

# Overview Select Committee

Date: 10<sup>th</sup> February 2022

## **Draft Revenue Budget 2022/23**

Lead director: Director of Finance



City Mayor

DRAFT

## Useful information

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### 1. **Purpose**

- 1.1 The purpose of this report is to describe the City Mayor's draft budget for 2022/23, which will be considered by scrutiny committees in the new year and by the Council on the 23<sup>rd</sup> February 2022.
- 1.2 In recent years, a full draft budget report has been published in December, prior to the Council meeting. This year, due to lack of information from the government at an early enough stage, it has not been possible to produce a full report. This is therefore a shortened version, summarising the position.

### 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 on 27<sup>th</sup> October 2021. As a consequence we believe, without further action, we face an increasing and unsustainable budget gap in future years. We do not yet have the local government finance settlement, the outcome of which is more unpredictable than usual.
- 2.8 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.
- 2.9 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. £4m has been saved in this way.
- 2.10 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, although we do not yet have full details and have reason to believe it will prove to be insufficient.
- 2.11 The national social care proposals explicitly do not provide any funding towards existing pressures in social care, which continue to escalate nationally. At the time of writing, the only support announced towards these costs is the ability to increase council tax by an additional 1% - this will raise just £1.3m in Leicester. Adult social care costs, conversely, are estimated to increase by £18m in 2022/23 rising to £43m by 2023/24 as a result of rising numbers of people needing care, increases in the needs of those already receiving care, and the impact of increases in the national living wage and a tight labour market.
- 2.12 The Comprehensive Spending Review provides an additional £1.4bn for local government in 2022/23, in addition to monies provided for social care reform. Our working assumption is that £9m of this will be allocated to Leicester. Whilst this is intended for all services, in practice it will do no more than make a small contribution to the growth of costs in social care. There is no further money in 2023/24 or 2024/25.

- 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 likely 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 3 and shows the escalating scale of the financial pressures facing the council.

### 3. **Budget Overview**

- 3.1 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 3):

	<b>2022/23 £m</b>
<b>Service budget ceilings</b>	323.0
<b>Corporate Budgets</b>	
Capital Financing	7.5
Miscellaneous Corporate Budgets	1.2
Contingency	1.0
<b>Total forecast spending</b>	<b>332.7</b>
<b>Rates retention scheme:</b>	
Business rates income	65.3
Top-up payment	49.8
Revenue Support Grant	38.4
<b>Other resources:</b>	
Council Tax	133.6
Collection Fund deficit	(2.9)
Social Care grants	13.1
New Homes Bonus	3.7
<b>Total forecast resources</b>	<b>301.0</b>

<b>Underlying gap in resources</b>	<b>31.7</b>
Proposed funding from reserves	(31.7)
<b>Gap in resources</b>	<b>NIL</b>

#### 4. **Departmental Budget Ceilings**

- 4.1 Budget ceilings will be 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;
  - (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.
- 4.2 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.
- 4.3 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**

- 4.4 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.
- 4.5 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."
- 4.6 On 7<sup>th</sup> 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.

- 4.7 The government has also promised to compensate public bodies for the cost of national insurance increases they will incur, but it appears that this is included in the additional £1.4bn announced in the CSR.
- 4.8 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.
- 4.9 The government has stated that funding for the cost of demographic growth will need to be covered through core funding and council tax, via a 1% adult social care precept (which will raise £1.3m). This presents a substantial challenge to the authority, and is the prime cause of the looming cuts described in the medium term outlook.
- 4.10 The proposed budget includes the following growth for adult social care:

	<b>2022/23</b>	<b>2023/24</b>
	<b>£000</b>	<b>£000</b>
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
	18,387	42,877
Less measures to reduce package cost increases	(1,927)	(1,927)
<b>Net Growth</b>	<b>16,460</b>	<b>40,950</b>

- 4.11 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.

- 4.12 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.
- 4.13 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.
- 4.14 These measures are expected to reduce the overall level of growth by £1.9m per year.

### **Education and Children's Services**

- 4.15 In common with authorities across the country, increased demand for children's social care services has created substantial budget pressure for many years.
- 4.16 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 1<sup>st</sup> April 2021 was higher than budgeted.
- 4.17 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.
- 4.18 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.

4.19 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.

