

# **Draft General Fund Budget 2021/2022**

Decision to be taken by: Council

Decision to be taken on/Date of meeting: 17<sup>th</sup> February 2021

Lead director/officer: Director of Finance

## Useful information

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### 1. **Purpose**

- 1.1 The purpose of this report is to ask the Council to consider the City Mayor's proposed budget for 2021/22 and to present medium-term projections up to 2024.
- 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.
- 1.3 This report is written in advance of the Government's local government finance settlement, and will therefore change to reflect actual figures when received.

### 2. **Summary**

- 2.1 The Council is currently facing an unprecedented and difficult financial situation. Following on from the severe spending cuts the Government has imposed in the last 10 years, the coronavirus pandemic has put huge pressure on service spending and on income streams. There are also unavoidable, and continuing, underlying cost pressures, particularly in demand-led social care services.
- 2.2 Added to this, the budget is made more difficult because we do not know the level of funding available beyond the current financial year, nor the extent to which spending pressures from the Covid-19 pandemic and / or consequent economic downturn will continue. Nor do we know how services may need to be reshaped to meet new expectations in a post-Covid future.
- 2.3 The Council's previous approach to achieving the budget reductions required by the Government 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".
- 2.4 The Spending Review approach has served us well: savings of nearly £50m have been made since 2014, and left the Council with a relatively healthy level of reserves at the start of 2020/21 (compared to other authorities). However, the achievement of Spending Review savings has stalled in 2020/21 due to the Covid pandemic. The

pandemic may, additionally, have significant implications for the way we deliver services in future and we are not yet in a position to know what we can afford. The future shape of the Council's services will be strongly influenced by the long term consequences of the pandemic, and review will be needed to ensure we are fit to meet new challenges. This will range from new ways of providing services, to best use of IT, and the optimum configuration of our existing office portfolio if home working becomes a permanent feature of our future working arrangements. Furthermore, a significant amount of the Council's reserves may be required to meet pandemic costs.

- 2.5 As a consequence, the following approach has been adopted:-
- (a) The budget for 2021/22 has been balanced using reserves, and can be adopted as the Council's budget for that year. This is effectively a "standstill" budget representing the underlying position before any further cuts;
  - (b) We have "drawn a line" under the spending review programme, but have included in this budget assumptions about savings which can be achieved without detriment to service provision;
  - (c) A comprehensive financial review of the Council's position will be undertaken before setting the budget for 2022/23, to ensure ongoing financial sustainability. This work needs to commence as soon as possible, given the way this budget will use up reserves.
- 2.6 **What this means is that, in substance, the budget proposed is a one year budget, pending a fuller (post-pandemic) review.**
- 2.7 It should also be noted that there are some significant risks in the budget. These are described in paragraph 13.
- 2.8 The draft budget provides for a council tax increase of 5% in 2021/22, which is the maximum available to us without a referendum. 3% of this 5% 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 (unlike a grant, of course, we have to pay for this ourselves).
- 2.9 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. There are no proposals for decisions on specific courses of action that could have an impact on different groups of people – such decisions as may be needed will be taken subsequently. 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 12 and the legal implications at paragraph 16). 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 decisions.

2.10 Best practice now expects me to present a medium term financial strategy for approval, and this is attached (see Appendix Five). It contains projections of the position up to 2024, although in the context of the pandemic longer range projections must be seen as unreliable. High and low forecasts have not been prepared, because it is not possible to ask members to take decisions based on them – this will follow from the review described above.

### 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 2021/22 which will be circulated separately;
- (b) note comments received on the draft budget from scrutiny committees, trade unions and other partners *(to be added for final budget report)*;
- (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 continue to be adequate during 2021/22, 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 12 and Appendix Three;
- (g) note the medium-term financial strategy and forecasts presented at Appendix Five, and the significant financial challenges ahead.

#### 4. **Budget Overview**

- 4.1 The table below summarises the proposed budget for 2021/22. Due to the level of uncertainty in future budgets, only one year is presented here (summary projections for a three-year period are included in the medium term strategy at Appendix Five):

	<b>2021/22 £m</b>
<b>Service budget ceilings</b>	293.5
<b>Corporate Budgets</b>	
Capital Financing	6.5
Miscellaneous Corporate Budgets	1.6
Contingency	2.0
<b>Total forecast spending</b>	<b>303.5</b>

<b>Rates retention scheme:</b>	
Business rates income	62.2
Top-up payment	48.0
Revenue Support Grant	29.0
<b>Other resources:</b>	
Council Tax	127.8
Collection Fund deficit	(2.4)
Govt funding towards Collection Fund	1.8
Social Care grants	12.0
New Homes Bonus	4.9
<b>Total forecast resources</b>	<b>283.3</b>

<b>Underlying gap in resources</b>	<b>20.2</b>
Proposed funding from reserves	(20.2)
<b>Gap in resources</b>	<b>NIL</b>

- 4.2 The proposed budget for 2021/22 has an underlying budget gap of just over £20m, which represents a £15m deterioration from the most optimistic forecast presented in February 2020. This includes adjustments to the budget to better reflect the true underlying position and unavoidable pressures, as explained in section 6 below. £20m has been added to service budgets: to the extent that this is required for adult social care, only part of the cost has been met by new funding (and most of the new funding

provided is permission to increase council tax rather than Government grant). The budget gap also reflects decreased forecasts for locally-raised tax income, due to the economic downturn caused by the pandemic.

## 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 2021/22 is £1,694.92, an increase of just under 5% compared to 2020/21.

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 2020/21). 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 2021/22, 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 2021. The formal resolution will set out the precepts issued for 2021/22, together with the total tax payable in the city.

## 6. **Departmental Budget Ceilings**

6.1 As stated in the summary at paragraph 2.5, a different approach has been taken to preparing departmental budgets this year. A thorough review is required before we can set meaningful post-Covid budgets. It would be premature to carry out such a review now, and (as described above) a one year budget is proposed to get us through this current period of pandemic and uncertainty. The approach will use our “managed reserves” to enable a smooth transition year.

6.2 The approach is therefore to maintain existing budgets wherever practical, but:-

- (a) Build in unavoidable growth, which would normally be compensated by departmental savings;

- (b) Anticipate savings to be made from a number of residual spending reviews which have minimal impact on front line services. Where necessary, equality assessments will be carried out prior to implementation of these proposals.

