

Council

Date: 22nd February 2023

Revenue Budget 2023/24

Lead director: Director of Finance



City Mayor

Useful information

- Ward(s) affected:
- Report author: Catherine Taylor/Mark Noble
- Author contact details: catherine.taylor@leicester.gov.uk
mark.noble@leicester.gov.uk
- Report version number: 1

1. **Purpose**

- 1.1 The purpose of this report is to present the City Mayor's proposed budget for 2023/24 and to describe the future financial outlook.
- 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 medium term financial outlook is the most severe we have known, in our twenty six years as a unitary authority. We are facing restricted Government funding at a time of increasing costs, which will inevitably lead to painful spending cuts.
- 2.2 The background to this severe outlook is:
 - (a) a "decade of austerity" between 2010 and 2020 in which services other than social care had to be reduced by 50% in real terms. This has substantially reduced the scope to make further cuts;
 - (b) the covid-19 pandemic where we set "stop gap" budgets whilst we dealt with the immediate emergency. Budgets in 2021/22 and 2022/23 were supported by reserves of £17m and £24m respectively;
 - (c) the recent spike in inflation, which has led to significant pressures particularly in respect of pay, energy and packages of social care;
 - (d) the Autumn Statement in November, which provided no new money for inflation. Whilst some additional money has been made available for social care, it is insufficient to meet our forecast cost growth. This money has in large part been recycled, from savings arising from delayed reforms limiting the costs of care to individuals;
 - (e) a new round of austerity (also announced in the Autumn Statement) which will lead to further cuts to local authority funding from 2025/26.
- 2.3 The finance settlement for 2023/24 has now been confirmed and is reflected in this report. Some elements of our funding (in particular, the level of the public health grant; and the terms and conditions attached to new social care funding) are not yet available and the effects have had to be estimated.

- 2.4 The “fair funding” review of local government finance has been continuously delayed, meaning that most of the data on which our funding is based is now at least 10 years old (and disregards, for instance, increases in the city’s population).
- 2.5 The Council’s approach to achieving budget reductions is to make savings in a planned way, using our reserves to avoid the crisis cuts which some authorities have (and are) facing. This is our “managed reserves” strategy. Our approach leaves us in the fortunate position of starting 2023/24 with an estimated £56m of reserves which will help us plan the reductions we need.
- 2.6 The budget you are asked to approve will exceed our income in both 2023/24 and 2024/25, and will therefore be supported by reserves for a further two years. The gap between income and expenditure will be substantial – current estimates are included in the report. The reserves required to balance the budget would exceed those required in the last two years. However, we do not have enough money – we estimate reserves will run out part way through 2024/25. Thus, the achievement of significant savings is essential to live within our means. Furthermore, without savings we will have nothing to shield us from the immediate impact of government cuts in 2025/26.
- 2.7 The budget reflects savings of £6m per year across all departments, which have already been reported. Nonetheless, delivery of savings is a continuous process, which does not start or stop at budget setting. The City Mayor will continue to approve savings during the next 12 months, which will reduce the budget gap in 2024/25 (and the level of reserves required in 2023/24, which then become available to offset the gap in 2024/25). Decisions to make savings will be taken in the normal manner and published on the Council’s website. There is no doubt that painful cuts will be required over the coming years.
- 2.8 Increases to budgets for growth pressures have been made only where absolutely essential to maintain service provision. In practice, this amounts to £24m in 2023/24, of which the largest amount is for adult social care. Provisions have also been made for key inflationary pressures such as energy costs.
- 2.9 Like social care authorities up and down the country, our costs of providing care are increasing faster than government support. Unfunded social care pressures present a severe threat to the financial sustainability of the Council and are the key risk described in this report.
- 2.10 The budget proposes a tax increase of just under 5%, which is the maximum we are allowed to set without a referendum.
- 2.11 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 At its meeting in February, the Council will be asked to:

- (a) approve the budget strategy described in this report;
- (b) approve a formal budget resolution, which sets the council tax level for 2023/24;
- (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 on the adequacy of reserves and the estimates used in preparing the budget;
- (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.
- (h) note the consultation responses received at Appendix Six.
- (i) note the policy on council tax for empty properties, set out at Appendix Seven, which is unchanged from 2022/23.

4. **Budget Overview**

- 4.1 The table below summarises the proposed budget for 2023/24 (summary projections for a three-year period are included in the medium term strategy at Appendix Four):

	2023/24 £m
Service budgets	362.1
Corporate Budgets	10.4
Energy costs provision	2.0
Social Care reforms	2.3
Capital Financing	1.9
Miscellaneous Corporate Budgets	4.0
Contingency	
Total forecast spending	382.7
Rates retention scheme:	
Business rates income	71.8
Top-up payment	58.1
Revenue Support Grant	33.4
Other resources:	
Council Tax	144.9
Collection Fund surplus	0.3
Social Care grants	35.9
Other grants	4.2
Total forecast resources	348.6

Underlying gap in resources	34.1
Proposed funding from reserves	(34.1)
Gap in resources	NIL

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

- 5.1 By law, the Council's role in budget setting is 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 draft budget is based on a proposed Band D tax for 2023/24 of £1,833.00, an increase of just under 5% compared to 2022/23.
- 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 2022/23). 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. The Council also has schemes for mitigating hardship.
- 5.6 The Police and Crime Commissioner and Combined Fire Authority will set their precepts in February 2023. The formal resolution will set out the precepts issued for 2023/24, 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), including the costs of the 2022/23 pay award;
 - (b) Budgets have been adjusted where former service-specific grants are now being rolled into mainstream funding. This is a technical change to the way the budget is presented, and does not affect the amounts available for services;
 - (c) An allowance is made for non-pay inflation on a restricted number of budgets. Our general rule is that no allowance is made, and departments are expected to manage with the same cash sum that they had in the previous year. Given the recent surge in inflation, this is now going to prove very challenging, but due to the overall budget outlook the usual position has been maintained. In practice, we believe over £5m of inflationary pressures will need to be absorbed. Exceptions are made for the budgets for independent sector adult social care (2%) and foster care (2%) but as these areas of service are receiving growth funding, an inflation allowance

is merely academic (we pay from one pot rather than another). Budgets for the waste PFI contract have been increased by RPI, in line with contract terms;

