums have to be taken very quickly, this is delegated to officers within a framework specified by this policy. Treasury operations are subject to retrospective member scrutiny. The proposed policy is shown at the appendix to this report.

4.8 An annual treasury strategy specifies how borrowing and investment will be carried out.

4.9 A twice-yearly report is submitted to Overview Select Committee reviewing the treasury activity undertaken in the year.

4.10 The treasury policy comprises a treasury management policy statement (TMPS) and 12 "treasury management practices" ("TMPs").

4.11 The TMPS defines the overall objectives of the treasury management function, and emphasises the pursuit of optimum performance and the effective control of risk. The 12 TMPs expand upon this and, together with supporting schedules (prepared by the Director of Finance), establish a comprehensive framework for the management and control of borrowing, investment and other treasury functions.

4.12 This report is solely concerned with treasury transactions. In addition to these the Council may also build or acquire buildings or other real estate from which it earns income, and it may make loans to local organisations or businesses for economic and social reasons. These other activities are governed by the investment strategy, which is elsewhere on your agenda.

5. Financial and Legal Implications

5.1 This report is solely concerned with financial issues.

5.2 The Council is required as a matter of law to pay due regard to CIPFA's Code of Practice on Treasury Management and statutory guidance issued by MHCLG. Other than this, no specific legal issues are raised by this report.

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Date: 28/1/2020

Appendix

PROPOSED TREASURY POLICY

1. Treasury Management Policy Statement (TMPS)

1.1 The overall aim of the Council's treasury activity is to minimise the Council's net financing costs, whilst maintaining an appropriate level of liquidity and taking a prudent approach to risk.

1.2 The Council defines the policies and objectives of its treasury management activities as follows:-

"The management of the authority's cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.3 The council regards the successful management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured.

1.4 This Council is committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques.

1.5 The Council will create and maintain, a treasury management policy (i.e. this document). This will be supported by suitable treasury management practices (TMPs, shown below), setting out the manner in which the Council will seek to achieve these policies and objectives, and prescribing how the Council will manage and control those activities.

1.6 The Council will receive reports on an annual strategy in advance of each year, and the Overview Select Committee (OSC) will receive twice yearly reports on performance.

1.7 The Council delegates responsibility for the execution and administration of treasury management decisions to the Director of Finance (DoF) who will act in accordance with this policy statement and TMPs; and CIPFA's Code for Treasury Management in the Public Sector. Monitoring of the function will be undertaken by the OSC.

1.8 In practice the following matters are delegated to the DoF:

- Decisions on borrowing, investments, leasing and other forms of finance;
- Renegotiation and premature repayment of loans;
- Entering into associated contracts;
- Selection of treasury advisors;
- Selection of the money market brokers;
- Selection of leasing brokers used, if any;

- Selection of counterparties required for treasury purposes;
- The allocation of responsibilities and organisation of staffing;
- Determining the procedures to be followed by staff involved in treasury management, including internal controls and safeguards;
- Determining the accounting treatment of treasury decisions;
- Determining a list of institutions from whom the Council may borrow money;
- Negotiating the terms of loan agreements and other capital finance arrangement (as specified in TMP 4);
- The preparation of schedules to TMPs, to serve as working documents for day-to-day use;
- Determining the list of institutions (the "lending list") to whom the Council will lend or invest, and for what period, applying the criteria established by the Council's treasury management strategy.

2. **Treasury Management Practices**

2.1 As part of the Treasury Policy, the Council is asked to approve 12 treasury management practices.

TMP1	-	Risk Management
TMP2	-	Best Value and performance measurement
TMP3	-	Decision making and analysis
TMP4	-	Approved instruments, methods and techniques
TMP5	-	Organisation, clarity and segregation of responsibilities and reporting arrangements
TMP6	-	Reporting arrangements and management information arrangements
TMP7	-	Budgeting accounting and audit arrangements
TMP8	-	Cashflow management
TMP9	-	Money laundering
TMP10	-	Staff training and qualifications
TMP11	-	Use of external service providers
TMP12	-	Corporate Governance

3. **TMP1 – Risk Management**

3.1 The DoF will have paramount regard to the risk associated with treasury management decisions and will ensure systems exist to control this risk.

3.2 The DoF will make sure we have enough money available immediately to meet day-to-day obligations.

3.3 Borrowing and investment strategy will be undertaken with regard to the implications for the Council's budget, whilst not missing opportunities to save money over the longer term.

3.4 The DoF will keep a list of the people the Council will invest with (mainly by lending money), and limits for each. These "counterparty lists" will reflect a prudent attitude towards organisations with whom funds may be deposited. The counterparty policy will be established within the annual treasury strategy.

3.5 The DoF will ensure the Council complies with legal requirements. We will demonstrate such compliance, if required to do so, to all parties with whom the Council deals. In framing the counterparty policy, the DoF will ensure that there is evidence of counterparties' powers, authority and compliance with regulatory requirements.

3.6 The DoF will use systems to prevent the risk of fraud or loss and will maintain contingency management arrangements.

3.7 The DoF will ensure the Council is not exposed to big losses if interest rates move the wrong way.

3.8 The DoF will make sure we don't have to borrow too much all at once, and will refinance maturing loans and other financing arrangements as necessary.

3.9 The DoF will manage exposure to exchange rate risk, inflation risk and price risk.

3.10 Members are asked to note that the avoidance of all risk is neither appropriate nor possible and a prudent balance will need to be struck between avoiding risk and maximising returns.

4. TMP2 – Performance Measurement

4.1 The Council will continually monitor treasury management performance.

4.2 We will evaluate borrowing and investment decisions by reference to external data, which may include:-

i) Benchmarks derived from financial market data;

ii) Benchmarks provided by the Council's treasury advisors.

4.3 The DoF will obtain a comprehensive annual review of the Council's treasury position, prepared by independent treasury advisors.

4.4 The main vehicle for such reviews to be reported to elected members are the six-monthly reviews of treasury management activities reported to OSC.

5. TMP3 – Decision-making and analysis

5.1 The DoF will maintain full records of treasury management decisions, and of the processes and practices applied in reaching those decisions.

6. **TMP4 – Approved instruments, methods and techniques**

6.1 The Council may raise new loans or other capital finance. It may also repay existing borrowing instruments or transfer these to third parties. It may use borrowing instruments from the approved list below.

Loans

1. Public Works Loans Board Loans
2. Municipal Bond Agency Loans
3. Loans from other local authorities
4. European Investment Bank Loans
5. Commercial Bank Loans
3. Stock Issues
4. Market Loans
5. Local Temporary Loans
6. Local Bonds
7. Negotiable Bonds
8. Commercial Paper
9. Medium Term Notes
10. Bank Overdraft

Other Capital Finance

1. Operational Leases
2. Finance Leases
3. Sale and lease back
4. Construction and lease back / income strips

6.3 Borrowing instruments are permitted to be contracted for in advance - for example to lock into cheap interest rates. Where they are complex our decisions will be informed by independent, expert advice.

