

Council

Date: 23rd February 2022

Revenue Budget 2022/23

Lead director: Director of Finance



Useful information

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- Report version number: 1

1. **Purpose**

- 1.1 The purpose of this report is to present the City Mayor's proposed budget for 2022/23 and to describe the future outlook for the Council's budget.
- 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 The budget for 2022/23 has been preceded by ten years of austerity between 2010 and 2020, and a "stop-gap" budget in 2021/22 which was occasioned by the Covid pandemic.
- 2.2 Since 2010, the Council has been forced by government cuts to make substantial savings in its budgets, whilst simultaneously making more money available for social care. By 2020, the budget for services other than social care had been cut by 50% in real terms.
- 2.3 The Council's previous approach to achieving budget reductions was based on the following approach:
 - (a) An in-depth review of discrete service areas (the "Spending Review Programme"); and
 - (b) Building up reserves in order to "buy time" to avoid crisis cuts and to manage the Spending Review Programme effectively. We termed this the "Managed Reserves Strategy."
- 2.4 The Spending Review approach served us well: savings of nearly £50m were made between 2014 and 2020, and left the Council with a relatively healthy level of reserves at the start of 2021 (compared to other authorities).
- 2.5 The budget for 2021/22 was set in the middle of the Covid pandemic. It was recognised that a significant programme of savings could not be delivered at that time. As a consequence:
 - (a) The budget for 21/22 was balanced using reserves. It was effectively a "standstill" budget representing the underlying position before any further cuts;

- (b) We “drew a line” under the Spending Review Programme;
 - (c) It was anticipated that significant additional savings would be required beyond 2021/22, to ensure future financial sustainability.
- 2.6 The outlook for the medium term, at the time the 2021/22 budget was set, was unknown.
- 2.7 The budget outlook for 2022/23 and beyond has been established by the Comprehensive Spending Review, published in October 2021; and by the local government finance settlement published in December. As a consequence we believe, without further action, we face an increasing and unsustainable budget gap in future years.
- 2.8 In September, the Government published “Build Back Better - Our Plan for Health and Social Care” which promises reforms to social care, principally to limit the amounts users will have to pay towards their own care over their lifetimes. Funding has been announced, totalling £3.6 billion over the next three years for local government, although we do not yet have full details and have reason to believe it will prove to be insufficient.
- 2.9 The local government finance settlement provided some additional funding for authorities in 2022/23. Our share of this increased funding is £11m – insufficient to cover the cost pressures we face, and a large proportion of this funding has been provided on a one-year-only basis.
- 2.10 Forward planning is made more difficult because the finance settlement covered one year only. The government is considering reforms to local government financing that could have a significant impact on our budget (positive or negative) in future years. More details are given in Appendix Four.
- 2.11 As a result of past processes and firm action taken by the Council to balance earlier budgets, our reserves remain healthier than many authorities’. This will enable us to balance the budget for 2022/23 without crisis cuts.
- 2.12 The budget for 2022/23 has therefore been constructed as follows:
- (a) Increases to budgets have been made where absolutely essential to maintain service provision. In practice, this amounts to £22m for adult social care and special education services;
 - (b) Where departments have identified efficiency savings which can be achieved from management action, these have been built into budgets.
 - (c) The budget has been balanced using £24m of reserves.

- 2.13 Unfunded social care pressures present a severe threat to the financial sustainability of the Council. The City Mayor has made this case strongly to the Government.
- 2.14 Some services continue to experience income shortfalls arising from the pandemic. The key areas are car parking and bus lane enforcement. Funding has been received from the Government to help meet these pressures in 2021/22, but none is expected in 2022/23. Departments have identified potential pressures of some £4m, and a one off sum has been set aside to meet these pressures.
- 2.15 The budget proposes a tax increase of just under 3%, which is the maximum we are allowed without a referendum.
- 2.16 The medium term outlook is attached as Appendix Four and shows the escalating scale of the financial pressures facing the council.

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 2022/23 which will be circulated separately;
 - (b) note comments received on the draft budget from scrutiny committees (circulated separately) and other partners (summarised in Appendix Six);
 - (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 2022/23, 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;
 - (g) note the medium-term financial strategy and forecasts presented at Appendix Four, and the significant financial challenges ahead.

4. **Budget Overview**

- 4.1 The table below summarises the proposed budget for 2022/23 (summary projections for a three-year period are included in the medium term strategy at Appendix Four):

	2022/23 £m
Service budget ceilings	322.4
Corporate Budgets	
Capital Financing	6.4
Miscellaneous Corporate Budgets	1.2
Contingency	2.0
Total forecast spending	332.0
Rates retention scheme:	
Business rates income	67.8
Top-up payment	50.7
Revenue Support Grant	29.9
Other resources:	
Council Tax	134.4
Collection Fund deficit	(3.3)
Social Care grants	17.7
Services grants	7.8
New Homes Bonus	2.8
Total forecast resources	307.8

Underlying gap in resources	24.2
Proposed funding from reserves	(24.2)
Gap in resources	NIL

- 4.2 The budget position has improved since the draft budget was published in December but still requires substantial reserves to balance. The main reasons for this improvement are more funding than expected in the 2022/23 finance settlement, higher estimates for investment income as interest rates have risen, and increased local tax income (both council tax and business rates) expected as the economy recovers. Offset against this is an extra £1m in the contingency in recognition of growing inflation pressures.

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”); 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 2022/23 is £1,745.74, an increase of just under 3% compared to 2021/22.
- 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 2021/22). 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, 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 In early February, the government announced additional support to households of £150 per property in council tax bands A to D, as part of their response to rising energy costs. This will be paid as a grant to eligible households, and does not affect the council tax income figures in this report.
- 5.7 The Police and Crime Commissioner and Combined Fire Authority will set their precepts in February 2022. The formal resolution will set out the precepts issued for 2022/23, together with the total tax payable in the city.

6. **Departmental Budget Ceilings**

- 6.1 Budget ceilings have been prepared for each service, 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);
 - (b) An allowance for non-pay inflation has been added to the budgets for independent sector adult social 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. Should the current levels of inflation persist, the contingency is available if required;
 - (c) Unavoidable growth has been built into the budget, as described in the sections below. This includes provision for the increase in employers’ national insurance rates which the Government has announced, to pay for social care reform;
 - (d) Where savings are achievable through management action, these have been deducted.
- 6.2 The proposed budget ceilings are set out in Appendix One.