- (d) Unavoidable growth has been built into the budget, as described in the sections below;
 - (e) As discussed in the summary, action is being taken to reduce budgeted spend, and where decisions have already been taken budget ceilings have been reduced (this process will continue up to approval of the final budget).
- 6.2 The proposed budget ceilings are set out in Appendix One.
- 6.3 The local government pay award for 2023/24 has not yet been agreed; our budget assumes a 5% average pay award. A provision is held centrally to fund this (and is shown within the “service budgets” line in the table above, as it will be transferred to the relevant budget ceilings when agreed).
- 6.4 Additionally, and unusually, £10.4m has been set aside in a central contingency for increased energy costs, but has not yet been allocated to budget ceilings pending greater certainty over the final amounts. This includes £1.4m which is the estimated cost of recommendations in the HRA budget report (elsewhere on your agenda) in respect of heating provided to owners of former council dwellings. Whereas any subsidy provided to our tenants falls on the HRA, any subsidy provided to homeowners is a cost which must be met by the General Fund. Decisions taken in respect of the HRA budget will therefore have a consequential impact on the General Fund budget.
- 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.

Adult Social Care

- 6.6 Adult social care services nationally have been facing severe cost pressures for some years, and these are expected to continue.
- 6.7 The budget for 2022/23 reflected a level of uncertainty caused by the pandemic (which dampened demand for services without providing any indication whether future demand would remain dampened, return to normal or catch up for previous under-demand). As a consequence, the budget report for 2022/23 indicated that the figures would be reviewed in-year: after this was completed the budget was reduced by £9m. We now anticipate cost growth of £19m in 2023/24 (compared to the revised budget for 2022/23), with continued growth 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, and pressure on providers due to National Living Wage increases.

- 6.8 The government has generally responded to growth pressures on an ad-hoc basis, making one-off resources available year by year. This has made planning extremely difficult.
- 6.9 In the Autumn Statement, the government announced that planned reforms to the way social care is funded (chiefly limiting the amount individuals would have to contribute) will be delayed for at least two years.
- 6.10 Additional funding is being made available for pressures in adult social care, through a combination of increased social care grant and hospital discharge related funding (the latter will be paid either directly to LAs or via the NHS through the Better Care Fund). Grant paid directly to us has been announced at £2.5m (rising to an estimated £4.1m in 2024/25) to improve hospital discharges. The conditions have not been announced, but the budget assumes that the whole grant will be required for additional expenditure. The amount of Better Care Fund monies has not yet been announced, and an estimate has been made. The Government has funded these additional grants chiefly from the savings arising from deferring the reforms. It is expected, however, that certain aspects of the reforms will continue to require resources. The Government has provided £3.7m (rising to an estimated £5.5m in 24/25) to improve care market sustainability, but the conditions of this grant (and hence any additional spending requirements) have regrettably not been announced. This has required us to maintain a corporate budget of £2m per year as a contingency
- 6.11 The proposed budget includes growth of £18.8m in 2023/24 for increased packages of support, estimated to rise to £32.4m by 2024/25 (considerably in excess of the increases in government grant). These growth figures were calculated as 6% of the estimated net ASC budget in 2023/24, falling to 4% in 2024/25 (the latter being consistent with national estimates made by the Local Government Association at the time of calculation). These increases are less than suggested by past experience, and spending within them will prove challenging. The director is taking action to change and improve support designed to reduce people's need for formal care, social work assessment, and commissioning practice to ensure we can live within these allowances, but it remains a risk.
- 6.12 The above estimates of growth are based on a national living wage of £10.42 in 2023/24, as announced on 17th November 2022.

Education and Children's Services

- 6.13 In common with authorities across the country, increased demand for children's social care services has created substantial budget pressure for many years.
- 6.14 A forecast of placement costs in 2023/24 and 2024/25 has been made, and £3.0m added to the budget for 2023/24. The forecast builds on a budget that is already under pressure (it is expected to overspend in 2022/23). It assumes a net 10 children per year enter the care system from 2023/24 (against the backdrop of a worsening economic situation), with each new entrant costing an average £39,000 per year and leavers reducing cost by an average £45,000 per year.

- 6.15 Work is continuing to take place to reduce placement costs:
- (a) Regular review of long-term, emergency and high cost placements;
 - (b) Work with partners to agree joint funding solutions for complex, high-need children;
 - (c) Development of additional internal residential homes to mitigate against independent sector price increases;
 - (d) Development of an advanced foster carer scheme for children with more complex needs.
- 6.16 The cost of placements will continue to be monitored through routine budgetary control reports.
- 6.17 The department continues to experience cost pressures from growth in demand for education, health and care plans (EHCPs), which then also lead to increased demand for personal transport. The most significant aspect of cost is the use of taxis by some 800 to 900 children with special needs, which are costing over £10m per year (2022/23). Taxi costs have been increasing due to fuel cost increases, a limit in the number of firms which are prepared to undertake this work and their pricing. An additional £1.5m is included in the 2023/24 budget, but this will still leave a shortfall against spend on current trends. The department is seeking to tackle this by promoting personal budgets as a default option: both to promote the independence of children and to demonstrate value for money (taxis cost on average 5 times the amount of a personal budget). The department is also seeking to review in-house fleet options.
- 6.18 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. In common with most authorities, the Council has a deficit on its DSG reserve estimated to stand at £10.3m by the end of 2022/23 resulting from unavoidable overspends (in fact, most authorities are in a significantly worse position). Under a “statutory override” available until 2025/26, this deficit does not reduce our general fund reserves and has not therefore been included in the figures for this budget report. We are preparing a deficit recovery plan, which all authorities with deficits are required to do but it is unclear how the situation is retrievable without further Government support, given the relentless increase in the number of children with EHCPs, a pattern seen across the country.