6.4 The DoF may determine that other instruments can be used when, in substance, they are similar to those already authorised.

6.5 Permitted **investment instruments** will be specified in the annual treasury strategy.

6.6 The Council is classified as a “professional investor” for the purposes of the regulatory framework of “MIFID II”. This means that it has access to a wider range of investments than “retail investors”.

7. **TMP5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements**

7.1 The DoF will make sure the duties of staff are properly organised and written down.

7.2 The principle on which this will be based is a clear distinction between those charged with setting treasury and management policies, and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds.

7.3 If the DoF intends to depart from these principles (for example due to staff sickness) additional monitoring and reporting arrangements will be put in place.

7.4 The DoF will ensure that there are clear written and communicated statements of the responsibilities of each role, and the arrangements for absence cover. Delegation arrangements will also be documented.

7.5 The DoF will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

8. **TMP6 – Reporting requirements and management information arrangements**

8.1 Regular reports will be taken to members. As a minimum, the following reports will be prepared:-

i) An annual report to the City Mayor and Council on the strategy to be pursued in the coming year;

ii) A twice annual report to OSC on the performance of the treasury management function, on the effects of the decisions taken in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy or strategy.

9. **TMP7 – Budgeting, accounting and audit arrangements**

9.1 The costs of treasury management will be reflected in the Council's normal budgeting arrangements.

10. **TMP8 – Cash Management**

10.1 The DoF will manage the council's cash holdings in their entirety. Cash flow projections will be prepared regularly and the DoF will ensure that these are adequate to ensure that the Council always has sufficient funds to meet its obligations.

11. **TMP9 – Money Laundering**

11.1 The Council may become the subject of an attempt to involve it in the laundering of money. The DoF will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff are properly trained.

11.2 A policy to prevent the Council's unwitting involvement in money laundering has been established.

12. TMP 10 – Staff training and qualifications

12.1 The DoF will use properly trained staff.

12.2 The core professional requirement for senior staff leading the treasury function is a professional accountancy qualification. The cash management officer shall hold a diploma (level 4) from the Association of Accounting Technicians or equivalent. Ongoing training and development on specific matters will be provided by an appropriate blend of direct study of briefing notes etc; and organised courses, conferences and seminars.

12.3 Elected members will be offered training and development. Members of OSC, in particular, will be offered presentations that complement the reports and decisions that they scrutinise.

13. TMP11 – Use of external service providers

13.1 The Council will use external experts, where this is sensible. When external experts are used, the DoF remains responsible for the treasury management function.

14. TMP12 – Corporate Governance

14.1 Treasury management activity will comply with our usual corporate governance principles. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

14.2 The Council places high value on the use of independent treasury advisors. It looks to such advisors to present an independent view of the Council's treasury investments and borrowings.

Leicester
City Council

OVERVIEW SELECT COMMITTEE **12th February 2020**
COUNCIL **19th February 2020**

Treasury Management Strategy 2020/21

Report of the Director of Finance

1. Purpose of Report

1.1 This report proposes a strategy for managing the Council's borrowing and cash balances during 2020/21 and for the remainder of 2019/20. (This is the treasury management strategy).

2. Summary

2.1 Treasury management is the process by which our borrowing is managed, and our cash balances are invested. Whilst there are links to the budget process, the sums in this report do not form part of the budget. To the extent that the Council has money it can spend, this is reflected in the budget report. Cash balances reported here cannot be spent, except to the extent already shown in the budget report or the accounts.

2.2 The Council has incurred debt to pay for past capital expenditure.

2.3 The Council also has cash balances. These are needed for day to day expenditure (e.g. to pay wages when they are due). A substantial proportion can only be used to repay debt but (because of Government rules) we are usually unable to use this proportion to repay debt. Thus, they are held in investments.

2.4 A related report on the agenda is the Treasury Policy, which establishes a framework for the governance of treasury management.

3. Recommendations

3.1 Members of Overview Select Committee are recommended to note the report and make any comments to the Director of Finance as wished, prior to Council consideration.

3.2 The Council is recommended to approve this treasury strategy, which includes the annual treasury investment strategy at Appendix B. The strategy will become effective as soon as it is approved.

4. **Borrowing**

4.1 As at 31st March 2020, the Council will have a total long-term debt of £180m. comprising £135m borrowed from the Public Works Loans Board (a Government quango), and £45m from the financial markets.

4.2 In years prior to 2011, the Government usually supported our capital programme by means of "supported borrowing approvals." The Government allowed us to borrow money, and paid us to service the debt through our annual revenue support grant. This is similar to someone supporting a family member to buy a house, by paying the mortgage instalments.

4.3 The Government no longer does this, choosing instead to support our capital programme by means of capital grants (i.e. lump sums). Consequently, our debt levels are largely static, until individual loans are due for repayment. As most of our debt is long term, with repayments due 28 to 57 years from now, we might expect to see little change in this level of debt.

4.4 Early repayment of debt used to be a tool at our disposal, but government rule changes made this prohibitively expensive for PWLB debt. However, in 2018/19 we prematurely repaid £51m of financial market loans.

4.5 Best practice requires the Council to set certain limits on borrowing and investments, and these are provided at Appendix A.

4.6 Recently the Government increased the interest rates charged for borrowing from the Public Works Loans Board (PWLB).

4.7 Given our high cash balances it is unlikely that the Council will need to borrow in the foreseeable future and one important consideration is that the interest rate foregone when cash balances are used in lieu of borrowing are less than the interest rate paid on new borrowing. However, we have to consider that currently long-term interest rates remain historically low and taking a long term view it may be cheaper to borrow now and not in the future when interest rates have risen. Accordingly, whilst the core assumption of this strategy is that no long-term borrowing will take place in 2020/21, it allows for the possibility that it does.

4.8 For many years the PWLB has been the dominant lender to local authorities, but with the recent increase in interest rates borrowing from other sources may be a viable and cost-effective option. Both existing and new lenders are understood to be developing loan structures that may be attractive. The Treasury Policy reflects this changing situation and grants sufficient delegated power to the Director of Finance to access new lenders if required.

4.9 For some local authorities the impact of the increase in borrowing rates from the PWLB has not simply been an unwelcome cost increase but has made planned capital schemes unviable (and especially in the case of housing projects). In our case this does not apply as existing planned and approved schemes don't assume that we will need to borrow over the medium term.

4.10 One borrowing option for local authorities may be the Municipal Bonds Agency (MBA). It is owned by a group of sponsoring local authorities and exists to enable local authorities to borrow collectively. Until now, the MBA has not been a cost-effective option because loans from the PWLB have been cheaper but in the future it may be viable. It's possible therefore that we might borrow from the MBA, but a more likely scenario is that we lend to other local authorities via the MBA.

5. **Investments**

5.1 The effort involved in treasury management now revolves almost solely around management of our cash balances. These fluctuate during the course of a year, and range from £250m to £300m dependent on circumstances (e.g. closeness to employees' pay day).