- 6.3 At the time of writing, the local government pay awards for 2021/22 and 2022/23 have not been finalised. A provision is held centrally to fund this (and is shown within the “service budgets” line in the table above, as it will eventually be transferred to the relevant budget ceilings). The budget assumes pay awards of 1.75% in 2021/22, in line with the offer made by local government employers; and 2.5% in 2022/23.
- 6.4 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.

Adult Social Care

- 6.5 Adult social care services nationally have been facing severe cost pressures for some years, and these are expected to continue. In our own case, we anticipate cost growth of £18m in 2022/23, accelerating in future years, as a consequence of rising numbers of older and younger adults requiring care, increases in the level of need of the average care recipient, pressure on providers due to National Living Wage increases, and difficulties in recruiting and retaining staff in the face of stiff competition from other sectors.
- 6.6 The government has generally responded to these pressures on an ad-hoc basis, making one-off resources available year by year. Over recent years, this has averaged an additional £8m per year, from a combination of one-off grant sources, and council tax increases via the “adult social care precept.”
- 6.7 On 7th September, the government announced a number of reforms to the way social care will be funded, chiefly limiting the amount individuals will have to contribute to their own care. An additional 1.25% has been added to employers’ (and employees’) national insurance rates to provide funding for these reforms, although the majority of the money raised will go to the NHS initially. In the recent Comprehensive Spending Review, £3.6 billion was provided for local government’s costs over the years 2022-23 to 2024-25.
- 6.8 It is not yet known whether the new monies will be sufficient to meet the new costs. In particular, it is assumed that the government will not compensate authorities for the cost of national insurance rises for the staff of care providers, which will inevitably be passed on to us.
- 6.9 Some additional funding for the cost of demographic growth and other pressures has been made available, via an increase to the Social Care grant worth £4.6m and additional Better Care Fund monies of £0.5m. We have also been permitted to increase council tax to 3% instead of the standard 2%, which raises an additional £1.3m. We do not yet know what additional monies will be available in 2023/24 and 2024/25, but the Comprehensive Spending Review suggests there will be no more government money nationally. This presents a substantial challenge to the authority, and is the prime cause of the looming cuts described in the medium term outlook.

6.10 The proposed budget includes the following growth for adult social care:

	2022/23	2023/24
	£000	£000
Growth in cost of care packages	17,487	41,977
NI cost increases falling on care sector	500	500
Limitation of individual contributions to care costs	400	400
	<hr/>	<hr/>
	18,387	42,877
Less measures to reduce package cost increases	(1,927)	(1,927)
Less increased iBCF	(515)	(515)
Net Growth	<hr/> 15,945	<hr/> 40,435

6.11 Predicting future costs of care packages has been made more difficult because of the effects of the pandemic and its aftermath. In 2020/21, requests for adult social care support fell as people were reluctant to enter residential care or to invite carers into their homes. It is assumed that, in 2022/23, cost growth will return to trend:

- (a) a 3% per year increase in the number of older people, and a 5% increase in the numbers of working age people requiring support;
- (b) An increase in the in-year average cost of existing care packages of 6% per year;
- (c) The impact of a National Living Wage increase to £9.50, announced in the Comprehensive Spending Review. This must be paid by care sector providers, and the cost will inevitably be passed on to local authorities.

6.12 As described at paragraph 2.13, such is the significance of unfunded social care pressures that they affect the financial viability of the whole council, and underpin the need to achieve savings of £40m per year as described in the medium term financial strategy. As the care package projections in the table above reflect uncertainty caused by the pandemic, it is proposed to carry out an early review in 2022/23 (in advance of the normal monitoring cycle) and adjust the budget accordingly if needs be.

6.13 In addition to package growth, money needs to be provided for:

- (a) The expected amount we will need to pay to compensate care providers for their national insurance increases;
- (b) Loss of income due to limitation of increases in the level of contribution made by individuals towards the cost of the care they receive, which will arise because of increases in the minimum income guarantee.

6.14 In order to reduce overall cost increases, the department is taking further measures to reduce costs. These include:

- (a) Reviewing existing packages of care;

- (b) Exploring the use of technology prior to putting a package of care in place.
- 6.15 These measures are expected to reduce the overall level of growth by £1.9m per year. The overall growth has also been reduced by a £0.5m increase in the Improved Better Care Fund (iBCF) grant received.

Education and Children's Services

- 6.16 In common with authorities across the country, increased demand for children's social care services has created substantial budget pressure for many years.
- 6.17 It is difficult to make accurate forecasts about spending need in 2022/23 and beyond, due to the distorting effect of the pandemic and its aftermath. At the time of preparing the 2021/22 budget, the pandemic had made no appreciable difference to demand for social care and early help (rather unexpectedly), although the number of entrants to the service started to increase in the second half of 2020/21. This led to a cost pressure which was compounded by court delays, delaying young people who were ready to leave the service. Consequently, the population of children who are looked after on 1st April 2021 was higher than budgeted.
- 6.18 A forecast of placement costs in 2022/23 has been made, which assumes the number of entrants to the care system stabilises at 150 per year, with existing preventative therapy teams being used to their full extent. On this basis, pressures on the overall budget are estimated to be £1.3m in 2022/23. However, given the current level of uncertainty, it is proposed to fund this cost from earmarked social care reserves rather than building growth into the budget. The position will be reviewed when the situation has settled down post-pandemic.
- 6.19 Work has taken place to create a wider range of semi-independent provision than we previously had, and to enhance the foster care offer and sustain foster carer numbers. Further measures are being taken to reduce placement costs:
- (a) Regular review of long-term and high cost placements;
 - (b) Development of additional internal residential homes to mitigate against independent sector price increases;
 - (c) Development of an advanced foster carer scheme to look after children with more complex needs.
- 6.20 Growth for the Education and Children's Services budget is, however, proposed in respect of areas related to education services:
- (a) The need for additional resources to deal with an ever-growing number of requests for education, health and care plans (EHCPs), driven in part as a result of the pandemic, something other local authorities are also experiencing;
 - (b) Deficiencies in the budget for special educational needs transport, where savings were not achieved following the abandonment of a fixed rate taxi procurement contract. A new contract is now being procured, which will be

implemented from April 2022. Work is also taking place to further promote the use of personal budgets and thereby reduce the need for taxi provision.

6.21 The budget makes provision for the following additional monies:

	2022/23	2023/24
	£000	£000
SEN transport	2,948	2,948
Special Education Service staffing	562	562
Total Growth	3,510	3,510

6.22 In addition to the General Fund budget, Dedicated Schools' Grant (High Needs Block) budgets for children and young people with special educational needs and disabilities continue to be under severe pressure.