6.3 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 2020/21 budget.
- (b) 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;
- (c) Decisions previously taken by the Executive in respect of spending reviews, where the savings take effect in 2021/22, have been deducted from the ceilings;
- (d) Changes have been made for growth and savings as described below.

6.4 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 2021/22 had not been determined, and therefore a provision is being held centrally to meet the cost. This is based on the Government's expectations for public sector pay set out in November, which include pay awards only for lower-paid staff. The provision will be distributed to departmental budget ceilings when the details of the pay award are known.

6.5 The role of the Council is to determine the financial envelopes within which the City Mayor has authority to act. Notwithstanding the way the budget has been constructed, the law does not enable the Council to determine how the City Mayor provides services within these envelopes: this is within his discretion. Paragraphs below describe how the City Mayor currently expects to achieve savings to enable him to spend within budget ceilings. The scheme of virement provides scope for alternative ways to live within budgets if any proposal cannot be delivered (e.g. if equality assessments reveal impacts that require a different approach).

## City Development & Neighbourhoods

- 6.6 The department provides a wide range of statutory and non-statutory services which contribute to the wellbeing and civic life of the city.
- 6.7 The department's costs are not subject to the same levels of volatility as social care services, and pressures tend to be easier to predict in advance.
- 6.8 The following pressures have been reflected in the proposed budget:-

	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>
<b>Tourism, Culture &amp; Inward Investment</b>		
Markets income	250	250
Festivals and Events	50	50
Records Office	45	45
<b>Estates &amp; Building Services</b>		
Property maintenance and income	1,500	1,500
<b>Housing</b>		
Fleet	750	750
<b>Total Growth</b>	<b>2,595</b>	<b>2,595</b>

- 6.9 The growth is described below:-
- (a) The income expectations at the retail market (£1.3m) have become increasingly unrealistic, and the additional £250,000 p.a. will rectify the position;
  - (b) Additional resource is required for festivals and events to offset rising costs of infrastructure and to support some other events that could generate significant economic benefit for the city;
  - (c) The Council needs to pay an increased contribution to the Records Office, following a review of the budget (and percentage shares) by the County Council;
  - (d) Property maintenance costs have increased due largely to a higher than expected need for routine repairs and statutory compliance following the introduction of the corporate landlord model. Additionally, an on-going reduction in the amount of capital construction activity supported by the Division, particularly as school expansions are now largely nearing completion, is reducing the income from capital fees.



- (e) In recent years, vehicles in the Council's fleet have been used for a longer period following a review of useful lives: this has meant far fewer vehicles have been purchased than usual, as less vehicles reached the end of their service. Vehicles are acquired by means of borrowing, for which the department makes revenue provision – in part, the proposed growth represents a step up in vehicle acquisition after this lull. Budgets are also under pressure because, although we are working towards electrification of the corporate fleet, we are not yet seeing savings through reduced maintenance and acquisition of parts (repair costs have in fact increased due to the fleet becoming older). A delay in rectification work after the fire at Leycroft Road depot has also delayed work to introduce an MOT offer.

6.10 The following savings have been reflected in the proposed budget:

	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>
<b>Planning, Development &amp; Transport</b>		
Car parking	500	500
Bus lane enforcement – back office	50	100
Planning efficiencies	25	25
<b>Neighbourhoods &amp; Environmental Services</b>		
Rationalisation of bring banks	25	25
Procurement savings on running costs	60	60
<b>Total Savings</b>	<b>660</b>	<b>710</b>

6.11 The savings are described below:-

- (a) Current parking charges are in multiples of £1, which are convenient for the public but constrain our ability to review charges. Work has been taking place for some time converting parking meters to cashless payment, which will facilitate a review once the pandemic is over. An adjustment is proposed to the department's budget, but it is recognised that review will be dependent on coming out of Covid restrictions. To the extent that the proposed saving cannot be achieved until later in the year, this will be compensated from one-off resources (see paragraph 9).
- (b) Efficiency savings are anticipated from rationalising back office functions for collecting bus lane infringement penalties;
- (c) A saving of £25,000 will be made following a review of the conservation team establishment and consolidation of ecology duties;

- (d) Savings are forecast from the rationalisation of bring banks, particularly those most susceptible to anti-social behaviour. Whilst the number of sites will be reduced, approximately 20 sites where new bins would be installed have been selected taking into account feedback from the public consultation, access issues, existing levels of fly tipping (where applicable), space available and existing levels of usage;
- (e) Procurement savings on running costs have already been achieved.

6.12 The department continues to face (and expects to manage) pressures associated with waste, due chiefly to increased amounts of waste to be disposed of.

### Adult Social Care

6.13 Adult Social Care services nationally are facing severe cost pressures. This is recognised by the Government, although long-term solutions have been continually deferred (and now further deferred as a consequence of the pandemic). The Government has now stated that it expects to carry out a review “next year.”

6.14 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.

6.15 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 with a statutory entitlement).

6.16 In 2021/22 and beyond, the department continues to face significant demand led pressures:-

- (a) The growth in need of people already using services, resulting in additional support being added to their existing package of care;
- (b) Growth in numbers of people using services (both older people and working age adults with mental health conditions and learning disabilities);
- (c) The cost of meeting need, which is rising by more than inflation, due to the impact of continuing increases in the National Living Wage (NLW) which drives care costs. The NLW will increase by 2.2% in 2021/22 (less than previously anticipated); the Government intends it to reach two-thirds of median wages by 2025, which implies higher increases in future years.

6.17 The combination of the above pressures means the aggregate cost of social care packages is expected to increase by 12% in 2021/22. It is proposed to increase the budget for Adult Social Care by £10.2m in 2021/22 rising to £30.2m by 2022/23. Government support will meet some, but not all of these costs: although exact allocations are not yet confirmed, we expect to receive around £2m in additional grant

support. This is obviously considerably short of what the Council needs (permission to increase council tax by 5% will raise an additional £3.6m).

6.18 The following savings will be deducted from the budget (all of which have already been achieved):

	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>
Admin savings	140	140
Pension costs for TUPE'd staff	154	154
<b>Total Savings</b>	<b>294</b>	<b>294</b>

6.19 Work is taking place to reduce the burden of growing costs. This includes:

- (a) A deep dive analysis to understand trends in care;
- (b) Investment in technology enabled care (TEC) which experience elsewhere suggests has scope for significant savings;
- (c) Further strengthening of prevention.