5.2 The Council has substantial investments, but this is not "spare cash". There are three reasons for the level of investments:-

(a) Whilst the Government no longer supports capital spending with borrowing allocations, we are still required to raise money in the budget each year to repay debt. Because of the punitive rules described above, we are not usually able to repay any debt, and therefore have to invest the cash;

(b) We have working balances arising from our day to day business (e.g. council tax received before we have to pay wages, and capital grants received in advance of capital spending);

(c) We have reserves, which are held in cash until we need to spend them. We expect reserves to fall over the next few years. The reserves position is described in the budget report

5.3 The key to investment management is to ensure our money is safe, whilst securing the highest possible returns consistent with this.

5.4 In terms of **security**, the key issues are:-

(a) The credit worthiness of bodies we lend money to ("counterparties");

(b) The economic environment in which all financial institutions operate. The financial crash of 2008, for instance, destabilised a lot of banking institutions which appeared credit worthy prior to this;

(c) What would happen if a financial institution did, in fact, run into trouble?

5.5 The world economic situation appears fragile and growth remains slow, including in the EU. Many commentators see a possibility that the position could deteriorate. At the point of writing there remains uncertainty about the eventual impact of Brexit.

5.6 In 2008, many Governments bailed out banks regarded as “too big to fail”. Since 2008, the world’s largest economies have implemented measures to make banks stronger, but also to reduce the impact if they do fail (and the cost to taxpayers). These measures would see institutional investors who have lent money (such as the Council) taking significant losses before there is any taxpayer support. In practice, these measures are likely to be invoked when a bank starts to run into trouble, before it actually fails. This process is known as “bail in”.

5.7 A linked measure has been to split major UK high street banks into “ring-fenced” banks used by individuals and small to medium businesses; and “non-ring-fenced” banks for larger businesses (including most Councils) and for other non-core banking activities, such as those involving financial markets.

5.8 The upshot is that we cannot regard any financial institution as a safe haven over the medium term – we need to keep watch for any signs of trouble.

5.9 The key to our investment strategy is therefore to diversify our investments (so we don’t “keep all our eggs in one basket”), invest with local authorities, or with public sector bodies that <u>are</u> backed by the Government, or seek additional security for our money.

5.10 In respect of **<u>return</u>**, bank base rates are at 0.75%, and our advisors believe that they will remain extremely low for two years at least. In the worst case, there is a risk that bank base rates could be cut close to nil.

5.11 Greater returns can be achieved by lending for longer periods, but this starts to increase the risks described above.

5.12 The details of our investment strategy are described in Appendix B, but in summary:-

(a) We will lend on an <u>unsecured</u> basis to the largest UK banks and building societies for periods not exceeding one year, subject to our treasury advisors’ advice. Bail-in rules mean lending for longer on an unsecured basis is too great a risk;

(b) We will lend for longer periods, and to smaller banks or building societies, if our money is <u>secured</u> (i.e. if we can take possession of the bank’s assets in the event of failure to repay);

(c) Lending to other local authorities has long been a cornerstone of our investment strategy, and this will continue. No local authority has ever defaulted on a loan. We will lend to local authorities for up six years, and may invest in bonds that they issue with a maturity of up to six years, enabling us to secure greater returns;

(d) We will place some money with pooled investments, such as money market funds. These are professionally managed funds, which place money in a range of financial assets, some based overseas. This helps achieve diversification. In cases where money is not secured, we will make sure funds can be returned very quickly. Interest rates on money market funds are low because we can get our money back quickly (we need to have funds available at "instant access);

(e) We will lend to the Government and other public sector bodies;

(f) Limits in the investment strategy previously set at five years have been increased to six years. This is mainly because we record the maturity from the date we contract for an investment rather than when the investment actually commences (and we pay for it) - a five year limit prevents us from contracting to enter into a five year investment at a future date, which often is the market norm.

5.13 In addition to the above, we will invest up to £30M in commercial property funds. These are pooled investments similar to "unit trusts". This continues the current strategy. Such funds are expected to pay dividends at a rate of 3.0% to 3.5%, which exceeds current cash returns of around 0.75%. Current investments are £8M. However, with such funds there is always a risk that values will decrease. Risks are harder than usual to assess due to uncertainty around "Brexit". Until such a time as this uncertainty reduces no further investments will be made.

5.14 Unlike pension funds, we do not invest in company shares which we would otherwise wish to assess from an ethical perspective. However, there is a new market emerging for investment with environmental and socially responsible objectives, and we will evaluate opportunities presented to us. Whilst there are established investments suitable for long term investors, such as pension funds, these tend not to be suitable for us. Our investment time horizon is 10 years at most.

5.15 The market for investments consistent with our investment time horizon is still emerging and we shall investigate opportunities as they arise. To the extent that such investments prove to be novel we can't specify in advance the type of investments that we might make but any such investments would be rigorously assessed. Aspects of investments may be outside the knowledge and expertise of officers (for example the success of solar farms depends upon future sales of electricity into the National Grid) and we would take expert advice as appropriate. Other investments such as "real estate investment trusts" specialising in supported housing are more familiar and may need less specialist advice.

5.16 A maximum of £20M would be invested in all such investments.

6. **Regulatory Changes**

6.1 During 2017 and 2018 revisions were made to the statutory guidance issued by MHCLG and to the professional guidance issued by CIPFA. These changes reflected a need for more robust guidance for commercial activities undertaken by councils, and especially with regard to investments in property. Nationally concerns have been expressed around a small number of authorities who have made very large property investments, sometimes outside of their own area.

6.2 A separate investment strategy dealing with commercial investments is elsewhere on your agenda, and a capital strategy is included as an appendix to the budget report.

6.3 This Treasury Strategy does not deal with matters covered by these two reports, though there is co-ordination between all these strategies.

7. **Credit Rating Requirements for Investments**

7.1 Credit ratings are key element of our treasury investment strategy, and are used to help us determine the financial strength of the borrower.

7.2 The credit rating of UK borrowers will rarely exceed that of the UK government and consequently a reduction in the credit rating of the UK government may result in credit rating downgrades for a large number of borrowers.

7.3 Brexit creates a higher than usual level of economic and political uncertainty, and under some scenarios could lead to a reduction in the credit rating of the UK government (the credit rating agency currently sees the outlook as negative). In the worst case the knock-on effect of this could be a widescale reduction in the credit ratings of the institutions to which we lend, such that large parts of our lending list might become unworkable.

7.4 If the UK government is downgraded there are two scenarios. One is that the financial operating environment of the UK becomes weaker and this weakens the strength of UK borrowers. The second is that the rating of the UK government caps the rating of domestic borrowers, but that the strength of the borrowers are unchanged. Intermediate positions are possible. Our actions will be based on an assessment of the actual situation and we shall take advice from our treasury advisors and the Director of Finance will present a report to the City Mayor for his approval recommending revisions to the lending list at Appendix B. All interest paying investments on such a revised lending list will have a minimum credit rating of BBB+ or (if unrated) be judged to be of equivalent standing. In this event, a revised treasury strategy will be presented to the Council at the earliest reasonable opportunity.