City Development and Neighbourhoods

6.23 Normally, the department's costs are reasonably predictable, when compared to social care. This year, however, forecasting is more difficult because the department's income continues to suffer from the effect of the pandemic; it is difficult to anticipate when income will return to normal levels (or if, indeed, it will do so at all for some sources). The position has, however, improved during 2021/22.

6.24 As discussed at section 8 below, the Council has made one-off monies available to deal with the pressures arising from the pandemic. Of this, £4.3m has been set aside for income shortfalls in City Development and Neighbourhoods. The key shortfalls are:

- (a) Car parking and bus lane enforcement (the loss is estimated at up to £2.6m in 2022/23, and a further £1.1m in 2023/24);
- (b) £0.2m in respect of De Montfort Hall;
- (c) £0.2m in respect of rent arrears from the corporate estate;
- (d) Smaller amounts for Building Control, City Wardens, Neighbourhood Services, the King Richard III Centre and the retail market.

6.25 The above pressures, which are being kept under review, will be dealt with from monies set aside for Covid. Otherwise, the department is expecting to manage within its resources in 2022/23, and no growth is proposed in the draft budget.

6.26 The department has reviewed its budget during 2021, and has identified the following efficiency savings which have been, or are being, given effect by management action:

	£000
2022/23	524
2023/24	845
2024/25	928

Health and Wellbeing

- 6.27 The Health and Wellbeing division consists of core public health services, together with sports and leisure provision.
- 6.28 The division has been at the centre of the authority's response to Covid 19, and has been supported by a number of grants provided by the Department of Health and Social Care. The chief one in 2021/22 has been the Contain Outbreak Management Fund, which has met the costs of the contact tracing team amongst other things.
- 6.29 The division, together with a number of services provided by other departments, is paid for from the public health grant. This grant is ring-fenced for defined public health purposes wherever they are provided in the Council. General Fund monies have also been spent on public health services, both before and after 2013/14 when the function transferred from the NHS.
- 6.30 The future of public health grant is unclear, although it is expected to be protected in real terms until 2024/25 (at national level). It is unclear whether it will remain as a separate grant when local government funding reforms are introduced; previous proposals have suggested it will be included in general funding arrangements.
- 6.31 The department is able to live within its resources in 2022/23, and no budget growth is proposed. The department has identified efficiency savings of £75,000 per year, which are included in the proposed budget.

Corporate Resources Department

- 6.32 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 overall savings targets. It has nonetheless achieved a balanced budget each year.
- 6.33 No growth is required for the departmental budget in 2022/23. The draft budget does, however, propose to use £0.5m of one-off monies set aside for the Covid response. This will temporarily boost our complement of legal staff who are catching up work delayed due to the pandemic. Many commercial procurements were halted due to the pandemic, resulting now in a backlog of contracts to be procured, and an increase in the need for contract variations and extensions. The pandemic also led to a backlog in property transactions related to the Council's commercial estate.
- 6.34 The department has reviewed its budget during 2021, and has identified the following efficiency savings which have been, or are being, given effect by management action:

	£000
2022/23	1,083
2023/24	1,114
2024/25	1,169

7. **Corporately held Budgets and Provisions**

- 7.1 In addition to the services' 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. Income on investments fell during the pandemic, due to falling interest rates, but rates have since risen again. Thus, the budget position for capital financing in 2022/23 has improved compared to what we expected at the time of the draft budget.
- 7.3 A **contingency** of £2m has been included in the budget to manage significant pressures that arise during the year.
- 7.4 **Miscellaneous central budgets** include external audit fees, pension costs of some former staff, levy payments to the Environment Agency, bank charges, general insurance costs, money set aside to assist council tax payers 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 into other statutory accounts of the Council.

8. **Resources**

- 8.1 The local government finance settlement was approved on 9th February, with no material changes from the provisional settlement published in December. Although the Spending Review in October set out plans for three years of government spending, the local government settlement only covers 2022/23.

Business rates and core grant funding

- 8.2 Local government retains 50% of business rates collected locally, with the balance being paid to central government. 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 top-up to local business rates, paid to authorities with lower taxbases, and Revenue Support Grant (RSG).
- 8.3 Forecasts for business rates are particularly sensitive to assumptions around the speed and extent of the economic recovery since 2020. The figures in the budget assume no significant growth or decline in rates from the current position, apart from inflationary increases.
- 8.4 For 2022/23, the government has introduced a new "Services Grant", worth £7m, and continued the "Lower Tier Services Grant" (£0.8m). These are, in effect, additional allocations of RSG to be spent on general services; with the proviso that it is a one-off grant that will not be included in baselines for next year, allowing the government more scope to reallocate this funding in the future.

Council tax

- 8.5 Council tax income is estimated at £134.4m in 2022/23, based on a tax increase of just below 3% (the maximum allowed without a referendum). The proposed tax increase includes an additional “social care levy” of 1%, designed to help social care authorities mitigate the growing costs of social care. The allowable levy has decreased since last year, despite the escalating demographic and cost pressures facing the service, and will raise just £1.3m.
- 8.6 The estimated council tax base has increased since last year’s budget; this is largely the result of reducing costs of the local council tax support scheme, as employment and the economy recover after the pandemic.
- 8.7 On 3rd February, the government announced that 80% of households will be entitled to a £150 payment, as part of the response to rising inflation and particularly energy prices. This will be paid as a grant to eligible households early in the financial year, and funded from additional government grant. At the time of writing we do not have full details of the scheme, but it should have no net impact on the Council’s budget. As it is a grant payment it does not affect the council tax income figures in this report.

Other grants

- 8.8 The majority of grant funding is treated as income to the relevant service departments and is not shown separately in the table at 4.1. Grants held corporately include:
- **New Homes Bonus**, which provides additional funding where new homes are built or long-term empty properties return to use. It has become less generous in recent years, and is expected to be phased out entirely.
 - **Social Care Grant**, which has been provided each year since 2016/17 to reflect national cost and demographic pressures. In 2022/23, our share of this funding will be £17.7m.

Collection Fund surplus / deficit

- 8.9 Collection fund surpluses arise when more tax is collected than assumed in previous budgets. Deficits arise when the converse is true.
- 8.10 In 2021/22, as in 2020/21, 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, and the fact that these were announced too late for the 2021/22 budget setting process, the effect of this in our accounts will look peculiar. For clarity, the figures in this report show the true underlying position.
- 8.11 The Council has an estimated **council tax collection fund deficit** of £0.8m, after allowing for shares to be paid by the police and fire authorities. The majority of this relates to reduced collection rates arising from the pandemic and lockdown, which (under temporary rules introduced in 2021) are being recovered between

2021/22 and 2023/24. The deficit has reduced from that previously expected, due to improved collection rates after the pandemic; and reduced costs of the council tax support scheme as the economy recovers.