Education and Children's Services

6.20 In common with authorities across the country, increasing demand for social care services has been putting considerable pressure on the budget of the department (and the Council).

6.21 The pandemic has however made no appreciable difference to demand for social care, although new demand may surface once restrictions are completely lifted.

6.22 £14m was added to the budget of the department in 2020/21, £3m of which was described as temporary in anticipation of savings. Consideration of these savings has been derailed by the pandemic, and the budget therefore proposes to make this growth permanent. That aside, the department currently believes that no new monies will be required to meet growth in demand.

6.23 The budget does, however, propose the following growth:-

	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>
SEN home to school transport	2,382	2,382
Special Education Service – additional resource	425	425
Connexions review not proceeding	241	241
<b>Total Growth</b>	<b>3,048</b>	<b>3,048</b>

6.24 The growth is described below:-

- (a) The budget for SEN transport has been under pressure for some time reflecting cost increases for both the in-house fleet service and taxis. This has been exacerbated by growth in user numbers arising from Education, Health and Care Plans (EHCPs). The amount of additional money required has been offset by savings expected from the use of individual Passenger Transport Budgets (PTBs) (£0.5m p.a.) and from a new taxi framework contract (£0.8m p.a.);
- (b) Additional funding has been provided for more staff in the Special Education Service to ensure timely preparation of EHCPs. We have seen a growth of 62% in the number of EHCPs since 2016 and there has been no permanent increase in staffing to deal with this;
- (c) The budget for 2020/21 assumed savings would arise from a review of the Connexions Service. Whilst review has taken place, reductions to the service have not been made due to the impact the savings would have on the service, particularly given the economic impact the pandemic is likely to have.

6.25 Work is taking place to reduce pressure in social care costs:-

- (a) Developing internal residential placements to reduce expensive external costs;
- (b) Developing a wider range of semi-independent placements;
- (c) Enhancing and promoting our foster care offer;
- (d) Developing an advanced foster carer scheme.

6.26 The recent introduction of therapy teams has secured a reduction in the number of care placements which would otherwise have been required, and is operating at full capacity.

6.27 In addition to the general fund, DSG budgets for higher needs pupils continue to be under severe pressure.

#### Health & Wellbeing

6.28 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 was maintained at current levels in 2020/21 (after inflation).

6.29 The future of Public Health Grant beyond 2021/22 is unclear – it is anticipated that it will eventually 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 and Social Care – the latter may wish to impose requirements on how former Public Health Grant is spent in the future.

6.30 The proposed budget includes the following growth:.

	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>
Business Manager	55	55
Statutory advice to CCGs	75	75
<b>Total Growth</b>	<b>130</b>	<b>130</b>

6.31 This growth is described below:-

- (a) The business manager post is essential to supplement existing capacity in the wake of the pandemic and recruitment is underway. If growth is not approved, compensating savings will need to be found;
- (b) A part time consultant is proposed to deliver public health care to fulfil our statutory duty to support CCGs, and to have senior public health influence and leadership of the Integrated Care System. This will ensure that the health economy prioritises tackling inequalities in the city and places much greater emphasis on primary and secondary prevention.

6.32 The sports service is expected to suffer continued loss of income in 2021/22, as users are hesitant to return following the pandemic. Additionally, the pandemic will delay achievement of the savings expected from the recent Spending Review (£0.6m). These costs will be met from one-off resources (see paragraph 9).

6.33 To provide funding for the above, the following savings are proposed:-

	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>
Contraception Services	100	100
Services for Children aged 0 to 19	0	200
Lifestyle Services	35	35
<b>Total Savings</b>	<b>135</b>	<b>335</b>

6.34 These savings are described below:-

- (a) Reduced levels of expenditure by GPs providing contraception services;
- (b) Savings are anticipated from the Children’s 0-19 contract with Leicestershire Partnership Trust, when it is renewed prior to 2022/23;

(c) Miscellaneous Lifestyle Services savings can be achieved through more efficient targeting of the promotion of healthy food and physical exercise within schools.

### Corporate Resources & Support

6.35 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.

6.36 The following growth is proposed:-

	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>
<b>Making Temporary Teams Permanent</b>		
Digital Transformation Team	660	660
Service Analysis Team	235	235
Smart Cities	250	250
Entrepreneurial Councils	125	125
Finance Projects Team	260	260
<b>Other Growth</b>		
Revenues & Benefits	250	250
Childcare & contract lawyers	469	469
<b>Total</b>	<b>2,249</b>	<b>2,249</b>

6.37 This growth is described below:-

- (a) A number of teams delivering new ways of working and modern services have been funded from annual savings achieved from other budgets, or departmental reserves. In line with our overall approach to 2021/22 (a transition year) it is proposed to build these costs into the main budget. These services are seen as enabling new approaches which will be critical as we plan for 2022/23;
- (b) Costs of the Revenue and Benefits Service are increasing due to difficulties in recruiting and retaining staff as the Government moves claimants onto Universal Credit, and continuing Government grant reductions;
- (c) Childcare and contract legal work has been underfunded compared to the growing volumes of work in these areas, and has previously been funded on a year by year basis.

6.38 The following savings are proposed:-

	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>
Finance Division Review	400	400
IT – efficiency savings	36	36
VCS infrastructure	50	100
<b>Total Savings</b>	<b>486</b>	<b>536</b>

6.39 These savings are described below:-

- (a) An organisational review of the Finance Division is taking place, to make further efficiency savings;
- (b) Efficiency savings can be achieved by IT Services, consequential to Spending Review 4 savings;
- (c) The VCS infrastructure contract will be re-procured with a view to achieving savings and to focusing the contract specifically on supporting the sustainability of the sector. This is in line with a VCS strategy which is in development, and in light of other activity which has been developed in recent years to support the VCS (such as crowdfunding). It will also build on the benefits of the volunteering, relationships and engagement approach which has been part of the Covid pandemic response.

## 7. **Corporately Held Budgets and Provisions**

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 **contingency** of £2m has been included in the budget, to manage significant pressures that arise during the year. This is particularly appropriate due to the level of uncertainty in the budget this year.

7.4 **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 recharges from the general fund to other statutory accounts of the Council (which are reducing over time). A provision is also held (as in previous years) for the implications of Government reform to the High Needs Block of DSG, although this will have the practical effect of reducing recharges.