City Development and Neighbourhoods

- 6.19 The department’s costs are reasonably predictable, when compared to social care. The pandemic made a dent in the department’s income budgets, and there continue to be some limited shortfalls. £1.1m was set aside for further temporary shortfalls in 2023/24 when we set the budget for 2022/23, although it is hoped it will not all be required.

- 6.20 Growth of £1m has been added to the budget to meet costs of accommodation for increasing numbers of families presenting as homeless (a pressure of £1.1m in 2022/23). There is a plan to address the needs of homeless families through the Housing Revenue Account, which will provide partial relief.

Health and Wellbeing

- 6.21 The Health and Wellbeing Division has been at the centre of the authority's response to Covid 19, and the pandemic is expected to have a lasting impact on mental and other aspects of the population's health. The cost of living crisis is also likely to increase the need for services.
- 6.22 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.
- 6.23 The future of public health grant is unclear. It is not known whether it will remain as a separate grant when local government funding reforms are eventually introduced; previous proposals have suggested it will be included in general funding arrangements. The government has not yet announced allocations of the public health grant in 2023/24, so an estimate has been included in the budget. The budget assumes that any cost inflation arising from NHS wage rises will be reflected in the amount allocated.
- 6.24 The department is able to live within its resources in 2023/24, and no budget growth is proposed.

Corporate Resources Department

- 6.25 The department primarily provides internal support services together with leading on good corporate governance, but also some public facing services such as benefits, collection of council tax and customer contact. Since 2022/23, it has also been responsible for sports services (although given the clear links with public health, we continue to include these services with Health and Wellbeing in Appendix One). The department 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.
- 6.26 Whilst the budget is broadly balanced, a number of factors may lead to budget pressures in the department, most notably in respect of Revenue and Customer Services (where the cost-of-living crisis is expected to generate significant increases in customer contact from people struggling financially). Sports Services is continuing to suffer reduced income in the aftermath of the pandemic: whilst membership subscriptions now exceed pre-pandemic levels, casual income has failed to recover. However, the department will manage within its budget and no growth is required in 2023/24.

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, less interest received on balances held by the council. The net cost has reduced recently due to increasing interest rates leading to better returns on balances (while the majority of our borrowing is on fixed rates and is not immediately affected by interest rate variations). As we spend our reserves, however, interest received will fall.
- 7.3 A **contingency** of £4m has been included in the budget to manage significant pressures that arise during the year. These are further described in paragraph 12 below.
- 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. Growth of £1m has been added for the costs of reprocurement when the current waste contract ends in 2028. This is a substantial planning exercise. As stated at paragraph 6 above, it also includes £2m for any residual costs arising from the deferred social care reforms which exceed the amount of grant received. These budgets are offset by the effect of recharges from the general fund into other statutory accounts of the Council.
- 7.5 For this budget, **central provisions** are also held for the costs of pay awards, increased energy costs, and for the costs of additional waste to be disposed of. These will be allocated to departmental budget lines when there is more clarity about the costs.

8. **Resources**

- 8.1 The local government finance settlement for 2023/24 was published on 6th February, and is reflected in this report. Some information about grants has still not been published, requiring us to base this budget on estimates.
- 8.2 The majority of the council's core funding comes from business rates; government grant funding; and council tax. Service-specific sources of funding, such as fees & charges and specific grants, are credited to the relevant budget ceilings, and are part of departmental budgets.

Business rates and core grant funding

- 8.3 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).

- 8.4 Forecasts for business rates are particularly sensitive to assumptions about the current pressures on high street businesses. In addition, a rates revaluation will take effect from April 2023, which will redistribute funding between areas of the country. In the Autumn Statement, the Government announced new reliefs in addition to the usual transitional relief which follows a revaluation: these include a new small business scheme; and improved relief for retail, hospitality and leisure businesses.
- 8.5 In addition to new relief schemes, Government decisions in recent years have reduced the amount of rates collected from businesses, by limiting annual increases in the multiplier used to calculate rates. It has done so again in 2023/24 by freezing the multiplier at 2022/23 levels (in practice, at current rates of inflation, this represents a significant real terms reduction for businesses).
- 8.6 The government's practice is to compensate authorities for lost income due to changes to the scheme. So many changes have been made in recent years that compensation now makes up around a third of the "rates" income received by the Council.
- 8.7 The forecasts in this budget show no significant growth or decline in rates from the 2022/23 position. In effect, it appears that changes the Government is making to payable rates, including the impact of the revaluation and absence of inflationary uplift, will be broadly compensated by other changes in grants.
- 8.8 Other funding streams that were available in 2022/23, including the £7m Services Grant, have been significantly cut back in the 2023/24 settlement, with the funding diverted to other priorities.

Council tax

- 8.9 Council tax income is estimated at £144.9m in 2023/24, based on an tax increase of just below 5% (the maximum allowed without a referendum). The proposed tax increase includes an additional "social care levy" of 2%, designed to help social care authorities mitigate the growing costs of social care. Since our tax base is relatively low for the size of population, the levy raises just £2.7m per year.
- 8.10 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 has recovered after the pandemic.
- 8.11 Since 2013, we have been able to charge additional council tax as a premium on some empty properties. This was introduced to provide an incentive to get empty homes back into use. Further changes are proposed in the Levelling-Up and Regeneration Bill, currently before Parliament, which will widen the criteria we can use to set premia. Delays in passing the Bill mean that much of the benefit will not now be available until 2025/26. Our current policies are described at Appendix Seven.