- 8.12 The Council has an estimated **business rates collection fund deficit** of £2.4m. Again, this largely relates to increased appeals and bad debt provisions during the pandemic, and is being recovered over a three-year period. The net effect on our budget is higher than we expected in the 2021/22 budget, as government support towards tax losses is less generous than we expected.

9. **Managed Reserves Strategy**

- 9.1 Since 2013, the Council has used a managed reserves strategy, contributing money to reserves when savings are realised and drawing down reserves when needed. This policy has bought time to more fully consider how to make the substantial cuts which have been necessary.
- 9.2 As at April 2021, resources available for the strategy totalled £69.4m. Of this, £17m is required to balance the 2021/22 budget, leaving £52m for future years, subject to any over- or under-spends in the current year.
- 9.3 The budget will therefore leave £20m of reserves to offset pressures in 2023/24. This indicates that substantial cuts will be required to balance the budget in that year:

	£m
Available to support budget as at 1/4/2021	69.4
Used by 2021/22 budget	(17.3)
Estimated amount required for 2022/23 budget	(24.2)
Balance Remaining for 2023/24	<u>27.9</u>

10. **Earmarked Reserves**

- 10.1 In addition to our general reserves, the Council also holds earmarked reserves which are set aside for specific purposes. These include ringfenced 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 shown at Appendix Five to this report.
- 10.3 The earmarked reserves also include sums set aside to support Covid recovery. Together with unringfenced government grant received in 2021/22, the following monies are available to support the aftermath of the pandemic:

	£m
Government emergency grant 21/22	11.5
Reserves to support revenue costs	10.9
Reserves to support capital	10.0
Total	<u>32.4</u>

- 10.4 The Council is seeking a further £3m from the Government to compensate loss of fees and charges income in 2021/22.
- 10.5 As reported in budget monitoring reports to OSC, these sums are being spent, but there is no indication at present that they will be insufficient. Some of the capital monies will be spent on projects in 2023/24, if Council approves the capital programme (also on your agenda).
- 10.6 The above money is additional to specific government schemes such as the Contain Outbreak Management Fund. We also have separate schemes to support residents facing hardship as a result of the pandemic – such as council tax hardship and crisis support schemes.

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, such as 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 The budget does not propose any service changes which will have an impact on residents. Where appropriate, an individual Equalities Impact Assessment for any service changes will be undertaken when these decisions are developed.
- 11.6 The budget does recommend a proposed council tax increase for the city's residents. The City Council's proposed tax for 2022/23 is £1,745.74, an increase of just below 3% compared to 2021/22. 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 includes the potential impacts of alternative options.

- 11.7 A number of risks to the budget are addressed within this report (section 12 below). If these risks are not mitigated effectively, there could be a disproportionate impact on people with particular protected characteristics and therefore ongoing consideration of the risks and any potential disproportionate equalities impacts, as well as mitigations to address disproportionate impacts for those with particular protected characteristics, is required.

12. **Risk Assessment and 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 2022/23 is achievable subject to the risks and issues described below.

- 12.3 The most significant risks in the 2022/23 budget include:

- (a) Adult 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;
- (c) The risk of a further wave of Covid infections;
- (d) Inflation, which has been increasing, and reached a 30-year high of 5.4% in December, driven by rising energy prices; the Bank of England and other commentators have suggested that it could peak later this year at over 7%. This would put upwards pressure on pay and other costs, although partially offset by increased income on investments if interest rates rise correspondingly;
- (e) Economic downturn, which could result in new cuts to grant; falling business rates income; and increased cost of council tax reductions for tax-payers on low incomes. It could also lead to a growing need for council services and an increase in bad debts. This risk appears to have reduced since 2021/22 – the level of council tax support we are paying, for instance, has now fallen to pre-pandemic levels. The economy is recovering more quickly than feared, although it is still below pre-pandemic forecasts (and likely to remain so).

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

- (a) A minimum balance of £15m of reserves will be maintained;
- (b) Reserves have been identified in 2021/22 to meet pandemic pressures, some of which will be available into 2022/23 as described above;
- (c) A contingency of £2m has been included in the budget for 2022/23;

- (d) As a last resort, managed reserves could be used, but this increases pressure in 2023/24.
- 12.5 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 2022/23, 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 from partners are summarised at Appendix Six. Members wishing to see the full responses are asked to contact the report authors.
- 13.2 Comments from scrutiny committees have been circulated with your agenda.
14. **Financial, Legal and Other Implications**
- 14.1 **Financial Implications**
- This report is exclusively concerned with financial issues.
- 14.2 **Legal Implications**
- 14.2.1 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.
- 14.2.2 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.
- 14.2.3 As well as detailing the recommended council tax increase for 2022/23, 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.
- 14.2.4 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 in addition to representatives of ratepayers.

14.2.5 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. 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.

14.2.6 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.

Provided by: Kamal Adatia, City Barrister

Catherine Taylor / Mark Noble

9th February 2022

Appendix One

Budget Ceilings

	Latest 21/22 budget	Previously agreed changes	Non pay inflation	National Insurance increases	Changes approved in 22/23 budget	Budget 2022/23
<u>1. City Development & Neighbourhoods</u>						
<u>1.1 Neighbourhood & Environmental Services</u>						
Divisional Management	235.4				1.0	236.4
Regulatory Services	3,011.7				28.1	3,039.8
Waste Management	17,509.9		659.0	3.0	(30.0)	18,141.9
Parks & Open Spaces	4,008.4			59.7	(35.0)	4,033.1
Neighbourhood Services	5,453.9			19.2	(14.0)	5,459.1
Standards & Development	1,636.4			15.6		1,652.0
<i>Divisional sub-total</i>	31,855.7	0.0	659.0	126.6	(79.0)	32,562.3
<u>1.2 Tourism, Culture & Inward Investment</u>						
Arts & Museums	4,159.9			12.0	40.0	4,211.9
De Montfort Hall	550.4			10.5		560.9
City Centre	178.6			1.3		179.9
Place Marketing Organisation	377.8			1.6		379.4
Economic Development	162.0	(80.0)		6.9	(93.0)	(4.1)
Markets	(141.1)			3.0	(84.0)	(222.1)
Adult Skills	(870.4)					(870.4)
Divisional Management	181.0			1.7		182.7
<i>Divisional sub-total</i>	4,598.2	(80.0)	0.0	37.0	(137.0)	4,418.2
<u>1.3 Planning, Transportation & Economic Development</u>						
Transport Strategy	9,797.2	(50.0)		24.9	(50.0)	9,722.1
Highways	2,920.9			48.1	(55.0)	2,914.0
Planning	975.8			18.5	(50.0)	944.3
Divisional Management	134.4			1.4		135.8
<i>Divisional sub-total</i>	13,828.3	(50.0)	0.0	92.9	(155.0)	13,716.2
<u>1.4 Estates & Building Services</u>	5,761.7	(125.0)		50.2		5,686.9
<u>1.5 Housing Services</u>	3,341.8			44.2	(153.0)	3,233.0
<u>1.6 Departmental Overheads</u>	818.3			3.3		821.6
DEPARTMENTAL TOTAL	60,204.0	(255.0)	659.0	354.2	(524.0)	60,438.2