## 8. Resources

8.1 This draft budget has been prepared before we have the local government finance settlement for 2021/22, and without knowing our precise grant allocations. We have therefore made estimates based on the national Spending Review published on 25<sup>th</sup> November. Given the level of uncertainty about the public finances in the future, the government has again produced a one-year Spending Review for 2021/22, and deferred a multi-year plan until the following year. We are expecting that the financial settlement for 2021/22 will largely roll forward existing funding allocations, with little reallocation between authorities.

### Business Rates Retention Scheme

8.2 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”.

8.3 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).

8.4 The planned reform to the funding system has now been delayed, so this draft budget is based on the 2020/21 settlement being rolled forward with an addition for inflation.

8.5 Forecasts of business rates income are particularly sensitive to assumptions about the length and severity of the economic downturn caused by the pandemic. The figures in this draft budget are based on the rates base as it stood at autumn (6 months into the pandemic), and assume a further reduction in yield of 2% (resulting in a reduction in income of £3m compared to the 2020/21 budget).

8.6 The government has recently announced that the rates multiplier will be frozen for 2021/22, which means that less income will be collected from ratepayers (compared



to our original assumptions). However, we will be reimbursed by government grant, so there should be no net effect on our budget.

### Council Tax

- 8.7 Council tax income is estimated at £127.8m in 2021/22, based on a tax increase of just below 5% (the maximum allowed without a referendum). The proposed tax increase 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.
- 8.8 The assumed taxbase for 2021/22 has reduced slightly since last year’s budget. This is largely the result of an increased provision for bad debt, as the ongoing economic effects of the pandemic will lead to more residents having difficulty in paying. There has also been an increase in the cost of the council tax support scheme during the pandemic (this had been consistently decreasing in previous years), and the increase will not be eradicated immediately the pandemic is over.

### Other grants

- 8.9 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.
  - 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 2021/22, the total funding nationally will be £1.8 billion (a £300 million increase from 2020/21). Our estimated share of this is around £12 million.

### Collection Fund surplus / deficit

- 8.10 Collection fund surpluses arise when more tax is collected than assumed in previous budgets. Deficits arise when the converse is true. This year, in common with authorities nationally, tax collection has significantly reduced during the Covid restrictions.
- 8.11 In 2020/21, as part of the response to the pandemic, the Government granted a raft of new rates reliefs to businesses: we have been compensated by Government grant. In itself, this has no net cost to the Council (in fact it is helpful because we do not have to recover monies from individual ratepayers). Due to accounting rules, the effect of

this in our accounts will look peculiar. For clarity, the figures in this report show the true underlying position.

- 8.12 Collection fund deficits are particularly difficult to predict this year, due to the uncertainty over the path of the pandemic. The initial estimates included in this draft budget will be reviewed in the light of more up-to-date information, before the final budget is presented to Council in February.
- 8.13 Under temporary rules introduced to deal with these income losses, the collection fund deficit arising in 2020/21 will be spread over the following three years. In addition, the government is proposing a scheme whereby local authorities will be funded for 75% of their irrecoverable losses on council tax and business rates.
- 8.14 The Council has an estimated **council tax collection fund deficit** of £4.9m, after allowing for shares paid to the police and fire authorities. This will be recovered between 2021/22 and 2023/24. The majority of this relates to reduced collection rates arising from the pandemic and lockdown, and assumptions made about how much will eventually be collected. If eventual collection rates are better than these assumptions, the additional amount will be brought back into the budget in future years. It also includes the estimated amount of additional council tax support which will be paid in 20/21.
- 8.15 The Council has an estimated **business rates collection fund deficit** of £1.8m (again, this will be recovered over 3 years). This is largely the result of an increased bad debt provision, as collection has declined during the pandemic and lockdown. Some however arises from additional exemptions for properties which have become vacant.

## 9. **Managed Reserves Strategy**

- 9.1 The pandemic and the change in our approach to the budget strategy has had a significant impact on our requirement for reserves. The amounts previously set aside to manage future budgets will largely be required to balance 2021/22 and to deal with pandemic pressures.
- 9.2 The Council has agreed to maintain a minimum balance of £15m of reserves. The new strategy does not propose to change this.
- 9.3 The Council also has a number of earmarked reserves, which are further discussed in section 10 below. Key amongst these was the managed reserves strategy which is dealt with below.

9.4 Since 2013, the Council has used a managed reserves strategy, 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. The pandemic has, in effect, made significant inroads into these reserves:

- (a) we are expecting that up to £20m will be required in 2020/21 to meet costs over and above Government grant we have received for the pandemic;
- (b) similarly, a sum of £10m has been set aside for one-off costs associated with the pandemic in 2021/22. This is likely to include income losses which are expected to persist, particularly car parking, sports and De Montfort Hall. The Government will make some grant funding available to local authorities for costs in 2021/22, but at this stage we have no way of knowing whether this will be sufficient.

9.5 Conversely, a review of earmarked reserves has resulted in £4.8m becoming surplus to requirements and has been added back to managed reserves.

9.6 The estimated reserves at the end of 2022/23 are shown below, and emphasise the need for a fundamental budget review as soon as possible:

	<b>£m</b>
Brought forward 1 <sup>st</sup> April 2020	66.8
Add transfers from earmarked reserves	4.6
Minus use planned in 2020/21 budget	(2.4)
Additional unfunded Covid costs	(20.0)
<b>Forecast carry forward 1<sup>st</sup> April 2021</b>	<b>49.0</b>
Required in 2021/22	(20.2)
Provision for Covid costs in 21/22	(10.0)
<b>Uncommitted balance for 22/23</b>	<b>18.8</b>

## 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.

10.3 Earmarked reserves are shown at Appendix Four.

## 11. **Medium Term Strategy**

11.1 Planning for the budget beyond 2021/22 is extremely difficult, as the government's spending plans for this period will not be announced until the middle of 2021 at the earliest. Nevertheless, we need to ensure the Council's finances are sustainable in the longer term. Best practice now requires us to include a medium term strategy, which is exceptionally difficult in the middle of a pandemic. A medium-term financial forecast is attached at Appendix Five to this report.

## 12. **Budget and Equalities**

12.1 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.

12.2 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.

12.3 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.

12.4 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.

12.5 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 any service changes will be undertaken when these decisions are developed.

12.6 While this report does not seek approval to any specific service proposals, it does recommend a proposed council tax increase for the city's residents. The City Council's

proposed tax for 2021/22 is £1,694.92, an increase of just below 5% compared to 2020/21. 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.