7.5 2019/20 has seen increasing financial pressure on local authorities, with evidence that some may struggle to meet their minimum statutory obligations. The most prominent is the situation of Northamptonshire. In addition some local authorities have been involved in very large scale investments which inevitably must carry some risks.

7.6 There is no legal mechanism for a local authority to go bankrupt or otherwise avoid paying money on loans that were lawfully incurred and there is a legal mechanism to recover loan payments. Irrespective of legalities the practical issue is what would happen if, say, an authority simply did not have the cash to both pay its staff and pay loans. In practice, this has never happened.

7.7 Our treasury advisors provide advice on lending to local authorities, and believe that the credit worthiness of most local authorities remains strong.

8. **Premature Repayment of Debt**

8.1 One tool of treasury management is the premature repayment of debt to achieve savings. This is something we used to do routinely, but (as discussed above) is now usually non-viable. We will take such opportunities if they present themselves at a sensible cost.

8.2 The reasons why our debt has 28 to 57 years to run are historic and reflect past circumstances and government policies at that time. In current circumstances, we would prefer a more even spread of repayment dates, and may use premature repayment to achieve this if possible. Another option is to repay using our cash balances.

8.3 Whilst we were able to prematurely repay £51M of market loans in 2018/19 on favourable terms, this is not the norm. Favourable terms are only likely to be offered when the lender no longer wishes to hold the investment.

8.4 We expect to pay a premium on any premature repayment of debt. This is because interest rates are lower now than when the loans were taken out. Accounting guidance specifies how this should be charged to revenue. Generally this will be spread over the residual life of the loan repaid. Premia may also be financed by capital receipts.

8.5 We would evaluate any other options that became available.

9. **Management of Interest Rate Exposure**

9.1 Whilst the treasury strategy is based on a view of future movements in interest rates, all interest rate forecasts carry uncertainty. This strategy seeks to manage that risk.

9.2 For the foreseeable future the main risk arises from uncertainty around the interest earned on investments rather than interest paid on borrowing. In practice we are mainly concerned about declines in interest earned on investments.

9.3 £21M of the loans recorded are "LOBO" loans where the lender has the periodic option to propose an interest rate increase which we have the option to decline, by repaying the loan. If such options were exercised by the lenders we would repay. This would only be viable for lenders if interest rates were higher than 5% (which is most unlikely).

9.4 In recent years, some countries have seen negative interest rates where the lender pays interest to borrowers as opposed to the normal situation where borrowers pay interest to lenders. The main protection available against this is to invest at fixed rates for longer periods, but that carries the risk that interest rates in fact rise and we earn less money than we would have done otherwise. At present most commentators do not see this as a major risk, but we will take account of it.

10. **Allocation of Loans Between General Fund and Housing Revenue Account**

10.1 All borrowing by the Council is for the purpose of financing capital expenditure (a bit like an individual will finance the acquisition of their house by a mortgage). Such borrowing can be for the purpose of General Fund Services or the Housing Revenue Account (HRA) and an appropriate determination has to be made to allocate external borrowing between the two.

10.2 The need to borrow external loans is reduced because the authority has cash balances. These balances mainly arise from General Fund activities. Consequently, at present, all external debt is held by the HRA.

11. **Treasury Management Advisors**

11.1 The Council employs Arlingclose as treasury advisors. Their performance has been good.

12. **Leasing**

12.1 The Council owns some properties on lease but other than this we do not use leasing as a method of financing, preferring instead to use our cash balances.

13. **Financial and Legal Implications**

13.1 The proposals are in accordance with the Council’s statutory duties under the Local Government Act 2003 and statutory guidance, and comply with the CIPFA Code of Practice on Treasury Management. In accordance with the Council’s constitution (Article 4.03), the strategy requires full Council approval.

14. **Background Papers**

14.1 CIPFA – “Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes 2017 Edition”.

CIPFA – “Treasury Management in the Public Services, guidance notes for local authorities including police forces and fire and rescue authorities 2018 edition”.

MHCLG – "Statutory Guidance on Local Authority Investments (3rd Edition) (2018)".

15. **Authors**

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Appendix A

Treasury Limits for 2020/2021

1. The treasury strategy includes a number of prudential indicators required by CIPFA's Prudential Code for Capital Finance, the purpose of which are to ensure that treasury management decisions are affordable and prudent. The recommended indicators and limits are shown below. One of these indicators, the "authorised limit" (para 3 below), is a statutory limit under the Local Government Act 2003. We are not allowed to borrow more than this.

2. The first indicator is that over the medium-term net borrowing will only be for capital purposes – i.e. net borrowing should not, except in the short-term, exceed the underlying need to borrow for capital purposes (the "capital financing requirement").

3. The authorised limits recommended for 2020/21 and for the remainder of 2019/20 are:-

	New £m
Borrowing	300
Other forms of liability	175
Total	475

4. "Other forms of liability" relates to loan instruments in respect of PFI schemes and to pre-unitary status debt managed by the County Council (and charged to the Council). Virement is possible between the limits for "borrowing" and "other forms of liability" within the overall total of £475 million.

5. The Council is also required to set an "operational boundary" on borrowing which requires a subsequent report to scrutiny committee if exceeded. The approved limits recommended for 2020/21 and for the remainder of 2019/20 are:

	£m
Borrowing	245
Other forms of liability	145
Total	390

6. The boundary proposed is based on our general day to day situation and is not absolute as there may be good, usually temporary, reasons to breach it. Its purpose is to act as a warning signal to ensure appropriate scrutiny.

7. A change in accounting policies in 2020/21 in relation to operating leases means that these items will be coming onto the balance sheet and count as capital expenditure. Therefore, they will show as borrowing on our balance sheet. The Council is yet to fully model the impact of this and therefore has included a £26m provision in our borrowing to allow for this accounting change.

8. The Council has also to set upper and lower limits for the remaining length of outstanding loans that are fixed rate. This table also excludes other forms of liability. Recommended limits are:

Upper Limit

	£M
Under 12 months	50
12 months and within 24 months	80
24 months and within 5 years	140
5 years and within 10 years	140
10 years and within 25 years	180
25 years and over	180

We would not normally borrow new loans for periods in excess of 50 years. In practice we don't expect to borrow at all.

Lower Limit

	£M
Less than 5 years	0
Over 5 years	100

9. The Council has also to set upper limits on the periods for which principal sums are invested. Recommended upper limits are:

	Up to 1 year £M	**Over 1 years £M**	**Over 2 Years £M**
Upper limit on maturity of principal invested	All investments	170	100

10. We will review the exposure of the Council to changes in interest rates. These could have a significant budgetary impact. The benchmark is that a 1% fall in interest rates should not cost in excess of £2M (an increase in interest rates would benefit the authority).

11. The central assumption of this treasury strategy is that the value of external borrowing will be as shown below (these figures include £12m debt managed on behalf of the fire authority).