Appendix One

	Latest 21/22 budget	Previously agreed changes	Non pay inflation	National Insurance increases	Changes approved in 22/23 budget	Budget 2022/23
<u>2.Adults</u>						
<u>2.1 Adult Social Care & Safeguarding</u>						
Other Management & support	728.2			4.5		732.7
Safeguarding	146.1			1.5		147.6
Preventative Services	6,547.8			28.5		6,576.3
Independent Sector Care Package (121,586.5		2,542.1		15,945.0	140,073.6
Care Management (Localities)	7,153.7			42.3		7,196.0
<i>Divisional sub-total</i>	136,162.3	0.0	2,542.1	76.8	15,945.0	154,726.2
<u>2.2 Adult Social Care & Commissioning</u>						
Enablement & Day Care	3,012.9			24.1		3,037.0
Care Management (LD & AMH)	5,015.0			33.5		5,048.5
Preventative Services	1,292.7			0.6		1,293.3
Contracts, Commissioning & Other :	5,374.3			31.6		5,405.9
Departmental	(31,554.2)			4.6		(31,549.6)
<i>Divisional sub-total</i>	(16,859.3)	0.0	0.0	94.4	0.0	(16,764.9)
DEPARTMENT TOTAL	119,303.0	0.0	2,542.1	171.2	15,945.0	137,961.3
<u>3. Education & Children's Services</u>						
<u>3.1 Strategic Commissioning & Business</u>						
	1,884.5			14.8		1,899.3
<u>3.2 Learning Quality & Performance</u>						
Raising Achievement	359.0			4.6		363.6
Learning & Inclusion	1,247.5			11.5		1,259.0
Special Education Needs and Disab	12,292.7			26.9	3,510.0	15,829.6
<i>Divisional sub-total</i>	13,899.2	0.0	0.0	43.0	3,510.0	17,452.2
<u>3.3 Children, Young People and Families</u>						
Children In Need	14,133.8			69.2		14,203.0
Looked After Children	40,196.1		206.8	58.7		40,461.6
Safeguarding & QA	2,466.2			15.0		2,481.2
Early Help Targeted Services	5,624.6			34.5		5,659.1
Early Help Specialist Services	3,174.3			23.1		3,197.4
<i>Divisional sub-total</i>	65,595.0	0.0	206.8	200.5	0.0	66,002.3
<u>3.4 Departmental Resources</u>						
	1,541.8			9.4		1,551.2
DEPARTMENTAL TOTAL	82,920.5	0.0	206.8	267.7	3,510.0	86,905.0

Appendix One

	Latest 21/22 budget	Previously agreed changes	Non pay inflation	National Insurance increases	Changes approved in 22/23 budget	Budget 2022/23
4. Health and Wellbeing						
Adults' Services	9,024.4	91.3			(75.0)	9,040.7
Children's 0-19 Services	9,019.3	(200.0)				8,819.3
Lifestyle Services	1,233.7			5.6		1,239.3
Staffing & Infrastructure & Other	2,406.6			17.2		2,423.8
Sports Services	1,814.4			26.5		1,840.9
DEPARTMENT TOTAL	23,498.4	(108.7)	0.0	49.3	(75.0)	23,364.0
5. Corporate Resources Department						
5.1 Delivery, Communications & Political	6,653.6	(50.0)		40.3	(4.6)	6,639.3
5.2 Financial Services						
Financial Support	4,756.0			39.1		4,795.1
Revenues & Benefits	6,462.4			49.1		6,511.5
Divisional sub-total	11,218.4	0.0	0.0	88.2	0.0	11,306.6
5.3 Human Resources	4,280.5			31.4	(469.4)	3,842.5
5.4 Information Services	9,124.4			41.0	(35.0)	9,130.4
5.5 Legal Services	3,361.4			35.5	(24.0)	3,372.9
DEPARTMENTAL TOTAL	34,638.3	(50.0)	0.0	236.4	(533.0)	34,291.7
TOTAL -Service Budget Ceilings	320,564.2	(413.7)	3,407.9	1,078.8	18,323.0	342,960.2
Public Health grant						(27,884.2)
Provision for pay awards						7,350.0
Total forecast service spending						322,426.0

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 provisions for pay awards;
 - (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) year-end budget underspends, subject to the approval of the City Mayor.
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 2.99% council tax increase. This includes a precept of 1% for Adult Social Care, as permitted by the Government without requiring a referendum.
- 1.2 The alternative option for comparison is a freeze on council tax at 2021/22 levels. It would of course be possible to set a council tax increase between these two levels, or indeed to *reduce* the Band D tax.

2. Who is affected by the proposal?

- 2.1 As at 30th November 2021, there were 130,185 properties liable for Council Tax in the city (excluding those registered as exempt, such as student households).
- 2.2 All non-exempt 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 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.

Band	No. of Properties	Weekly increase	Minimum Weekly Increase under CTSS
A-	273	£0.54	£0.11
A	77,240	£0.65	£0.13
B	26,015	£0.76	£0.15
C	14,892	£0.87	£0.26
D	6,291	£0.98	£0.37
E	3,326	£1.19	£0.59
F	1,520	£1.41	£0.80
G	593	£1.63	£1.02
H	35	£1.95	£1.35
Total	130,185		

- 3.2 In most cases, the change in council tax (around £0.76 per week for a band B property with no discounts; and just 15p 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.
- 3.3 Many households at all levels of income have seen significant income shocks due to the coronavirus pandemic and the economic downturn. More recently, some households have also seen the ending of national schemes such as the £20/week increase to Universal Credit and furlough payments; further pressures on household budgets come from increasing inflation in recent months, particularly in energy and food prices.
- 3.4 These pressures are not limited to any protected group; however, there is evidence that some types of household are more likely to be struggling with their finances. The Joseph Rowntree Foundation has identified that households are more likely to be in arrears on bills if they are younger adults; from certain ethnic minorities; or have children in the household¹. This gives an indication of the groups most likely to see an impact from a CT increase.