12.7 Whilst there has been some support specifically arising from the impact of Covid-19 it is unclear what support will be in place in 2021/22. Council officers should continue to ensure that if any additional or on-going support that is put in place in the future, efforts are made to ensure that all sections of the community are able to access the support that they are entitled to. This may involve ensuring that there are accessible and possibly targeted communications where there may be barriers to access.

12.8 A number of risks to the budget are addressed within this report, such as the impact of Covid-19, economic downturn, adult social care pressures, costs of looked after children, the impact of Brexit and the uncertainty of not knowing plans for local government funding for next year. If these risks are not mitigated effectively, there could be a disproportionate impact on people from particular protected characteristics backgrounds and therefore ongoing consideration of the risks and any potential disproportionate equalities impacts, as well as mitigations to address disproportionate impacts for those with a particular protected characteristics, is required.

### 13. **Risk Assessment and Adequacy of Estimates**

13.1 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.

13.2 In the current climate, it is inevitable that the budget carries significant risk, even more than in previous years. In my view, although very difficult, the budget for 2021/22 is achievable subject to the risks and issues described below.

13.3 The most significant risks in the 2021/22 budget include (but are not limited to) the ongoing effects of the coronavirus pandemic, which are affecting almost all areas of the Council's operations. However, there are also pre-existing pressures which continue to pose a risk to the financial position:

- (a) Adults social care spending pressures, specifically the risk of further growth in the cost of care packages;
- (b) The costs of looked after children, which have seen growth nationally. These have not been significantly impacted by the pandemic, but we may see pressure build again when restrictions end;
- (c) Continued shortfalls in service income, particularly in areas where service operation and demand have been affected by the pandemic. This includes sports and leisure facilities, De Montfort Hall and parking income;

- (d) If the economic downturn is longer or more severe than predicted, 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;
- (e) This draft budget has been prepared before we know the full details of funding for 2021/22, or the Government's plans for local authority funding for 2022/23;
- (f) The impact of Brexit, after the transition period ends on 31<sup>st</sup> December 2020, is yet to be seen.

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

- (a) A minimum balance of £15m reserves will be maintained;
- (b) A further £10m of reserves has been identified to support short-term losses from the Covid pandemic in 2021/22;
- (c) A contingency of £2m has been included in the budget for 2021/22;
- (d) A prudent estimate of reserves required in 2020/21 has been made.

13.5 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 2021/22, some exceptions are made, and it is believed that services will be able to manage without an allocation).

#### 14. **Consultation on the Draft Budget**

14.1 Comments on the draft budget will be 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.

14.2 Comments will be incorporated into the final version of this report.

#### 15. **Financial Implications**

15.1 This report is exclusively concerned with financial issues.

15.2 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.

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

- 16.1 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.
- 16.2 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.
- 16.3 As well as detailing the recommended council tax increase for 2021/22, 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.
- 16.4 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 will undertake tailored consultation exercises with wider stakeholders.
- 16.5 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 12. 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. Where savings are anticipated, equality assessments will be prepared as necessary. Directors and the City Mayor have freedom to vary or abort proposals under the scheme of virement where there are unacceptable equality consequences. 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.

16.6 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.

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## Appendix One

### Budget ceilings

	2020/21 budget (revised)	Non- pay inflation	Spending Reviews already approved	Growth from budget reviews	Savings from budget reviews	2021/22 budget ceiling
<b><u>1. City Development &amp; Neighbourhoods</u></b>						
<b><u>1.1 Neighbourhood &amp; Environmental Services</u></b>						
Divisional Management	271.4					271.4
Regulatory Services	3,005.1					3,005.1
Waste Management	17,534.1				(25.0)	17,509.1
Parks & Open Spaces	3,891.3					3,891.3
Neighbourhood Services	5,761.3		(255.0)		(60.0)	5,446.3
Standards & Development	1,632.3					1,632.3
<b><i>Divisional sub-total</i></b>	<b>32,095.5</b>	<b>0.0</b>	<b>(255.0)</b>	<b>0.0</b>	<b>(85.0)</b>	<b>31,755.5</b>
<b><u>1.2 Tourism, Culture &amp; Inward Investment</u></b>						
Arts & Museums	4,064.9			95.0		4,159.9
De Montfort Hall	550.4					550.4
City Centre	178.6					178.6
Place Marketing Organisation	377.8					377.8
Economic Development	26.4		(80.0)			(53.6)
Markets	(391.1)			250.0		(141.1)
Adult Skills	(870.4)					(870.4)
Divisional Management	181.0					181.0
<b><i>Divisional sub-total</i></b>	<b>4,117.6</b>	<b>0.0</b>	<b>(80.0)</b>	<b>345.0</b>	<b>0.0</b>	<b>4,382.6</b>
<b><u>1.3 Planning, Transportation &amp; Economic Development</u></b>						
Transport Strategy	9,897.2		(50.0)		(550.0)	9,297.2
Highways	3,466.4					3,466.4
Planning	1,000.8				(25.0)	975.8
Divisional Management	134.4					134.4
<b><i>Divisional sub-total</i></b>	<b>14,498.8</b>	<b>0.0</b>	<b>(50.0)</b>	<b>0.0</b>	<b>(575.0)</b>	<b>13,873.8</b>
<b><u>1.4 Estates &amp; Building Services</u></b>	<b>4,667.1</b>		<b>(75.0)</b>	<b>1,500.0</b>		<b>6,092.1</b>
<b><u>1.5 Housing Services</u></b>	<b>2,591.8</b>			<b>750.0</b>		<b>3,341.8</b>
<b><u>1.6 Departmental Overheads</u></b>						
School Organisation & Admissions	452.7					452.7
Overheads	568.3					568.3
<b><i>Divisional sub-total</i></b>	<b>1,021.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1,021.0</b>
<b>DEPARTMENTAL TOTAL</b>	<b>58,991.8</b>	<b>0.0</b>	<b>(460.0)</b>	<b>2,595.0</b>	<b>(660.0)</b>	<b>60,466.8</b>