	31/03/2019 Actual £M	2020/21 Estimated Average £M	2021/22 Estimated Average £M	2022/23 Estimated Average £M	2023/24 Estimated Average £M
External debt	192	192	192	194	194

Appendix B

Treasury Investment Strategy 2020/21

1. Introduction

1.1 This Treasury Investment strategy complies with the MHCLG’s Guidance on Local Government Investments and CIPFA’s Code of Practice.

1.2 It states which investments the Council may use for the prudent management of its treasury balances. It also identifies other measures to ensure the prudent management of investments.

1.3 Appendix A (above) limits the periods for which principal sums can be invested. This is to be assessed on our intentions with regard to each investment rather than its legal form.

2. Investment Objectives & Authorised Investments

2.1 All investments will be in sterling.

2.2 The Council’s investment priorities are:

(a) The **security** of capital; and

(b) **Liquidity** of its investments; and

(c) The **yield** (the return on investments)

2.3 The Council will aim to achieve the **optimum return** on its investments commensurate with the proper levels of security and liquidity. Liquidity is assessed from the perspective of the overall investment portfolio and will take account of the Council’s ability to borrow for cashflow purposes.

2.4 The following part of this appendix specifies how the Council may invest, with whom and the credit worthiness requirements to be applied.

3. **Approved Investments**

3.1 UK Banking Sector: Credit Rated Institutions			
Type	**Description**	**Investment Period**	**Controls**
General	Covers the largest UK banks and building societies. Covers non-UK banks operating in the UK and regulated in the UK.		No more that £100M will be invested in total with these institutions. Other than our bankers (Barclays) no more than £20m will be invested with one institution of which no more than £10m will be unsecured. £25m may be lent to Barclays, of which no more than £15m will be unsecured. The Director of Finance may authorise new investments in advance to replace maturing investments. Transactions entered into up 10 days in advance require no authorisation. A list of approved counterparties will be maintained, based on credit ratings. Principally, we use Fitch. New bodies will not be added to the list without the written approval of the Director of Finance. Minimum ratings as below. Other market intelligence will also be considered.
Unsecured deposits	Banks and building societies regulated within the UK Covers non-UK banks operating in the UK and regulated in the UK.	Maximum 366 days.	
		Up to 366 days.	Long-term rating of A & short term rating of F1
		Up to 6 months.	Long-term rating of A- & short term rating of F2
		100 days or less.	Long-term rating of BBB+ & short term rating of F2
Covered	This is a deposit with a bank or building	Maximum 5	Bond is regulated under UK law and majority of assets given as security

Bonds	society, which is secured on assets such as mortgages. These assets are not immediately saleable but the value of the assets exceeds loans secured upon them. If the deposit is not repaid the assets are sold and the proceeds used to repay the loan.	years.	are UK based. Minimum long-term rating bond rating of AA-
Reverse REPOs	This is a deposit with a bank or other financial institution, which is secured on bonds and other readily saleable investments and which will be sold if the deposit it not repaid.	Maximum 1 year.	Judgement that the security is equivalent, or better than the credit worthiness of unsecured deposits. REPO/Reverse REPO is accepted as a form of collateralised lending. One acceptable basis is the GMRA 2000 (Global Master REPO Agreement) but other documentation may be accepted. Should the counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral is as follows:- • Index linked Gilts (including delivery by value) • Conventional Gilts (including delivery by value) • UK Treasury bills • Corporate bonds (subject to additional due diligence)

3.2 UK Public Sector & Quasi Public Sector			
Type	**Description**	**Investment Period**	**Controls**
General	The UK Government and UK local authorities, including Transport for London (TFL), and bonds issued by the UK Municipal Bonds Agency. It also includes bodies that are very closely linked to the UK Government or to local government such as Cross Rail.		No more than £300M to be lent to local authorities (as defined in the first column). No more than £20M to be lent to any one local authority. No more than £40M to be lent to bodies very closely linked to the UK Government and no more than £20M to be lent to any one body. No limit on amounts lent to the UK Government. The Director of Finance may authorise new investments in advance to replace maturing investments. Transactions entered into up 4 months in advance require no authorisation. In practice, we will be guided by our treasury advisors' views on appropriate investment periods.
Deposits	Deposits with Local Authorities and the UK Government.	Up to 6 years.	Our judgement is that most local authorities are of high credit worthiness and that the law provides a robust framework to ensure that all treasury loans are repaid. However, should the occasion arise, we would have regard to adverse news or other intelligence regarding the financial standing of a local authority, including information which is provided by the Council's Treasury Advisors.
Bonds – Local Authority	Bonds issued by local authorities.	Up to 6 years.	
Bonds – UK Municipal Bond Agency	Bonds issued by local authorities collectively through the UK Municipal Bonds Agency.	Up to 6 years.	Minimum AA- credit rating. The agency is new and until established the number of underlying borrowing local authorities will be low. When investing with the agency we will look at the underlying exposure to individual authorities when these are material and take into account existing exposures to those authorities.
Bonds –		Up to 6	Minimum AA- credit rating.

Bodies Closely Linked to UK Government		years.	A list of approved counterparties will be maintained. Approval by Director of Finance to the body being added to the lending list on the basis of a written case, including advice from the Council's treasury advisors.

3.3 International Development Banks			
Type	**Description**	**Investment Period**	**Controls**
Bonds	International Development Banks which are backed by the governments of the world's largest and strongest economies. The funding obligations are established by treaties or other binding legal agreements. Examples are the European Investment Bank and the World Bank.	Up to 6 years.	No more than £40M to be lent in total and no more than £10M to be lent to any one bank. A list of approved counterparties will be maintained. Approval by the Director of Finance, in consultation with the City Mayor, to the body being added to the lending list on the basis of a written case, including advice from the Council's treasury advisors. A minimum credit rating of AA- plus backing of one or more G7 country.

3.4 All Pooled Investments (General)			
Type	**Description**	**Investment Period**	**Controls**
General	A structure where a wide base of investors share a common pool of investments. The most common legal form involves an intermediate company. The company has legal title to a pool of investments. The underlying investors own the company with a claim to their share of the assets proportional to their investment in the company.		We will only invest in funds where there is evidence of a high level of competence in the management of the investments, and which are regulated. A list of approved counterparties will be maintained. Approval by Director of Finance to the body being added to the lending list on the basis of a written case, including advice from the Council's treasury advisors. The investment period will reflect advice from our Treasury Advisors on a fund by fund basis. We will be alert to "red flags" and especially investments that appear to promise excessive returns. We look for diversification away from the banks permitted elsewhere in this lending list (though some overlap is unavoidable). No more than £180M to be invested in all type of pooled investments.
3.4.1 Pooled Investments – Shorter Dated Investments			
Money market funds	The underlying pool of investments consists of interest paying investments, for example deposits. The underlying borrowers include banks, other financial institutions and non-financial institutions of good credit worthiness. Banks may be UK or overseas.	Must have immediate access to funds.	Fitch rating of AAAmmf (or equivalent). No more than £20M in any one fund.
Short Dated	Similar to money market funds but mainly	Must have	Whilst these are very safe the interest returned is very low. We may use

Government Bond Funds	concentrated in highly credit rated government bonds.	immediate access to funds.	these in times of market turmoil. Fitch rating of AAAf (or equivalent). No more than £20M in any one fund.
Money market plus funds / cash plus funds / Short dated bond funds	Similar to money market funds but the underlying investments have a longer repayment maturity. We would use these to secure higher returns.	Must have access with one month’s notice but normally would wish to hold for 12-18 months.	Fitch rating of AAf (or equivalent). No more than £20M in any one fund. We will “drip feed” money that we invest rather than investing it all at once.