4. **Alternative options**

- 4.1 The realistic alternative to a 3% council tax increase would be a lower (or no) increase. It should be noted that the proposed increase is below inflation, and therefore represents a real-terms cut in council tax income. 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 and/or more cuts to services in 2023/24.
- 4.2 The budget situation is already extremely difficult, and it seems inevitable that further cuts will have severe effects on front-line services. It is not possible to say precisely where these future 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.

5. **Mitigating actions**

- 5.1 The Council has a range of mitigating actions for residents. 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

¹ *Dragged Down by Debt*, JRF, October 2021

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 On 3rd February, the government announced a package of additional measures to support households with rising living costs, particularly energy bills. These include a £150 council tax discount to the majority of taxpayers; and further discretionary funds, estimated at over £1m, to support other households in particular need of help with rising energy bills.

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.

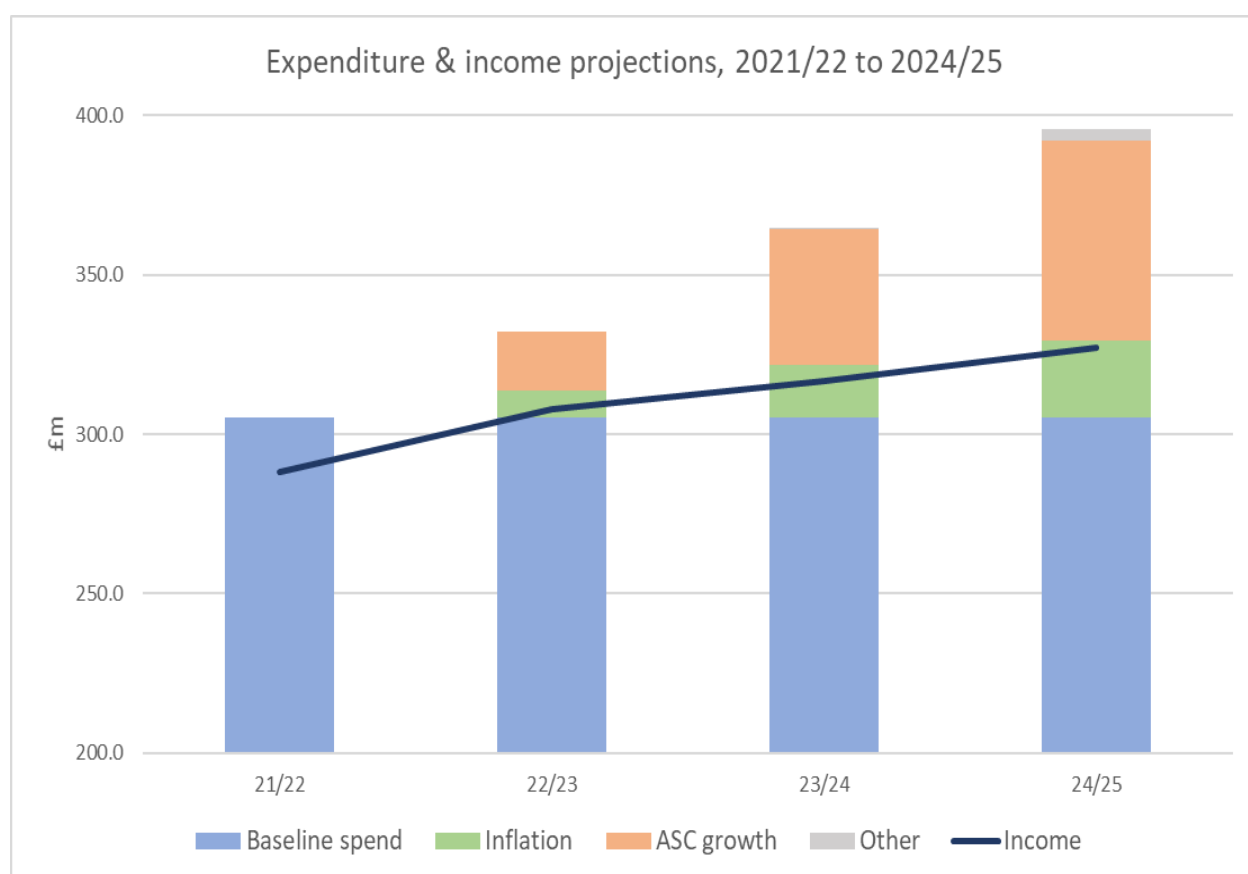
Analysis of impact based on protected characteristic

Protected characteristic	Impact of proposal:	Risk of negative impact:	Mitigating actions:
Age	<p>Older people (pension age and older) are least affected by a potential increase in council tax and can access 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. There is some evidence that younger adults and families with children are already more likely to be under financial stress.</p>	<p>Working age households and families with children – incomes squeezed through low wages and reducing levels of benefit income.</p> <p>Younger people are more likely to have lost jobs during the pandemic and may not yet have found permanent full-time employment.</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>
Disability	<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.</p> <p>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>
Gender Reassignment	<p>No disproportionate impact is attributable specifically to this characteristic.</p>		

Protected characteristic	Impact of proposal:	Risk of negative impact:	Mitigating actions:
Pregnancy & 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	<p>Those with white backgrounds are disproportionately on low incomes (indices of multiple deprivation) and in receipt of social security benefits. Some ethnic minority people are also low income and on benefits.</p> <p>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.</p> <p>There is some evidence that minority ethnic groups have been more likely to face job losses in the pandemic.</p>	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 to remove barriers in accessing support.
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.	<p>If in receipt of Universal Credit or tax credits, a significant proportion of childcare costs are met by these sources.</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>
Sexual Orientation	There have been reports published which suggest LGBT people are at increased financial risk during COVID-19. There is not enough data available to evidence the disproportionate impact attributable specifically to this characteristic but we will continue to monitor this.		

Medium Term Financial Outlook 2022/23 – 2024/25

1. The purpose of this medium term financial outlook is to provide members with details of the forecast financial position of the Council for the next 3 years, and to set the context within which the budget process will need to work to achieve a balanced position. The figures are indicative and volatile, especially for 2024/25.
2. Our central forecasts for the period up to 2024/25 are set out in the table at paragraph 5, and show that:
 - **Expenditure pressures are increasing at a faster rate than income.** Over the period we expect expenditure to increase by nearly 30% (in cash terms) while income projections rise by only 13% assuming there is no change in Government policy.
 - **The biggest factor in these increases is the rising cost of adult social care, as illustrated in the chart below.** These increases have been seen nationally for several years, and now present a substantial challenge to the authority’s future sustainability. These pressures arise from factors largely outside the authority’s control (e.g. increases in the minimum wage, demographic pressures and pressures on fee levels). The rate of growth is likely to accelerate.