Other grants

8.12 The majority of grant funding is treated as income to the relevant service departments and is not shown separately in the table at paragraph 4.1. Grants held corporately include:

(a) **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. Our allocation for 2023/24 is just £0.1m – at its peak in 2016/17 we received over £9m.

(b) **Social Care Grant**, which has been provided each year since 2016/17 to reflect national cost and demographic pressures. Additional funding was announced in the Autumn Statement in November; our share of this funding in 2023/24 will be £28.1m, and we expect this to rise again in 2024/25.

(c) **Other social care grants** include the Market Sustainability and Improvement Fund (£3.7m) and funding to support hospital discharge (£2.5m). Planning has been made more difficult because we do not know the conditions attached to the use of this grant.

Collection Fund surplus / deficit

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

8.14 The Council has an estimated **council tax collection fund surplus** of £1.3m, after allowing for shares to be paid by the police and fire authorities. This largely relates to reductions in the cost of the council tax support scheme: employment rates remain high since the pandemic.

8.15 The Council has an estimated **business rates collection fund surplus** of £1.4m. Because of changes to reliefs in recent years that were funded by government grants, the actual collection fund position is distorted and various technical accounting adjustments (that will balance out over the years) are required. For clarity, this budget presents the net underlying figure. The largest element of the underlying balance results from lower than expected appeals against property valuations at the last revaluation in 2017.

8.16 For both council tax and business rates, there is a further adjustment relating to deficits from the pandemic period in 2020/21, when collection across the country was severely affected. The overall (combined) collection fund, including all the various adjustments, is a surplus of £0.3m as shown at paragraph 4.

9. Managed Reserves Strategy

9.1 Since 2013, the Council has employed 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 recurrent cuts which have been necessary in nearly every budget year.

9.2 As at April 2022, resources available for the strategy totalled £79.2m. Of this, £23.3m is likely to be required to balance the 2022/23 budget, taking account of

expected pressures since the start of the year (and described in budget monitoring reports to Overview Select Committee). This will leave an estimated £56m for future years.

- 9.3 Unless further savings are found, the draft budget will require £34.1m of support from reserves in 2023/24, leaving just over £20m to offset pressures in 2024/25. This indicates that substantial cuts will be required to balance the budget in that year:

	£m
Available to support budget as at 1/4/2022	79.2
Required in 2022/23	(23.3)
Estimated amount required for 2023/24 budget	(34.1)
Balance Remaining for 2024/25	<u>21.8</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 Appendix 5 gives a summary of earmarked reserves as at 31st March 2022.
- 10.3 The planned use of earmarked reserves will be monitored through the regular revenue budget monitoring process, and reported to members in the 2023/24 financial year.

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 2023/24 is £1,833.00, an increase of just below 5% compared to 2022/23. 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 impact 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 2023/24 is achievable subject to the risks and issues described below.
- 12.3 The most significant risks in the 2023/24 budget include:
- (a) Inflation, which has risen sharply and at the time of writing is over 10% per year, and has put extreme pressure on pay and other costs. In addition, inflationary pressures on household budgets are likely to increase demand for a range of services across the Council. Recently, inflation has shown signs of levelling off, and economic forecasts expect it to reduce during 2023, although it is likely to remain higher than in recent years. If inflation remains higher than forecast, it will further increase costs in 2023/24 and in subsequent years;
 - (b) Energy costs are a particular inflationary pressure - they have increased sharply recently and remain difficult to predict;
 - (c) Adult Social Care spending pressures, specifically the risk of further growth in the cost of care packages. Growth provided in the budget is less than

previous practice suggests is needed, and management action is being taken to prevent overspending. This will need to be monitored;

- (d) The costs of looked after children, which have seen growth nationally;
- (e) The costs of special needs transport, where the forecasts also require management action to avoid overspending.

12.4 The budget seeks to manage these risks as follows:

- (a) A minimum balance of £15m of reserves will be maintained;
- (b) Provisions have been made in the budget for likely pressures on pay and energy costs, and will be kept under review during the year. Provisions of £2m per year have also been made for any residual costs from the deferral of adult social care reform;
- (c) A contingency of £4m has been included in the budget for 2023/24. This is higher than in previous years, to reflect the greater risks around inflation;
- (d) As a last resort, managed reserves could be used, but this increases pressure in 2024/25.

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 2023/24, more exceptions than usual have been 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, and from Unison, 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 2023/24, 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 2023