3.4.2 Pooled Investments – Longer Dated Investments			
Type	**Description**	**Investment Period**	**Controls**
General	Longer dated investments expose us to the risk of a decline in value, but also provide an opportunity to achieve higher returns. Consequently, controls involve both the personal authorisation of the Director of Finance and consultation with the City Mayor.		No more than £50m to be invested in all fund types listed in this table section 3.4.2.
Longer-dated Bond Funds.	Similar to money market funds but the underlying investments are now mainly bonds, typically, with an upper average maturity of up to 8 years.	Must have access with one month's notice but normally would wish to hold for two to three years.	Fitch rating of AAf (or equivalent). We may consider unrated funds on the recommendation of our Treasury Advisors. No more than £10M to be invested in any one fund.
Asset Based Securities	The base investments are "securitised investments" which pool consumer debt (mortgages, car loans and credit cards) and loans to small businesses. The base investments are loans to borrowers of good credit worthiness. They are a world away from the "sub-prime" investments that led to the 2008 crash. The investment we would make would be in a pooled investment containing a number of such securitised investments.	Must have access with one month's notice but normally would wish to hold for two to three years.	Fitch rating of AAf (or equivalent). We look for particularly strong evidence of expertise both from the organisations that issue the securitised investments and also from the managers of the pooled fund. We look for clear evidence of financial and operational independence between the fund managers and the banks that made the consumer loans in the first place. No more than £10M to be invested in any one fund.

	They are normally issued by banks (UK or overseas).		
3.4.3 Pooled Investments – Property Funds			
Property Funds	The underlying investments are mainly direct holdings in property, but our investment is in a pool of properties. Whilst the fund normally has a small cash balance from which to fund redemptions the bulk of the fund is held in direct property investments. On occasions redemptions will not be possible until a property has been sold. Funds may have the power to borrow.	Generally have access with three months' notice but normally would wish to hold for five years.	No more than £30M to be invested in property funds. Investment amounts and timing to be approved by the Director of Finance, in consultation with the City Mayor.

3.5 Environmentally and Socially Responsible Investments			
Type	**Description**	**Investment Period**	**Controls**
	Investments which facilitate environmental and social objectives. Encompasses a range of legal structures including: • Company shares (equity) • Loans and other interest bearing investments • Trust structure including the above and including ownership of land, buildings, plant, equipment and contractual rights (for example the right to sell electricity) • Pooled investments • Specialist Real Estate Investment Trusts (REITS) such as those investing in supported housing. • Other investment types Where an investment is better described elsewhere in this appendix (for example a regular money market fund that only contained ethical investments) that section of this appendix shall govern that investment.	Up to 10 years.	No more than £20M in all such investments. For investments which can be sold to others in a financial market or which can be redeemed by the fund manager - approval by Director of Finance, in consultation with the City Mayor, to the investment being added to the lending list of approved counterparties based on a written case, including specialist advice. For other investments approval by the Director of Finance in consultation with the City Mayor to the individual investment, on the basis of a written case, including specialist advice. Investments will only be made when it is assessed that there is a reasonable prospect that after 10 years the Council would be able to have its initial investment returned plus the return that it would have gained on a cash investment. We will look for strong evidence of expertise from those who manage the pooled fund or who are otherwise involved in the management of the investment. Such investments may not be rated. Where the legal structure of the investment is not a widely used one appropriate due diligence will be undertaken.

3. **Business Models**

3.1 The Council has a “buy and hold” strategy for its investments that are bought and sold in financial markets. I.e. seeks to achieve value for money from its investments by collecting the sums contractually due. It does not aim to achieve additional value by selling them on although there may be occasions when investments may be sold for the purposes of managing or mitigating risk.

Leicester
City Council

OVERVIEW SELECT COMMITTEE **12th February 2020**
COUNCIL **19th February 2020**

INVESTMENT STRATEGY 2020/21

Report of the Director of Finance

1. Purpose of Report

1.1 This strategy defines the Council's approach to making and holding investments, other than those made for normal treasury management purposes. The latter are described in the annual treasury management strategy.

2. Summary

2.1 Government guidance requires the Council to approve an investment strategy. This requirement has arisen because of Government concerns about some authorities borrowing substantial sums of money to invest in commercial property (sometimes a multiple of their net revenue budget).

2.2 The requirement to have an overarching investment strategy was introduced from 2019-20 onwards so this is the second year of this requirement. It superseded previous earmarked funds namely :-

(a) The Local Investment Fund, described in previous years' treasury management strategies;

(b) The Enterprising Leicester Investment Fund (approved by the City Mayor on 4th January 2016, and extended on 17th February 2017);

(c) The Investment Property Fund and "New Opportunities" Fund, approved by the City Mayor on 17th January 2017.

2.3 For the purposes of this strategy, an investment means any spending, or any interest-bearing loan to a third party which is (at least in part) intended to achieve a return for the Council. It includes advances made to (or on behalf of) the Leicester and Leicestershire Enterprise Partnership (LLEP) for their purposes, if the Council or LLEP expects to make a return on the money: such advances may be made by the Council acting as accountable body or in its own right.

2.4 The Council also invests in pooled property funds. These are funds where large numbers of investors own a part share in a large number of properties, and are professionally managed. Our policy for investment in pooled funds is described in the treasury management strategy, rather than this strategy. The treasury management strategy also permits environmental and socially responsible investments.

2.5 The strategy excludes investment in new Housing Revenue Account (HRA) dwellings, as this is not done to achieve a return.

3. Recommendations

3.1 Members of Overview Select Committee are recommended to note the report and make any comments to the Director of Finance as wished, prior to Council consideration.

3.2 The Council is recommended to approve this Investment Strategy.

4. Current Investments

4.1 The Council has approved the following investments which fall within the remit of this strategy:-

(a) The Corporate Estate. The purpose of holding the portfolio is primarily for income generation purposes, but also with an eye to providing a range of accommodation for businesses and for ensuring a presence in city centre retail. The properties in the fund are held for their commercial value and not to provide accommodation or services to/for the Council. Accounting rules do not require us to treat the properties as investment properties for reporting purposes: however, they are held in part for return and thus fall within the ambit of this strategy. The portfolio includes 326 properties which are available for commercial lease. It includes industrial units, shops, and other business premises located in the city with some agricultural holdings outside. Much of the estate has been owned by the Council for decades. The total value of the portfolio is estimated to be £122m and all purchases have been fully financed (i.e. there is no outstanding debt). Gross rental income is £7.7m per year; and the annual contribution to the General Fund is £6.3m.