NB scale does not start at zero

- **We have already invested significant amounts in social care.** Since 2016 we have seen the cost of adults' social care packages increase by £44m, or 60%, due to a combination of increasing need and higher wage costs. Over the same period we have invested over £20m in children's social care.
 - **Other budget areas have already seen significant cuts in the last decade.** Expenditure on services other than adults and children's social care has fallen from £192m in 2010 to £106m in 2020. Our ability to find further savings from within these services is now severely limited.
3. The 2021/22 budget was balanced by using £17m of reserves. On current projections, sufficient reserves remain to balance the 2022/23 budget and provide some support to the 2023/24 budget. After this, ongoing savings will need to be found to ensure the longer-term financial stability of the Council.
 4. Our approach is to tackle the position for 2023/24 by means of the Fundamental Budget Review, which is aiming to achieve savings of £40m per year. The need to achieve further savings for 2024/25 will be reviewed during the course of the year when we have more clarity about Government funding and the impact of social care reforms. The level of savings currently projected by 2024/25 would appear to be unachievable without change in Government policy.
 5. A summary of the central budget projections for the next three years is set out below:

	2022/23 £m	2023/24 £m	2024/25 £m
Net service budget (including inflation)	322.4	353.7	380.8
Corporate and other centrally held budgets	7.6	8.2	8.9
Contingency	2.0		
Planning provision		3.0	6.0
Expenditure total	332.0	364.9	395.7
Business rates income	67.8	69.6	71.2
Top-up payment	50.7	52.1	53.4
Revenue Support Grant	29.9	29.9	29.9
Council Tax	134.4	139.7	144.8
Collection Fund deficit	(3.3)	(2.4)	
Social Care grants	17.7	17.7	17.7
Services grants	7.8		
New Homes Bonus	2.8		
Assumed impact of funding reforms		10.0	10.0
Income Total	307.8	316.6	327.0
Indicative Budget gap	24.2	48.3	68.7

6. The largest area of uncertainty in the forecasts surrounds the amount of government funding that will be available in years after 2022/23. The government intends to implement a review of local government funding allocations (the “Fair Funding Review”) alongside the business rates revaluation in April 2023. We do not know what the outcome of this will be, but some key issues are:
- We hope the review will correct the long-standing underfunding of authorities such as Leicester. In the previous review, the funding actually received was heavily “damped” – funding increases due under the formula were not paid in full, to limit the losses to other areas. As the formula has not been reviewed since 2013, this damping is still reducing the funding we receive.
 - Funding cuts from 2013 to 2016 were implemented in a way that disproportionately affected lower-income areas. The Fair Funding review is an opportunity for the government to reverse this and restore the previous level of equalisation into the system;
 - Conversely, previous government proposals would have reduced Leicester’s funding further, by reducing the amount of funding allocated to deprivation and increasing that given to rural areas.
 - Reallocation of business rates growth since 2013 ought to benefit cities at the expense of more affluent areas, especially districts
7. The CSR provides no increase in national local government funding for 2023/24 or 2024/25, so any authorities which gain from the reforms will need to be paid for by reduction to other authorities’ funding. Our central assumption above is that the non-baselined funding in 2022/23 (New Homes Bonus and the Services grants) will be reallocated based on current funding allocations, but “core” Revenue Support Grant and rates income will be unchanged. This effectively implies very little net impact on our funding from the review.
8. Due to the level of uncertainty around the funding review, full forecasts have not been produced for the different scenarios. We expect that the impact of any changes will be limited by damping arrangements. The key changes from the central scenario are set out in the table at paragraph 9. Based on these assumptions, an indicative range for the budget gap is:

£37m to £55m in 2023/24;

£46m to £90m in 2024/25.

10. Key assumptions and risks in the forecast are set out below:

	Assumptions – central scenario	Risks & alternative options modelled
Expenditure		
Pay costs	<p>We assume the 1.75% pay offer for 2021/22 is implemented. The projections include 2.5% per year from 2022/23 to 2023/24.</p> <p>A provision is included for the 1.25% increase in National Insurance for 2022/23, as announced in September 2021.</p> <p>No provision is included for increasing employers' pension contributions (in recent years, increases have been absorbed by departmental budgets)</p>	<p>Inflation has been rising in recent months, reaching 5.4% (CPI) in December 2021. Forecasts suggest it is likely to reduce later in 2022; if it remains high, there will be additional pressures on pay awards and non-pay inflation, partially offset by an increase in interest on investments.</p>
Non-pay inflation	<p>In line with the policy in past years, departments are expected to absorb the costs of non-pay inflation in most cases. The exceptions are independent sector care package costs, fostering allowances and the waste management contract; an allowance is built in for these increases.</p>	<p>Pessimistic scenario: sustained high inflation (above BoE forecasts) adds a net £3m per year to our costs.</p>
Adult social care costs	<p>Demographic pressures lead to 3% per year increase in service users aged 65+, and 5% for working age.</p> <p>National Living Wage increases at 6.6% per year (4% in 2024/25).</p> <p>Need – average 6% per year in-year increase in package costs</p> <p>Forecasts for 2024/25 are particularly volatile; £20m additional budget has been included for the year.</p>	<p>Optimistic scenario: Some additional funding provided nationally of £0.5bn per year, of which our share is c.£3.5m.</p> <p>Pessimistic scenario: More pessimistic modelling assumptions add a further £6m to costs in 2024/25.</p>
Other service cost pressures	<p>Departments are expected to find savings to manage cost pressures within their own areas. From 2023/24 onwards, a £3m per year planning provision has been included to meet unavoidable costs that cannot be managed within departments.</p>	<p>Costs relating to children who are looked after have been increasing nationally, and are a particular risk for future years.</p> <p>Optimistic scenario: Only half the current planning provision is required for cost pressures.</p>
Income		
Council Tax	<p>Band D Council Tax will increase by 2.99% per year (2% base increase plus 1% for the Adult Social Care precept).</p> <p>Council tax baseline increases by 500 Band D properties per year.</p>	<p>Further economic downturn leading to increased costs of council tax support to residents on a low income.</p> <p>Optimistic scenario: Council tax baseline increases by 1,000 Band D properties per year due to new buildings, and continuing</p>