## Appendix One

### Budget ceilings

	<b>2020/21 budget (revised)</b>	Non- pay inflation	Spending Reviews already approved	Growth from budget reviews	Savings from budget reviews	<b>2021/22 budget ceiling</b>
<b><u>2. Adults</u></b>						
<b><u>2.1 Adult Social Care &amp; Safeguarding</u></b>						
Other Management & support	728.2					728.2
Safeguarding	146.1					146.1
Preventative Services	6,547.8					6,547.8
Independent Sector Care Package Costs	109,171.0	2,285.5	(70.0)	10,200.0		121,586.5
Care Management (Localities)	6,890.1					6,890.1
<b><i>Divisional sub-total</i></b>	<b>123,483.2</b>	<b>2,285.5</b>	<b>(70.0)</b>	<b>10,200.0</b>	<b>0.0</b>	<b>135,898.7</b>
<b><u>2.2 Adult Social Care &amp; Commissioning</u></b>						
Enablement & Day Care	3,012.9					3,012.9
Care Management (LD & AMH)	5,011.3					5,011.3
Preventative Services	1,382.7				(90.0)	1,292.7
Contracts, Commissioning & Other Support	5,515.9				(50.0)	5,465.9
Departmental	(31,130.1)				(154.0)	(31,284.1)
<b><i>Divisional sub-total</i></b>	<b>(16,207.3)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(294.0)</b>	<b>(16,501.3)</b>
<b>DEPARTMENT TOTAL</b>	<b>107,275.9</b>	<b>2,285.5</b>	<b>(70.0)</b>	<b>10,200.0</b>	<b>(294.0)</b>	<b>119,397.4</b>
<b><u>3. Education &amp; Children's Services</u></b>						
<b><u>3.1 Strategic Commissioning &amp; Business Support</u></b>						
	<b>1,296.0</b>					<b>1,296.0</b>
<b><u>3.2 Learning Quality &amp; Performance</u></b>						
Raising Achievement	494.8					494.8
Learning & Inclusion	1,055.7			241.0		1,296.7
Special Education Needs and Disabilities	9,499.8			2,807.0		12,306.8
<b><i>Divisional sub-total</i></b>	<b>11,050.3</b>	<b>0.0</b>	<b>0.0</b>	<b>3,048.0</b>	<b>0.0</b>	<b>14,098.3</b>
<b><u>3.3 Children, Young People and Families</u></b>						
Children In Need	11,235.0					11,235.0
Looked After Children	43,270.3	202.1				43,472.4
Safeguarding & QA	2,375.3					2,375.3
Early Help Targeted Services	5,355.3					5,355.3
Early Help Specialist Services	3,174.3					3,174.3
<b><i>Divisional sub-total</i></b>	<b>65,410.2</b>	<b>202.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>65,612.3</b>
<b><u>3.4 Departmental Resources</u></b>	<b>(1,957.4)</b>			3,000.0		<b>1,042.6</b>
<b>DEPARTMENTAL TOTAL</b>	<b>75,799.1</b>	<b>202.1</b>	<b>0.0</b>	<b>6,048.0</b>	<b>0.0</b>	<b>82,049.2</b>

## Appendix One

### Budget ceilings

	<b>2020/21 budget (revised)</b>	Non- pay inflation	Spending Reviews already approved	Growth from budget reviews	Savings from budget reviews	<b>2021/22 budget ceiling</b>
<b><u>4. Health and Wellbeing</u></b>						
Adults' Services	8,984.7				(100.0)	<b>8,884.7</b>
Children's 0-19 Services	8,544.5					<b>8,544.5</b>
Lifestyle Services	1,222.2				(35.0)	<b>1,187.2</b>
Staffing & Infrastructure & Other	2,134.4			130.0		<b>2,264.4</b>
Sports Services	2,493.7		(650.0)			<b>1,843.7</b>
<b>DEPARTMENT TOTAL</b>	<b>23,379.5</b>	<b>0.0</b>	<b>(650.0)</b>	<b>130.0</b>	<b>(135.0)</b>	<b>22,724.5</b>
<b><u>5. Corporate Resources Department</u></b>						
<b><u>5.1 Delivery, Communications &amp; Political Governance</u></b>	<b>5,960.1</b>			1,035.0	(50.0)	<b>6,945.1</b>
<b><u>5.2 Financial Services</u></b>						
Financial Support	4,735.5			495.0	(400.0)	<b>4,830.5</b>
Revenues & Benefits	6,412.4			250.0		<b>6,662.4</b>
<b><i>Divisional sub-total</i></b>	<b>11,147.9</b>	<b>0.0</b>	<b>0.0</b>	<b>745.0</b>	<b>(400.0)</b>	<b>11,492.9</b>
<b><u>5.3 Human Resources</u></b>	<b>3,952.3</b>					<b>3,952.3</b>
<b><u>5.4 Information Services</u></b>	<b>9,190.3</b>		(17.0)		(36.0)	<b>9,137.3</b>
<b><u>5.5 Legal Services</u></b>	<b>2,745.2</b>			469.0		<b>3,214.2</b>
<b>DEPARTMENTAL TOTAL</b>	<b>32,995.8</b>	<b>0.0</b>	<b>(17.0)</b>	<b>2,249.0</b>	<b>(486.0)</b>	<b>34,741.8</b>
<b>TOTAL -Service Budget Ceilings</b>	<b>298,442.1</b>	<b>2,487.6</b>	<b>(1,197.0)</b>	<b>21,222.0</b>	<b>(1,575.0)</b>	<b>319,379.7</b>
<b>less public health grant</b>	<b>(26,599.0)</b>					<b>(26,599.0)</b>
<b>add provision for pay award</b>						<b>700.0</b>
<b>NET TOTAL</b>	<b>271,843.1</b>	<b>2,487.6</b>	<b>(1,197.0)</b>	<b>21,222.0</b>	<b>(1,575.0)</b>	<b>293,480.7</b>

**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 2021/22 pay award;
  - (c) The City Mayor may determine how the contingency can be applied.

**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.

## Equality Impact Assessment

### 1. Purpose

1.1 This appendix presents the equalities impact of a proposed 4.99% council tax increase.

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

2.1 As at October 2020, there are 129,850 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. For 2021/22, some additional relief is also expected to be given, which the Government will fund as part of its response to the Covid pandemic. Details are not yet known.

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

### 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. It disregards any additional Covid-related relief.

Band	No. of Properties	Weekly increase	Minimum Weekly Increase under CTSS
A-	267	£0.86	£0.17
A	77,269	£1.03	£0.21
B	25,803	£1.20	£0.24
C	14,833	£1.38	£0.41
D	6,181	£1.55	£0.58
E	3,351	£1.89	£0.93
F	1,518	£2.24	£1.27
G	591	£2.58	£1.62
H	37	£3.10	£2.13
<b>Total</b>	<b>129,850</b>		

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.