(b) A loan to Leicestershire Cricket Club of £2.45m, to enable the Club to improve its facilities at an interest rate of 5%. The loan is supported by guarantees from the English Cricket Board.

(c) A loan of £1.5m to Ethically Sourced Products Ltd, (of which £1.4m remains outstanding) made under the (now former) "Enterprising

Leicester Fund". This loan carries a return equivalent to 4% per annum and is due to be repaid by 2025;

(d) A loan of £0.6m to the Haymarket Consortium Ltd to assist with the relaunch of Haymarket Theatre. This loan carries a return equivalent to 4% per annum and is due for repayment by March 2026;

(e) £8.4m has also been approved to fund a hotel development at the Haymarket Shopping Centre, for which the Council will receive a revenue generating lease. To date, expenditure of £4m has been made on this scheme.

(f) The Council has also approved expenditure of £5m to deliver 26,400 sq. ft of workspace at Pioneer Park. The scheme has attracted £2.15m of external funding. The medium-term impact on the Council's revenue budget is expected to result in a net surplus of over £100k p.a.

4.2 LLEP manages the "Growing Places Fund" which makes loans to businesses and other organisations for economic development. The total amount available is c.£12m. This fund does not come within the remit of this investment strategy, as the City Council has no financial exposure. (The original capital was provided by the Government, and there is now a revolving fund of new loans made as old loans are repaid. If there are defaults on the old loans, the fund simply stops revolving.) The Council may seek LLEP's agreement to use the fund jointly with City Council loan funding, which helps mitigate risk.

4.3 A good example of a successful outcome was a loan of £4m made to support the relocation of Hastings Insurance to premises next to the railway station which was fully repaid in 2018/19. Interest of £0.6m was paid on top of the outstanding capital sum (equivalent to 10% per year) and Hastings increased the number of jobs in Leicester to 1,000.

5. <u>The Council's Overall Approach</u>

5.1 The Council encourages investment which enables us to reduce reliance on returns from cash (the treasury management strategy) and at the same time put to use sums which would be earning little interest to benefit the people of Leicester. However, the Council acknowledges the risk associated with such investment, and will ensure it is not left hostage to changing market fortunes.

5.2 In the case of the Corporate Estate, managers will be encouraged to dispose of under-performing assets, and reinvest in higher earning assets, taking into account the opportunity for a sustainable financial return, risks and liabilities. New acquisitions can be funded by:-

(a) Sale of existing, under-performing properties. These will be separately identified and approved by means of a decision of the City Mayor;

(b) Prudential borrowing, subject to limits given below and necessary approvals.

5.3 The Council is prepared to take greater risks in the furtherance of this strategy than it would be with the treasury management strategy: this is because investment will never take place solely for financial motives (the only exception being enhancement of the property portfolio within the Corporate Estate as described above).

5.4 The Council's priorities for investment are:-

(a) Security of capital – notwithstanding the above, this is the paramount consideration;

(b) Yield (the return on investments) - this is important, but secondary to ensuring our capital is protected;

(c) Liquidity (ability to get money back when we want it) – this is the lowest priority, and the Council accepts that such investments are less liquid than treasury management investments. We can live with this, because individual investments are small scale compared to the overall size of the Council. We have other (treasury) investments which are kept for liquidity: these exceed the value of our external debt.

5.5 Property acquired under this investment strategy will be located:-

(a) In the case of the Corporate Estate, within the boundary of LLEP (usually, within the city);

(b) If acquired for economic regeneration purposes, within or at the perimeter of the LLEP area;

(c) If acquired for other reasons, normally within the city boundary, but may be elsewhere to better meet service objectives (for example, an investment in solar farms – the key consideration being best value from the site regardless of location; we may also join a consortium of other authorities to invest in facilities which serve all our purposes).

5.6 Individual investments can be funded by any of the following (or combination of the following):-

(a) Grants/contributions from third parties (including LLEP) where the funding is provided at the third party's risk;

(b) Capital or revenue monies held by the Council;

(c) Business rates growth within Enterprise Zones (to potentially fund investment in Enterprise Zones);

(d) Prudential borrowing, and contributions from third parties where the Director of Finance deems the substance of the investment to be at the Council's risk (e.g. income strips). In practice, "prudential borrowing" is unlikely to require genuine external borrowing as we have sufficient cash balances (as described in the treasury management strategy). Prudential borrowing is best seen as a permission to borrow externally, should we need to.

5.7 Items (b), (c) and (d) together represent the Council's capital invested. Item (d) represents the risk of the Council requiring further capital or revenue resources if an investment fails; it may or may not represent any actual external debt. The amount of prudential borrowing outstanding may fall over the life of an investment. The totality of prudential borrowing, or other funding provided at the Council's risk, outstanding at any one time is a key control over the Council's investment activity and is termed "exposure".

5.8 The Council will not, at any one time, have exposure in excess of the following:-

	£m
On commercial or industrial property it owns	150
For loans to third parties (other than LLEP)	20
For sums advanced to, or on behalf of, LLEP	30
Enterprise Zone investments	30
For other investments	40

5.9 The Council will not have more than £150m of exposure in respect of all activity covered by this strategy. Thus it is not possible to reach the maxima in all the above categories.

5.10 Limits on total external debt are included in the treasury management strategy.

5.11 The Council can reduce its exposure, particularly if an investment is performing poorly, by writing down prudential borrowing using capital or revenue resources.

5.12 Where the Council has an option of utilising third party contributions at the Council's risk, the Director of Finance will determine whether or not this represents value for money as an alternative to prudential borrowing.

6. What we invest in and how we assess schemes

6.1 Decisions to invest will be taken in accordance with the usual requirements of the constitution. Executive decisions will be subject to normal requirements regarding notice and call-in. All decisions to use prudential borrowing require the approval of the City Mayor. The criteria below set normal expectations for investment decisions, but it is impossible to provide a framework for all potential opportunities: we do not know what might be available in the future. The City Mayor may approve investments which do not meet the criteria in this section 6 (the limits at section 5 will not be exceeded), but if he does so:-

(a) The reason will be reflected in the decision notice;
(b) The decision will be included in the next refresh of this strategy.

6.2 All proposals will be subject to a financial evaluation, signed by the Director of Finance. This will calculate expected return (see below), assess risk to the Council's capital invested, and ability to repay any prudential borrowing. The evaluation must therefore give evidence of a financially robust proposal, regardless of the other merits. The results of the evaluation will be reported in the decision report. For small purchases of property within the Corporate Estate Fund, a more streamlined evaluation can be prepared. Where the use of third-party contributions at the Council's risk is recommended, as an alternative to prudential borrowing, the assessment of this method of financing will be included in the evaluation.