		<p>decline in the cost of council tax support.</p> <p>Pessimistic scenario: Reduced building rates and continued economic pressures lead to a restricted growth in taxbase of 250 Band D properties per year.</p>
Business rates	<p>The multiplier freeze for 2022/23, and new reliefs announced in October 2021, are fully funded.</p> <p>No significant movements in the underlying baseline for business rates.</p> <p>Government changes to business rates (e.g. new reliefs) will affect our retained income. To date, these have been met by additional government grant.</p>	<p>Business rates are particularly sensitive to economic conditions.</p> <p>Optimistic scenario: Additional rates growth as the economy recovers, of £1.5m per year.</p> <p>Pessimistic scenario: Erosion of the retail business rates baseline, and additional charitable reliefs, reduce income by £1m / year.</p>
Government grant	<p>2022/23 funding was set out in the provisional settlement in December.</p> <p>For 2023/24, we assume (in line with government statements) that existing RSG and top-up payments continue; but the Services Grant and New Homes Bonus are replaced by new funding. We have assumed our share of this based on previous funding allocations; this implicitly assumes a broadly neutral effect of any funding changes.</p>	<p>We do not yet have the details of local government funding for 2023/24 and 2024/25.</p> <p>Paragraph 5 above discusses these in more detail.</p> <p>Optimistic scenario: gains (limited by damping) of £4m in 2023/24 and £8m in 2024/25.</p> <p>Pessimistic scenario: changes in formula reduce funding by £5m by 2024/25.</p>
COVID-19 impacts	<p>The forecasts assume no long-term impact of the pandemic on service costs or income.</p> <p>To the extent that there are effects persisting into 2022/23, it is assumed that these can be met from one-off resources.</p>	

Earmarked Reserves

1. The table below shows the position on earmarked reserves, after the changes made in the 2020/21 outturn report:

	Balance at 1/4/2021 £000
<u>Ring-fenced Reserves</u>	
School Balances	24,108
DSG not delegated to schools	1,433
School Capital Fund	2,753
Schools Buy Back	2,429
Education & Skills Funding Agency Learning Programmes	1,112
Arts Council National Portfolio Organisation Funding	845
Business Support Grants	2,722
Covid-19 Collection Fund Compensation	25,720
Subtotal Ring-fenced Reserves	61,122
<u>Departmental Earmarked Reserves</u>	
Social Care Reserve	7,341
ICT Development Fund	8,436
City Development & Neighbourhoods	9,382
Delivery, Communications & Political Governance	3,477
Health & Wellbeing Division	4,291
Financial Services Reserve	3,052
NHS Joint Working Projects	9,420
Housing	2,358
Other Departmental Reserves	464
Subtotal Departmental Reserves	48,221
<u>Corporate Reserves</u>	
Managed Reserves Strategy	69,362
COVID Pressures	10,899
Capital Programme Reserve	97,587
Insurance Fund	10,608
BSF Financing	8,638
Welfare Reserve	6,429
Severance Fund	4,827
Service Transformation Fund	5,867
Other Corporate Reserves	4,652
Subtotal Corporate Reserves	218,869
Total Earmarked Reserves	328,212

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. The need for each reserve will be reviewed before the outturn for 2021/22 is completed, with a view to releasing more funds for the managed reserves strategy.
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.
 - **Business Support Grants:** the government provided grant funding in 2020/21 to support businesses during the pandemic. The balance of funding is required for grants to businesses in 2021/22.
 - **Covid-19 Collection Fund Compensation:** the government provided grant funding in 2020/21 to enable councils to pay additional business rate reliefs. However, due to the way local tax is accounted for, the reliefs do not affect the general fund until 2021/22. This reserve is essentially an accounting reserve which will be fully used in 2021/22; although a similar reserve is likely to be required at the end of 2021/22.
4. Departmental reserves include amounts held by service departments to fund specific projects or identified service pressures. Significant amounts include:-
 - **Social Care Reserve:** to assist in the management of budget pressures in adults' and children's social care. The available balance takes account of £10m committed to offset ASC pressures in the 2022/23 budget, as per the 2020/21 outturn report.
 - **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 to support the delivering new ways of working programme.
 - **City Development and Neighbourhoods:** to meet known additional pressures, including one off costs associated with highways functions and the cost of projects that have carried forward into 2021/22.
 - **Health & Wellbeing:** to support service pressures, channel shift and transitional costs.
 - **Delivery, Communications & Political Governance:** this is principally for elections and other projects within the department.

- **Financial Services:** for expenditure on improving the Council’s main financial systems; spikes in benefit processing and overpayment recovery; and to mitigate budget pressures including reducing grant income to the Revenues & Benefits service.
- **NHS joint working projects:** for joint projects with the NHS.
- **Housing:** to meet spikes in temporary accommodation costs, hold grant funding for homelessness projects, and government funding to support recent arrivals to the city.

5. Corporate reserves include:-

- **Managed Reserves Strategy:** a key element to delivering this budget strategy, and discussed further in section 9 of the main report. The available amount takes account of transfers from the social care reserve, and to support COVID pressures, as set out in the 2020/21 outturn report;
- **COVID-19 pressures:** set aside to support services facing COVID-related pressures or income shortfalls that continue into 2021/22 or beyond;
- **Capital Programme Reserve:** to support approved spending on the Council’s capital programme;
- **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; and to support the anti-poverty strategy;
- **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, including the New Ways of Working programme;
- **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.

Comments from Partners

1. Seven responses to the consultation have been received, and are summarised below. The full responses are available from the report authors. Comments from scrutiny committees will be circulated with your agenda.
2. **Leicester Primary Partnership** (which develops collaboration between primary schools) supported the plan for a lobbying effort to central government; and suggested utilising comparisons with similar authorities to identify any lessons learned;
3. The **Friendship Group** stressed the importance of support to groups such as theirs who provide social engagement and activities to vulnerable people, and the impact on the physical and mental health of their service users;
4. A **user of Abbey Park** emphasised the impact of parks and leisure services on mental health, particularly during the pandemic;
5. A **representative of the voluntary sector** in Leicester emphasised the importance of the voluntary sector in the City, and the potential to leverage additional income.
6. The **Big Mouth Forum** of children and young people with additional needs or disabilities expressed their concern at rising demand and whether services would be able to meet needs; and gave views on how the available funding should be spent.
7. The **Mental Health Partnership Board** discussed the possibility of lobbying governmental organisations and others about the funding position facing the Council.
8. The budget was discussed at the **Learning Disabilities Partnership Board**, and acknowledged the difficult budget position.