Appendix One

Budget Ceilings

	2022/23 latest budget	Savings agreed	Growth planned in budget	National Insurance adjustments	Other technical changes	Non pay inflation	Budget ceiling 23/24
<u>1. City Development & Neighbourhoods</u>							
<u>1.1 Neighbourhood & Environmental Services</u>							
Divisional Management	243.6				(0.6)		243.0
Regulatory Services	2,240.4				(14.4)		2,226.0
Waste Management	18,178.0	(30.0)			(1.8)	2,979.1	21,125.3
Parks & Open Spaces	5,110.4	(65.0)			(35.9)		5,009.5
Neighbourhood Services	5,861.6	(26.0)			(11.6)		5,824.0
Standards & Development	1,855.5	(59.0)			(9.4)		1,787.1
Divisional sub-total	33,489.5	(180.0)	0.0	(73.7)	0.0	2,979.1	36,214.9
<u>1.2 Tourism, Culture & Inward Investment</u>							
Arts & Museums	4,425.2	(182.2)			(7.2)		4,235.8
De Montfort Hall	581.8	(40.0)			(6.3)		535.5
City Centre	176.7				(0.7)		176.0
Place Marketing Organisation	390.4				(1.0)		389.4
Economic Development	93.6	24.0			(3.8)		113.8
Markets	(186.8)	(20.0)			(1.7)		(208.5)
Adult Skills	(870.4)						(870.4)
Divisional Management	187.6				(1.0)		186.6
Divisional sub-total	4,798.1	(218.2)	0.0	(21.7)	0.0	0.0	4,558.2
<u>1.3 Planning, Transportation & Economic Development</u>							
Transport Strategy	10,043.9	(45.0)			(14.3)		9,984.6
Highways	3,364.1	(305.0)			(28.5)		3,030.6
Planning	1,148.5				(10.5)		1,138.0
Divisional Management	142.3				(0.8)		141.5
Divisional sub-total	14,698.8	(350.0)	0.0	(54.1)	0.0	0.0	14,294.7
<u>1.4 Estates & Building Services</u>	6,002.7	(1,046.2)			(29.3)		4,927.2
<u>1.5 Housing Services</u>	3,834.7	(174.0)	1,000.0		(25.8)		4,634.9
<u>1.6 Departmental Overheads</u>	833.8	(256.0)			(2.0)		575.8
DEPARTMENTAL TOTAL	63,657.6	(2,224.4)	1,000.0	(206.6)	0.0	2,979.1	65,205.7

Appendix One

Budget Ceilings

	2022/23 latest budget	Savings agreed	Growth planned in budget	National Insurance adjustments	Other technical changes	Non pay inflation	Budget ceiling 23/24
<u>2. Adults</u>							
<u>2.1 Adult Social Care & Safeguarding</u>							
Other Management & support	767.2				(2.6)		764.6
Safeguarding	243.0				(0.9)		242.1
Preventative Services	7,389.0				(16.6)		7,372.4
Independent Sector Care Package (131,169.6		18,743.0			836.5	2,723.1
Care Management (Localities)	8,355.2				(24.7)		8,330.5
<i>Divisional sub-total</i>	147,924.0	0.0	18,743.0	(44.8)	836.5	2,723.1	170,181.8
<u>2.2 Adult Social Care & Commissioning</u>							
Enablement & Day Care	3,326.5				(13.3)		3,313.2
Care Management (LD & AMH)	5,518.0	(128.4)			(20.3)		5,369.3
Preventative Services	1,029.8	(10.0)			(0.3)		1,019.5
Contracts, Commissioning & Other :	6,680.7	(120.6)			(18.4)		6,541.7
Departmental	(34,222.3)	(80.0)			(2.8)		(34,305.1)
<i>Divisional sub-total</i>	(17,667.3)	(339.0)	0.0	(55.1)	0.0	0.0	(18,061.4)
DEPARTMENT TOTAL	130,256.7	(339.0)	18,743.0	(99.9)	836.5	2,723.1	152,120.4
<u>3. Education & Children's Services</u>							
<u>3.1 Strategic Commissioning & Business</u>							
	2,510.0	(114.0)			(10.5)		2,385.5
<u>3.2 Learning Quality & Performance</u>							
Raising Achievement	397.7				(3.1)		394.6
Learning & Inclusion	1,400.4	(29.1)			(6.0)		1,365.3
Special Education Needs and Disab	16,365.7		1,500.0		(29.1)		17,836.6
<i>Divisional sub-total</i>	18,163.8	(29.1)	1,500.0	(38.2)	0.0	0.0	19,596.5
<u>3.3 Children, Young People and Families</u>							
Children In Need	14,933.0	(456.4)			(34.9)		14,441.7
Looked After Children	41,126.8	(15.0)	2,500.0		(29.3)	210.3	43,792.8
Safeguarding & QA	2,648.9	(26.7)			(7.7)		2,614.5
Community Safety	907.8				(2.2)		905.6
Early Help Targeted Services	5,935.0	(1.5)			(17.4)		5,916.1
Early Help Specialist Services	3,582.8	(8.9)			(13.6)		3,560.3
<i>Divisional sub-total</i>	69,134.3	(508.5)	2,500.0	(105.1)	0.0	210.3	71,231.0
<u>3.4 Departmental Resources</u>	1,539.7	(61.0)	500.0		(2.4)		1,976.3
DEPARTMENTAL TOTAL	91,347.8	(712.6)	4,500.0	(156.2)	0.0	210.3	95,189.3

Appendix One

Budget Ceilings

	2022/23 latest budget	Savings agreed	Growth planned in budget	National Insurance adjustments	Other technical changes	Non pay inflation	Budget ceiling 23/24
<u>4. Health and Wellbeing</u>							
Adults' Services	8,950.7	(50.0)					8,900.7
Children's 0-19 Services	8,819.3	(100.0)				63.9	8,783.2
Lifestyle Services	1,313.7	(55.0)		(3.3)			1,255.4
Staffing & Infrastructure & Other	2,606.2			(10.0)			2,596.2
Sports Services	2,420.6			(15.5)			2,405.1
DEPARTMENT TOTAL	24,110.5	(205.0)	0.0	(28.8)	63.9	0.0	23,940.6
<u>5. Corporate Resources Department</u>							
<u>5.1 Delivery, Communications & Politica</u>	5,827.2	(50.5)		(19.2)			5,757.5
<u>5.2 Financial Services</u>							
Financial Support	5,251.5	(172.0)		(23.5)			5,056.0
Revenues & Benefits	7,242.6			(29.1)	433.0		7,646.5
Divisional sub-total	12,494.1	(172.0)	0.0	(52.6)	433.0	0.0	12,702.5
<u>5.3 Human Resources</u>	4,020.3	(25.0)		(15.4)			3,979.9
<u>5.4 Information Services</u>	10,866.1	(45.0)		(29.2)			10,791.9
<u>5.5 Legal Services</u>	3,774.3			(21.5)			3,752.8
DEPARTMENTAL TOTAL	36,982.0	(292.5)	0.0	(137.9)	433.0	0.0	36,984.6
TOTAL -Service Budget Ceilings	346,354.6	(3,773.5)	24,243.0	(629.4)	1,333.4	5,912.5	373,440.6
Public Health grant							(28,448.1)
Assumed use of social care grants							6,146.6
Provision for additional waste							2,000.0
Pay award provision							9,000.0
Net service budgets							362,139.1