6.3 Any investment for economic development purposes will accord with the Council's adopted strategies, except for early stage expenditure in contemplation of a new strategy.

6.4 The maximum prudential borrowing permitted for any given investment will be:-

	£m
• For purchases intended solely to improve the financial performance of the Corporate Estate	5
• All other cases	10

6.5 Advances to third parties (including LLEP) will require additional security where the total capital invested by the Council exceeds £2m, e.g. the underwriting of risk by a third party (such as another local authority in the LLEP), a charge on property with a readily ascertainable value and a number of potential purchasers, or a commitment from the LEP to a percentage of anticipated rates growth.

6.6 The Council will look for a return on its capital invested, although this can be lower than a bank would seek (reflecting our cost of funds, and the expected service benefits). Except where a purchase is solely to improve the financial performance of the Corporate Estate, return will be measured by net present value and (disregarding external contributions):-

(a) The usual yardstick for investment is that, on a prudent estimate of costs and income, investments must make a positive return when discounted at 3% per annum. A higher return may be sought where a project is riskier than normal;

(b) Where reasonably certain, growth in retained business rates can be included in the calculation of NPV until the date of the next national reset (although rates growth will continue to be accounted for as rates income, and not earmarked);

(c) Resultant savings in departmental budgets cannot be included in the calculation.

6.7 The City Mayor may take a conscious decision to accept lower returns for service or environmental reasons; (an alternative way of looking at this is to say that the Council will sometimes choose to accept modest returns instead of providing something at its own expense for service and or environmental reasons). Such a decision will be transparent and recorded in the decision notice.

6.8 The following are deemed to be suitable investments:-

(a) Acquisition of commercial or industrial property;
(b) Construction or development of commercial or industrial property;
(c) Construction or development of non-HRA housing, directly or via the wholly owned housing company;
(d) Acquisition of land for development;
(e) Infrastructure provision at key development sites;
(f) Loans to, or on behalf of, the Leicester and Leicestershire Enterprise Partnership to support its objectives;
(g) Loans to businesses to support economic development;
(h) Acquisition or construction of low carbon energy investments.

6.9 All investments and loans must be state aid compliant.

6.10 <u>Acquisition of commercial or industrial property</u> can be considered where:-

(a) There is a tenant of sufficient quality; or strong evidence of market demand for the property (e.g. identified end use, or small tenanted units with a ready supply of prospective tenants); or the property generates other reasonably assured income; and

(b) There is the prospect of capital appreciation and a ready market for the Council's interest (or there will be a ready market at the end of the investment period); and

(c) There are either economic development or service reasons why the city would benefit from the council's ownership, or the acquisition improves the performance of the Corporate Estate. An example of economic development reasons might be to facilitate a significant business relocation to the city or surrounding area.

6.11 <u>Construction or development of commercial or industrial property</u> can be considered where the asset constructed or developed would generate a continuing income stream, and have a readily realisable capital value. Whilst a pre-let is regarded as highly desirable, a benefit of Council involvement is that strategically important development can be secured which would not attract normal commercial finance. New grade A office space is a key example. It is, however, essential that the Council can be confident of a return on its capital invested, and an NPV shall be calculated using prudent assumptions of any void periods.

6.12 Construction or development of non-HRA housing can be used to develop sites and provide housing for sale. It is an alternative to disposal of un-developed land for a capital receipt and may take place through a wholly owned housing company. Investment would be made into the company, either through equity or loan capital. Alternatively, we may want to invest in non-HRA housing to let, creating an institutional private landlord.

6.13 Acquisition of land for development can be considered for strategic regenerative land assembly schemes, subject to the proviso that future development is planned and fundable:-

(a) The Council's return will usually arise from an appreciation in land values and this must be reasonably assured with a ready market;

(b) This type of investment is riskier than the acquisition of tenanted property, and a higher return would normally be sought.

6.14 The availability of other public funding to secure development will improve the acceptability of such proposals, as this will increase the return on the Council's capital invested.

6.15 Infrastructure provision at key development sites can be considered where development can be catalysed by provision of site infrastructure:-

(a) Investment can be considered where future disposals can be assumed with a reasonable degree of confidence; and

(b) Developments unlock strategic housing or commercial development on economic growth sites, or contribute towards bringing forward linked developments.

6.16 Advances of funding or loans to LLEP (or on behalf of LLEP) can take place to support economic development in the city or LLEP area. Such advances can be considered to support the LEP's strategic plan, subject to confidence that money will be returned through business rate growth or other LLEP finance.

6.17 Loans to businesses can be made at attractive rates (when compared to bank finance) for proposals which facilitate economic development, and where the Council can be confident that the money will be repaid. The following criteria will be applied:-

(a) Loans would normally be repayable within 10 years (or the Council has an asset which is readily realisable within that period, whether we choose to realise it or not);

(b) A minimum loan value of £100,000 will apply;

(c) Proposals must demonstrate that they are viable, i.e. there is a reasonable expectation that the capital and interest will be repaid;

(d) Security will usually be obtained (and always for higher value loans).

6.18 Low Carbon Energy Investments which help to reduce climate change can be considered. Any such investment will still be expected to make a positive return, though in making the investment the Council will consider the environmental and social benefits as well as the financial return.

7. **Monitoring of Investments**

7.1 Except where the City Mayor decides (after consulting OSC) that an investment can be monitored in aggregate as part of the Corporate Estate, the following measures will be used to monitor performance of all investments. Performance will be reported as part of the annual budget outturn report:-

(a) Achieved return on capital invested;

(b) Capital appreciation;

(c) Timely receipt of returns;

(d) Write offs/write downs;

(e) Jobs or other outputs created.

7.2 The monitoring and performance of the Corporate Estate will be reported separately as part of the Corporate Estate Annual Report. As a minimum, the report will include the following performance indicators:-

(a) Voids;

(b) Gross return;

(c) Net return;

(d) Bad debt;

(e) Capital appreciation.

7.3 Buying/selling decisions for the Corporate Estate will reflect CDN's approved property investment strategy.

7.4 The Corporate Estate will be monitored in its entirety. Measures for individual acquisitions are not set.

8. **Capacity, Skills and Culture**

8.1 The Council employs professional accountants who are skilled in carrying out investment appraisals, as well as regeneration, economic development and property specialists. Nonetheless, the more complex schemes will require external support to enable thorough due diligence to be undertaken and business cases to be developed and assessed. External specialists will work with Council clients to ensure they understand the public service dimension of the Council's business.

8.2 The Council will use whatever presentation techniques are appropriate when decisions on individual investments are sought; these will in particular focus on the risk assessment.

9. Financial and Legal Implications

9.1 The proposals are in accordance with the Council's statutory duties under the Local Government Act 2003, and statutory guidance.

10. Background Papers

10.1 CIPFA – Treasury Management in the Public Services, Code of Practice and cross sectoral guidance notes 2017 edition.

10.2 MHCLG – Statutory Guidance on Local Authority Investments (3rd Edition) (2018).

11 Author

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