3.2 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 £62.76; the minimum annual increase for households eligible under the CTSS would be £12.55 (for a working-age household, and excluding the impact of any other discounts).

- 3.3 In most cases, the change in council tax (around £1.20 per week for a band B property with no discounts; and less than 25p per week if eligible for the full 80% reduction under the CTSS) 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 Many households at all levels of income have seen significant income shocks due to the coronavirus pandemic and the economic downturn. However, to date, these have been partly cushioned by national policies including furlough and self-employment support schemes, the £20/week increase to universal credit, and mortgage payment holidays. As these policies draw to an end, some households' disposable income is likely to fall further.
- 3.5 It is difficult at this stage to know where these pressures will fall in future, but it is likely that some protected groups will see greater impacts. Up to September, there were higher rates of job losses among younger people; Black, Asian and minority ethnic groups; and lower-paid workers<sup>1</sup>.
- 3.6 Ongoing welfare system reforms will also have a disproportionate effect on some lower-income groups, in particular the rollout of Universal Credit. Research before the pandemic by the Joseph Rowntree Foundation (JRF) has identified certain groups who are particularly likely to be on a low income<sup>2</sup> 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).

#### 4. **Alternative options**

- 4.1 Whilst the current budget does not propose significant reductions to services, this is very much a holding position due to the pandemic. Cuts in future years are believed to be inevitable. Without a council tax increase, or with a lower council tax increase, over time there would have to be greater cuts to services. A reduced tax increase would represent a permanent diminution of our income unless we hold a council tax referendum in a future year. In my view, such a referendum is unlikely to support a higher tax rise. It would also require a greater use of reserves (which are then unavailable to spend on services) or cuts to services in 2020/21. Whilst there is a Government suggestion that the ASC precept may be capable of being phased over more than one year, we do not have the details or understand the implications.
- 4.2 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. Over half of the increase (3% of the proposed 5%) is for the Social Care precept, which is specifically to support the increasing cost pressures in these areas.

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<sup>1</sup> *Jobs, Jobs, Jobs: Evaluating the effect of the current economic crisis on the UK labour market*, Resolution Foundation, October 2020

<sup>2</sup> *A Minimum Income Standard for the United Kingdom in 2019*, JRF, July 2019; updated July 2020.

## 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, Council Tax Discretionary Relief and Community Support Grant awards; 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.
- 5.2 In the November Spending Review, the government announced additional funding in 2021/22 to support households that are least able to afford council tax. Details of this had not been made available at the time of writing; but it is hoped that this will allow us to further reduce the impact on low-income households.

## 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:
<b>Age</b>	<p>Older people are least affected by a potential increase in council tax. Older people (pension age &amp; older) have been relatively protected from the impacts of the recession &amp; 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 in due course. 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.</p> <p>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. There is some evidence that low-paid workers, and younger people, have been more likely to lose their jobs in the pandemic.</p>	<p>Working age households and families with children – incomes squeezed through low wages and reducing levels of benefit income.</p> <p>Younger people more likely to have faced job losses in the pandemic.</p>	<p>Access to council discretionary funds for individual financial crises; access to council and partner support for food; and advice on managing household budgets.</p>
<b>Disability</b>	<p>Disability benefits have been reduced over time as thresholds for support have increased.</p> <p>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 in due course. 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.</p>	<p>Further erode quality of life being experienced by disabled people as their household incomes are squeezed further as a result of reduced benefits.</p>	<p>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.</p>

Protected characteristic	Impact of proposal:	Risk of negative impact:	Mitigating actions:
<b>Gender Reassignment</b>	No disproportionate impact is attributable specifically to this characteristic.		
<b>Pregnancy and Maternity</b>	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.		
<b>Race</b>	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. There is some evidence that minority ethnic groups have been more likely to face job losses in the pandemic.	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.
<b>Religion or Belief</b>	No disproportionate impact is attributable specifically to this characteristic.		
<b>Sex</b>	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.
<b>Sexual Orientation</b>	No disproportionate impact is attributable specifically to this characteristic.		

## Appendix Four

### Earmarked Reserves

1. The table below shows the current position on our Earmarked Reserves, these balances will be different at the end of the year. These figures take account of the release of £4.6m from departmental reserves to support the managed reserves strategy:

	<b>Current Balance £000</b>
<b><u>Ring-fenced Reserves</u></b>	
School Balances	14,740
DSG not delegated to schools	5,577
School Capital Fund	2,750
Schools Buy Back	2,486
Education & Skills Funding Agency Learning Programmes	863
Arts Council National Portfolio Organisation Funding	822
<b>Subtotal Ring-fenced Reserves</b>	<b>27,238</b>
<b><u>Departmental Earmarked Reserves</u></b>	
Children's Services Pressures	8,820
Social Care Reserve	8,322
ICT Development Fund	6,265
City Development & Neighbourhoods	5,161
Delivery, Communications & Political Governance	2,971
Health & Wellbeing Division	2,888
Financial Services Reserve	2,849
NHS Joint Working Projects	2,483
Housing	2,118
Other Departmental Reserves	464
<b>Subtotal Departmental Reserves</b>	<b>42,341</b>
<b><u>Corporate Reserves</u></b>	
Managed Reserves Strategy	69,055
Capital Programme Reserve	57,666
Covid 19 Grants	10,849
Insurance Fund	8,519
BSF Financing	7,493
Welfare Reserve	5,505
Severance Fund	4,821
Service Transformation Fund	3,730
Other Corporate Reserves	4,537
<b>Subtotal Corporate Reserves</b>	<b>172,175</b>
<b>Total Earmarked Reserves</b>	<b>241,754</b>