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 (policy decisions will include use of the provision for waste re-procurement and the provision for residual ASC reforms);
 - (b) the Director of Finance may allocate the provisions for pay awards, additional waste and energy cost pressures;
 - (c) The City Mayor may determine how the contingency can be applied;
 - (d) The capital financing budget is spent as a consequence of the Council's treasury management strategy (elsewhere on your agenda).

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 4.99% council tax increase (which includes a precept of 2% 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 2022/23 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 2022, there were 131,976 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.
- 2.4 For 2023/24, additional government support is being provided so all CTSS claimants will receive an additional £25 reduction on their bill (or reduce the bill to zero).

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 other 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 after CTSS	Weekly increase / (reduction) after CTSS and £25 additional discount
A-	310	£0.93	£0.19	(£0.29)
A	77,845	£1.12	£0.22	(£0.26)
B	26,427	£1.30	£0.26	(£0.22)
C	15,328	£1.49	£0.45	(£0.03)
D	6,539	£1.67	£0.63	£0.15
E	3,372	£2.05	£1.00	£0.52
F	1,517	£2.42	£1.38	£0.90
G	602	£2.79	£1.75	£1.27
H	36	£3.35	£2.31	£1.83
Total	131,976			

- 3.2 In most cases, the change in council tax (around £1.30 per week for a band B property with no discounts) is a small proportion of disposable income, and a small contributor to any squeeze on household budgets. For households on the maximum CTSS, the additional £25 discount means many will pay *less* council tax in 2023/24 than in 2022/23. This should protect the lowest-income households from the impact of the increase next year; in future years, households receiving CTSS will see an increase in the amount payable if the Government withdraws the £25 payment, albeit small in most cases (just 26p per week for a band B property eligible for the full 80% reduction).
- 3.3 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 Households at all levels of income have seen their real-terms income decline due to cost of living increases, and wages that have failed to keep up with inflation. These pressures are not limited to any protected group; however, there is evidence that low-income families spend a greater proportion of their income on food and fuel (where price rises have been highest), and are therefore more affected by current price increases.
- 3.5 The government has confirmed that pensions and most benefit rates will increase by inflation in April. However, this does not apply to Local Housing Allowance (LHA) rates for those renting in the private sector. This will put further pressure on lower-income renters if their rents increase. [NB council and housing association tenants are not affected by this as their rent support is calculated differently and their full rent can be compensated from benefits].

4. **Alternative options**

- 4.1 The realistic alternative to a 5% council tax increase would be a lower (or no) increase. It should be noted that the proposed increase is significantly below inflation, and therefore represents a real-terms cut in council tax payable and therefore our 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 therefore require a greater use of reserves and/or more cuts to services in 2024/25.
- 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 network of food banks in the city; 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 "BetterOff Leicester" online tool includes a calculator to help residents ensure they are receiving all relevant benefits.
- 5.2 The Household Support Fund has been extended to March 2024 and will continue to provide food vouchers, water and energy bill support and white goods to vulnerable 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.

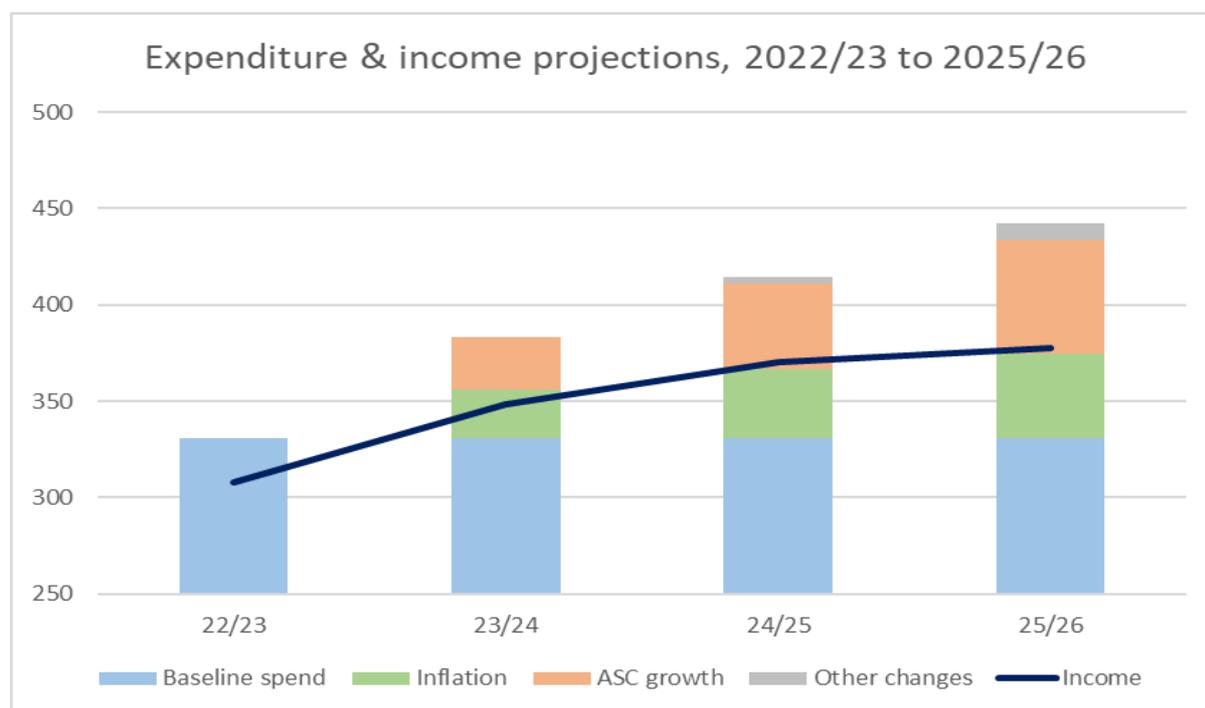
Analysis of impact based on protected characteristic

