This document is intended as a response to, and comment upon, Leicester City Council's draft revenue budget for 2025/26. It does not attempt to substantively comment upon the draft Capital Programme. However, given the increased significance of capitalisation to the Council's short-to-medium-term financial planning, there may be some crossover in this specific regard.

Financial and political context

We understand the scale of the financial crisis facing the Council, and the local government sector as a whole. While the Conservative authors of this crisis were, to our great relief, turned out of national government in last year's general election, the new Government has yet to provide sufficient funding to plug the gaps faced by this and many other local authorities – gaps which are, of course, a legacy of Conservative austerity. There seems to be broad agreement between the different tiers of government that the current situation is unsustainable.

It is, therefore, inevitable that some kind of reform is coming. Most obviously, the Government is consulting on new reforms to the local government funding system (the "Fair Funding Review"), which appear set to rebalance the sector's funding formula towards areas of greater deprivation. It is difficult to envisage a scenario in which any reasonable outcome of this consultation does not result in an improved financial position for an urban, high-deprivation Council such as this one. Communications published by the Government suggest that implementation of the revised funding system is likely to begin in time for the 2026-27 financial year[1]. It is reasonable to assume, then, that the coming 2025-26 year – the last year prior to the implementation of the funding reform – is going to be the peak of the financial challenge. <u>We therefore urge the Executive and Elected Members to use all available resources to protect vital local services from further brutal (and, with the greater-than-expected settlement figure, unnecessary) cuts.</u>

Failure to do so will carry both social and political costs. As we did last year, we remind the City Mayor, Executive, and Labour Elected Members of this pledge from the 2023 local manifesto, on which they were all elected:

Pay and household income is too low in the city. We have to intervene. ***We will use our clout as employers and purchasers to support the city economy.*** *We will invest and attract investment.* ***We will take the lead to ensure the city economy provides secure, well paid work.***[2]

This remains an accurate assessment of the city's economy. And it is as true now as it was last year that cuts to services, such as redundancies and salary reductions, coming from one of the city's largest employers will have exactly the opposite effect – perhaps even more so than the Council realises. Even where its employment decisions are not directly applicable, those decisions carry significant moral authority in related sectors. In other words, job cuts and/or salary cuts made by the Council have a ripple effect, emboldening other employers (especially, but not limited to, the public and voluntary sectors) to consider redundancies, pay cuts, and other attacks on employees' terms and conditions. This, in turn, worsens the very problem identified in the manifesto: that household income in Leicester is too low. This further reduces the Council's own local taxation revenue streams, since Council Tax is a

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[1] Council funding to be overhauled to deliver better outcomes - GOV.UK (November 2024)
[2] Labour 2023 Leicester Manifesto, p.19 (emphasis added)

much more reliable source of income than Non-Domestic Rates[3], creating a vicious cycle in which cuts make the city poorer, necessitating further cuts.

The potential political ramifications of failing to protect local services have grown even starker in the last year. Our city has a proud tradition of resisting the encroachment of far-right forces; however, the continuing damage wrought on public services by falling budgets is eroding public confidence in the efficacy of all levels of government, thus fuelling the false narratives peddled by far-right political figures – emboldened as they are by their increasing national electoral performances. This is a danger that the Council must not underestimate.

The budget position and proposed strategy

At the time that the initial draft budget was published in early December 2024, the projected budget gap (i.e. between expected expenditure and projected income) of £46.7m for 2025/26[4]. Members should note that this is a significantly better position than was predicted when the 2024/25 revenue budget was agreed – that budget projected a deficit of £90.4m for 2025/26[5]. The reduction in projected deficits appears to be mostly a reflection of successful work to constrain growth in expenditure, rather than from cutting existing services, which UNISON certainly welcomes.

The projected budget position improved further when the final local government finance settlement was received, some weeks after the publication of the initial report. As was presented to the Overview Select Committee in the 22nd January addendum to the budget report, the Council's final settlement figure is approximately £19m higher than was predicted by the draft budget report. The January addendum therefore revises the projected 2025/26 budget gap to £30.1m[6] - meaning the deficit is more than £60m (or, to put it another way, 66%) lower than was expected when last year's budget was approved.

That said, there remains a budget gap. To address this and potential future deficits (though, as noted above, the position from 2026/27 is unlikely to be as bleak as 2025/26), the report proposes a five-strand strategy[7]; in brief:

- *Strand One:* Releasing additional funds (totalling £110m) to add to the reserves on hand to meet budget deficits. This sum is to be achieved by liquidating the previously-untapped capital reserves, as well as the department-specific reserves carried over from previous years.

- *Strand Two:* Reductions in the capital programme to minimise borrowing costs (as liquidating the capital reserves will require borrowing to meet the costs of already-approved capital projects).

- *Strand Three:* A property-sale programme which will raise £60m in one-off funds, which can then (with Secretary of State sign-off) be used to support the revenue budget.

[3] The gap between receipts from Council Tax and Non-Domestic Rates widened further in the 2023/24 Statement of Accounts: £173m and £95m respectively, even before NDR transfers to Central Govt.
[4] Budget report, para. 5.7
[5] Budget report, para. 5.2
[6] Addendum to budget report, p.3
[7] Budget report, para. 5.6

- *Strand Four:* Continue work to constrain growth in expenditure in demand-pressured service areas.

- *Strand Five:* Make permanent savings (i.e. service cuts) of £20m from the annual revenue budget.

UNISON's proposals

UNISON is in full support of Strands 1 to 4. Indeed, all four are measures we have long urged the Council to enact. Liquidation of unnecessary financial reserves, prudential borrowing, seeking capitalisation directives from central government, and constraining the sums being handed over to unscrupulous private sector profiteers have all been called for in previous UNISON budget responses. We are pleased that the Executive now accepts the wisdom of these proposals.

However, we oppose Strand Five in the strongest possible terms. With the finance settlement being almost £20m higher than expected, there is clearly no need to proceed with £20m of further cuts to services: the unexpected extra funding offsets the need to do so, provided the rest of the strategy is also implemented as originally planned.

Yet the addendum to the budget report proposes that the proceeds from the sale of assets (i.e. the £60m to be raised from Strand Three) are *not* used to support revenue spending in the next three years, as was originally planned. The addendum instead proposes that the £19m of additional headroom provided by the financial settlement is instead used to offset the need to use this money in the short-to-medium term[8] – suggesting it will instead be parked in a reserve, where it does nothing. This, in our view, would be grossly irresponsible. Elected Members have been handed an opportunity to prevent any further devastation to the services you oversee, at least in the short-to-medium term. We implore you to take it.

The Executive and senior finance officers may argue that the Secretary of State will not consent to the use of capital receipts for revenue spending without a savings plan. This is an untested assumption, and Members should not accept it as a given unless and until the Executive actually *receives* such an indication from the Secretary of State.

In short – we urge Elected Members to ensure that the Executive uses the extra £19m to protect jobs and services *now*, at the peak of the crisis before the implementation of the Fair Funding Review; rather than squirrelling away yet more reserve funds that protect nobody from anything, and playing into the hands of the far-right. Achieving this is simple: it merely requires the removal of Strand Five from the budget strategy. That, plus the implementation of the rest of the strategy, will protect jobs and services for the immediate future – and we will ensure that our members hear that you have chosen to defend their livelihoods.

[8] Addendum to budget report, p.3