2. Earmarked reserves can be divided into ring-fenced reserves, which are funds 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.
3. Ring-fenced reserves include:-
  - Reserves for schools:
    - School Capital Fund
    - Schools Buyback
    - Dedicated Schools Grant
    - Schools balances
  - Two smaller reserves held because grant funding has been received to fund specific schemes.
4. Departmental reserves include amounts held by service departments to fund specific projects or identified service pressures. Significant amounts include:-
  - **Children's Services:** to balance the 2020/21 and future years' budgets.
  - **Social Care Reserve:** to assist in the management of budget pressures in adults' and children's social care.
  - **ICT Development Fund** this reserve funds a rolling programme for network and server upgrades and replacement of PC stock. It also includes funding put aside at the 2019/20 outturn to fund initiatives to make our ICT more resilient and improve the remote working offer.
  - **City Development and Neighbourhoods:** to meet known additional pressures, including one off costs associated with highways functions and the cost of defending planning decisions.
  - **Health & Wellbeing:** to support service pressures, channel shift and transitional costs. As part of the review of departmental reserves, £1.2m has been released to the Managed Reserves Strategy.
  - **Delivery, Communications & Political Governance:** This reserve was principally setup for the funding of the Digital Transformation Team and other temporary staffing costs. As part of this report, the cost of these teams is being included in the base budget, thus releasing £1.6m to the Managed Reserves Strategy. The remaining balance relates to elections and other projects within the department.
  - **Financial Services:** for expenditure on improving the Council's finance systems; spikes in benefit processing and overpayment recovery; and to mitigate budget pressures including reducing grant income to the Revenues & Benefits service. The balance is net of £1.2m which has been released from this reserve, which was previously funding specific

teams that have now been included as permanent growth to the budget as part of this report.

- **NHS joint working projects:** for joint projects with the NHS.
- **Housing:** predominantly held to meet spikes in bed & breakfast costs and government funding to support recent arrivals to the city.
- **Other** this includes a number of smaller departmental reserves. £0.3m has been transferred to the Managed Reserves Strategy as posts in Legal Services have now been included in the budget. In addition, a number of smaller reserves have been reviewed releasing £0.3m to the Managed Reserves Strategy.

5. Corporate reserves include:-

- **Managed Reserves Strategy:** a key element to delivering this budget strategy, as set out in paragraph 9 of the main report;
- **Capital Programme Reserve:** to support approved spending on the Council's capital programme;
- **Covid 19 Grants** are grants received from the Government to meet the costs of the pandemic. This is not the full amount of the grants – just the ones received in March which we are required to treat as earmarked reserves;
- **Insurance Fund:** to meet the cost of claims which are self-insured;
- **BSF Financing:** to manage costs over the remaining life of the BSF scheme and lifecycle maintenance costs of the redeveloped schools;
- **Welfare Reserve:** set aside to support welfare claimants who face crisis, following the withdrawal of government funding; together with providing welfare support more generally, which includes any long term implications of the Covid-19 pandemic;
- **Severance Fund:** to facilitate ongoing savings by meeting the redundancy and other costs arising from budget cuts;
- **Service Transformation Fund:** to fund projects which redesign services enabling them to function more effectively at reduced cost;
- **Other reserves:** includes monies for “spend to save” schemes that reduce energy consumption, the combined heat and power reserve, and the surplus property reserve which is used to prepare assets for disposal.

## Appendix Five

### Medium Term Financial Outlook 2022/23 – 2023/24

1. A one-year budget has been presented for 2021/22. After March 2022, we have (at the time of writing) very little certainty about funding arrangements or the future economic outlook. As a result, medium-term planning is a somewhat precarious exercise.
2. Our central forecasts for the period up to 2023/24 are set out in the table below. The key assumptions (and the associated risks and uncertainties) are further explained below.

	2021/22 £m	2022/23 £m	2023/24 £m
Net service budget (including inflation)	293.5	320.2	347.3
Corporate and other centrally held budgets	8.0	8.5	8.9
Contingency	2.0		
Planning provision		3.0	6.0
<b>Expenditure total</b>	<b>303.5</b>	<b>331.7</b>	<b>362.2</b>
Business rates income	62.2	63.7	64.3
Top-up payment	48.0	48.9	49.8
Revenue Support Grant	29.0	29.6	30.1
Less assumed future cuts		(5.0)	(10.0)
Council Tax	127.8	131.1	135.0
Collection Fund Deficit 2020/21 (phased)	(2.4)	(2.2)	(2.2)
Govt support toward deficit	1.8	1.7	1.7
Social care support	12.0	21.0	30.0
New Homes Bonus	4.9	3.9	2.9
<b>Income Total</b>	<b>283.3</b>	<b>292.7</b>	<b>301.6</b>
<b>Budget gap</b>	<b>20.2</b>	<b>39.0</b>	<b>60.6</b>

#### Expenditure

3. The expenditure budgets above include the unavoidable cost pressures, and achievable savings, set out in section 6 of the main budget report. No further savings are assumed, so any additional savings will help close the gap. The estimated cost of pay awards is included, as is non-pay inflation on unavoidable costs in social care and the waste management contract. A planning provision of £3m per year in each of 2022/23 and 2023/24 has been included towards any future unavoidable cost pressures.

4. There are several areas where expenditure pressures may exceed these forecasts. These include:
- The costs of care packages in Adult Social Care, if demand increases above our forecasts or there are unavoidable cost pressures such as unexpected further increases to the National Minimum Wage;
  - Further growth in demand-led Children's Social Care costs;
  - Potential shortfalls in service income, if demand does not return to pre-pandemic levels by the end of 2022/23;
  - A prolonged economic downturn is likely to increase demand across a range of services.

#### Income

5. We assume that council tax increases will continue to be restricted by the referendum rules, although we do not yet know the rules after 2021/22. For planning purposes, the table above assumes council tax increases of 2% per year; and that council tax collection rates return to previous levels by 2023. If the economic downturn is longer, or more severe, than our projections this will have a further effect on income.
6. The rates forecasts presented above assume no substantial changes to the funding we receive. The government has proposed significant reforms to the funding system, although these have now been delayed several times. These include 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.
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. For planning purposes, the budget figures for 2022/23 and 2023/24 assume additional real-terms cuts of £5 million per year each 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.
9. A longer or more severe economic downturn will also pose a risk to income projections. This could result in new cuts to grant; falling business rate

income; and increased cost of council tax reductions for taxpayers on low incomes.

10. The assumed additional funding for social care (increasing by £9m per year from 2022/23) is also very uncertain. While the government has long acknowledged the need for further support to the social care sector, no detailed proposals have been published. (In practice, further support may come via a combination of direct grant, the ability to raise council tax further, and other mechanisms, but is shown here as grant for clarity).

#### Summary of medium-term projections

11. The projections above show a significant – and increasing – funding gap over the next three years. There are substantial risks to these projections, which are based on an assumption of a relatively quick economic recovery and limited additional cuts imposed by government. Even on the more optimistic projections, available reserves will no longer be able to meet this gap beyond 2021/22, and additional deep cuts will be required.
12. This emphasises the need to make a prompt start on the financial review required prior to 2022/23.