Protected characteristic	Impact of proposal:	Risk of negative impact:	Mitigating actions:
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>While employment rates remain high, earnings have not kept up with inflation in recent months so working families are likely to already be facing pressures on household budgets. Younger people, and particularly children, were more likely to be in poverty before the current cost-of-living crisis and this is likely to have continued.</p>	Working age households and families with children – incomes squeezed through reducing real-terms wages.	Access to council discretionary funds for individual financial crises; access to council and partner support for food; and advice on managing household budgets.
Disability	<p>Disabled people are more likely to be in poverty. In addition, many disabled people are disproportionately affected by household fuel costs and may have limited opportunities to reduce usage.</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>	Further erode quality of life being experienced by disabled people.	Disability benefits are disregarded in the assessment of need for CTSS purposes. Access to council discretionary funds for individual financial crises; access to council and partner support for food; and advice on better managing budgets.
Gender Reassignment	No disproportionate impact is attributable specifically to this characteristic.		
Pregnancy & Maternity	No disproportionate impact is attributable specifically to this characteristic (although see below for childcare costs; and the impacts on lone parents).		

Protected characteristic	Impact of proposal:	Risk of negative impact:	Mitigating actions:
Race	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.	Household income being further squeezed through low wages and reducing levels of benefit income if in receipt of LHA.	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, who are more likely to experience poverty.	Incomes squeezed through low wages and reducing levels of benefit income. Increased risk for women as they are more likely to be lone parents.	If in receipt of Universal Credit or tax credits, a significant proportion of childcare costs are met by these sources. Access to council discretionary funds for individual financial crises, access to council and partner support for food and advice on managing household budgets.
Sexual Orientation	Gay men and Lesbian women are more likely to be in poverty than heterosexual people and trans people even more likely to be in poverty and unemployed. This would mean they are more likely to be on benefits and there could be a disproportionate impact.	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. Local support organisations such as the LGBT Centre can signpost individuals to advice and support services.

Medium Term Financial Outlook 2023/24 – 2025/26

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, and depend heavily on government decisions about future funding of services, especially for 2025/26.
2. Our central forecasts for the period up to 2025/26 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 34% (in cash terms) while income projections rise by only 23% 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).



NB scale does not start at zero

- **We have already invested significant amounts in social care.** Between 2016 and 2022 we saw the cost of adults’ social care packages increase by nearly £50m, or 50%, 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.

- **Since the 2022/23 budget was set, sharp increases in inflation have added over £25m to our costs.** In particular, energy costs and pay awards have been far higher than predicted.
 - **Other budget areas have already seen significant cuts in the last decade.** Expenditure on services other than adults' and children's social care fell from £192m in 2010 to £106m in 2020.
3. The 2022/23 budget was balanced by using £24m of reserves. On current projections, sufficient reserves remain to balance the 2023/24 budget and provide partial support to the 2024/25 budget. Ongoing savings will need to be found to ensure the longer-term financial stability of the Council.
 4. Departments are working on achieving savings where possible. This is a continuous process and identified savings will be made throughout the course of the year.
 5. A summary of the central budget projections for the next three years is set out below:

	2023/24 £m	2024/25 £m	2025/26 £m
Net service budget (including inflation)	372.5	399.1	421.8
Corporate and other centrally held budgets	6.2	7.1	8.2
Contingency	4.0		
Planning provision		8.0	12.0
Expenditure total	382.7	414.2	442.0
Business rates income	71.8	74.7	75.9
Top-up payment	58.1	60.4	61.5
Revenue Support Grant	33.4	34.7	34.7
Council Tax	144.9	153.8	159.1
Collection Fund surplus	0.3		
Social Care grants	35.9	44.4	44.4
Other grants	4.2	2.0	2.0
Income Total	348.6	370.0	377.6
Indicative Budget gap	34.1	44.2	64.4

6. The largest area of uncertainty in the forecasts surrounds the amount of government funding that will be available in 2025/26 which falls into a new government planning period. We have been warned to expect a new period of austerity.
7. The planned review of local government funding allocations (the "Fair Funding Review") is now likely to be delayed until 2025. We do not know what the outcome of any review will be, but the delay means that authorities are still funded on a formula that is at least a decade out of date; and lower income

areas (including Leicester) are still disproportionately affected by the way funding cuts were implemented from 2013 to 2016. In particular, no recognition is given to the city's increase in population and this is to some extent still driven by the **2001** census figures. The independent Institute for Fiscal Studies has commented that "Indeed, the issues with police, local government and public health funding allocations are so significant that the amounts allocated to different places are essentially arbitrary."

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

	Assumptions – central scenario	Risks & alternative options modelled
Expenditure		
Pay costs	We assume a pay award averaging 5% in 2023/24, 3% in 2024/25 and 2.5% in 2025/26, as general inflation is expected to reduce.	Inflation appears to have stabilised in recent months, although it remains high at 10.5% (CPI) in December 2022. Forecasts suggest it will begin to reduce later in 2023; 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.
Energy costs	Assumed that gas prices we pay will increase by 300% in April 2023, whilst electricity prices will rise by 40% in October 2023. Costs for 2024/25 are highly uncertain. An indicative increase of 17% has been included.	
Non-pay inflation	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, energy and the waste management contract; an allowance is built in for these increases. An allowance has also been made in 2023/24 for SEN transport.	
Adult social care costs	Demographic pressures and increasing need lead to cost pressures of 6% of the ASC budget in 2023/24 and 4% in 2024/25. This will require action in the Department to remain within these spending totals Increases in the National Living Wage will also add to costs. Forecasts for 2025/26 are particularly volatile; an indicative £15m additional budget has been included for the year.	
Other service cost pressures	Departments are expected to find savings to manage cost pressures within their own areas. From 2024/25 onwards, an £8m planning provision has been included (twice the normal amount) to meet unavoidable costs that cannot be managed within departments. This subsequently increases by £4m in 2025/26.	Costs relating to children who are looked after have been increasing nationally, and are a particular risk for future years. Home-to-school transport costs are also an area of significant pressure, and will require action to remain within budgets.

Income		
Council Tax	<p>Band D Council Tax will increase by 4.99% per year (3% base increase plus 2% for the Adult Social Care precept), for 2023/24 and 2024/25; and then revert to 2.99% for 2025/26.</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>
Business rates	<p>No significant movements in the underlying baseline for business rates.</p>	<p>Business rates are particularly sensitive to economic conditions.</p> <p>We believe that the national business rates system in its current form is becoming unsustainable. The local government business rates retention system is being “patched up” considerably as a result. Long term stability seems unlikely.</p>
Government grant	<p>Government funding for 2024/25 follows the plans set out in the CSR as adjusted by the Autumn Statement in November 2022, with no significant distributional changes.</p> <p>The Services Grant is likely to be cut further in 2024/25.</p> <p>For 2025/26, we assume a cash flat settlement for centrally-funded elements including social care funding and RSG (with no allowance for inflation). The Autumn Statement implied real terms cuts of 0.7% for unprotected departments, which would include local government.</p>	<p>We do not yet have the details of local government funding for 2024/25.</p> <p>Local government may be treated less favourably than other unprotected departments. The 2025/26 settlement may lead to grant cuts in cash terms.</p>
Social care funding	<p>Terms and conditions of the grants will mean that most of the additional funding for market sustainability and hospital discharge will be needed for new expenditure, over and above previous plans.</p>	<p>Will be kept under review once the full terms & conditions are known.</p>

Earmarked Reserves

	Balance at 31st March 2022
	£000
Ring-fenced Reserves	
DSG not delegated to schools	-
School Balances	30,095
School Capital Fund	2,491
Education & Skills Funding Agency Learning Programme	971
Arts Council National Portfolio Organisation Funding	319
NHS Joint Working Projects	25,013
Schools Buy Back	1,915
Covid-19 Collection Fund Compensation Grants*	13,397
Total Ring-fenced Reserves	74,201
Corporate Reserves	
Capital Programme Reserve	98,834
Managed Reserves Strategy	83,270
BSF Financing	9,034
Insurance Fund	11,495
Severance Fund	4,827
Service Transformation Fund	5,195
Welfare Reserve	2,551
Anti- Poverty Reserve	3,000
Total Corporate Reserves	218,206
Earmarked Reserves Departmental	
Financial Services Reserve	5,119
ICT Development Fund	10,480
Delivery, Communications & Political Governance	2,440
Housing	2,802
City Development (Excl Housing)	12,672
Social Care Reserve	9,998
Health & Wellbeing Division	5,631
Other Departmental Reserves	464
Total Other Reserves	49,606
Total Earmarked Reserves	342,013

Consultation Responses

1. Two consultation responses have been received. from the **Mental Health Partnership Board (MHPB**
2. The **Mental Health Partnership Board** members expressed their concerns about the funding squeeze and the likely effect on service levels. The full response is available from the report authors.
3. A response has been received from **Unison**, which will be circulated with the agenda.
4. Comments from scrutiny committees will also be circulated with the agenda.

Empty Properties

1. This appendix sets out the current policy on council tax for empty properties, and outlines changes that are expected for future years, subject to legislation and Council decisions.

Unfurnished Empty Properties

2. Since 2013, councils have had considerable discretion over the levels of tax payable on unfurnished empty properties (Local Government Finance Act, 1992 and associated regulations). Our policy seeks to use this discretion to support our empty homes policy, by charging the maximum permitted premium for such homes, once they have been empty for more than a month.
3. No changes to the current policy are proposed for 2023/24. From 1st April 2024, subject to legislation currently in Parliament, changes are proposed which will increase the amounts payable on homes which have been empty between one and two years. A formal decision will be required once the legislation has passed into law.
4. These homes can be charged more than the standard council tax for occupied properties. The premium applied depends on how long the property has been empty, irrespective of the owner.
5. These are our policies for charging Council Tax on unfurnished empty properties:

Description	Current level of charge (unchanged for 2023/24)
Empty for up to one calendar month	0%
Empty from one calendar month to two years	100%
Empty for more than two years	200%
Empty for more than five years	300%
Empty for more than ten years	400%

Empty Furnished Homes

6. The proposed legislation will also permit authorities to charge a premium of up to 100% on tax for homes only occupied periodically, which are furnished. At present, no premium can be charged on these. A formal decision will be required once the legislation has passed into law.
7. Because 12 months' notice is required, any decision relating to furnished homes will not take effect until 2025/26.