4.20 The budget makes provision for the following additional monies:

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

4.21 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**

4.22 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.

4.23 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, approximately £4.3m will be required for income shortfalls in City Development and Neighbourhoods. The key shortfalls are:

- (a) Car parking and bus lane enforcement (the loss is estimated at £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.

- 4.24 The above pressures 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.
- 4.25 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:

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

### **Health and Wellbeing**

- 4.26 The Health and Wellbeing division consists of core public health services, together with sports and leisure provision.
- 4.27 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.
- 4.28 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.
- 4.29 The future of public health grant is unclear, although it is expected to be protected in real terms until 2024/25 (at national level). The Government's original intention was that the grant would be consolidated into the new 75% Business Rates Retention Scheme, the introduction of which continues to be deferred.
- 4.30 The department is able to live within its resources in 2022/23, and no budget growth is proposed.

### **Corporate Resources Department**

- 4.31 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.
- 4.32 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.

- 4.33 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:

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

## 5. **Corporately held Budgets and Provisions**

- 5.1 In addition to the services' budget ceilings, some budgets are held corporately. These are described below.
- 5.2 The budget for **capital financing** represents the cost of interest and debt repayment on past years' capital spending. These budgets are under pressure due to falling interest rates – whilst interest rates on our debt are mostly fixed, our investment income is reducing due to rates which fell during the pandemic. We were protected from these falls in 2021/22, as we lent money to other authorities for periods in excess of one year, prior to 2021. These loans are due to be (or have been) repaid, and we will be unlikely to secure the same level of interest when the funds are reinvested even if rates do start to edge up.
- 5.3 A **contingency** of £1m has been included in the budget to manage significant pressures that arise during the year.
- 5.4 **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.

## 6. **Resources**

- 6.1 This draft budget has been prepared on the basis of the government's Spending Review published in late October. At the time of writing, we do not know the details of the grant funding we will receive next year (this is expected in December).

### **Business rates and core grant funding**

- 6.2 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).
- 6.3 The top-up and RSG are set by the government. Figures in the draft budget are based on the national-level information published by the government in October,

which indicated an increase in core funding in 2022/23, albeit not sufficient to reverse previous cuts or to deal with growing pressures in social care.

- 6.4 Forecasts for business rates are particularly sensitive to assumptions around the speed and extent of the economic recovery since 2020. The figures in the draft budget assume no significant growth or decline in rates from the current position, apart from inflationary increases and improving collection rates as the economy recovers.

#### Council tax

- 6.5 Council tax income is estimated at £133.6m in 2022/23, based on a tax increase of just below 3% (the maximum allowed without a referendum). The proposed tax increase includes the additional “social care levy” allowed since 2016/17, and designed to help social care authorities mitigate the growing costs of social care. The allowable levy has decreased since last year, despite the escalating demographic and cost pressures facing the service.
- 6.6 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.

#### Other grants

- 6.7 The majority of grant funding is treated as income to the relevant service departments and is not shown separately in the table at 3.1. New Homes Bonus and grants to support social care, continuing from previous years, are held corporately.
- 6.8 In recent years, the amount of social care grant has increased annually, to reflect national cost and demographic pressures. The recent Comprehensive Spending Review did not commit any additional funding to continue this support.

#### Managed Reserves Strategy

- 7.1 Since 2013, the Council has used a managed reserves strategy, contributing money to reserves in the early years of the strategy, and drawing down reserves in later years. This policy has bought time to more fully consider how to make the substantial cuts which have been necessary.
- 7.2 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.
- 7.3 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:

	<b>£m</b>
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	(31.7)
<b>Balance Remaining for 2023/24</b>	<b>20.4</b>

## 8. **Earmarked Reserves**

- 8.1 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.
- 8.2 Earmarked reserves are shown at Appendix 2 to this report.
- 8.3 The earmarked reserves also include sums set aside to support covid recovery. Together with unringfenced government grant received in 21/22, the following monies are available to support the aftermath of the pandemic:

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

- 8.4 The Council is seeking a further £3m from the Government to compensate loss of fees and charges income in 2021/22.
- 8.5 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).
- 8.6 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.

## 9. **Budget and Equalities**

- 9.1 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.
- 9.2 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.

- 9.3 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.
- 9.4 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.
- 9.5 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.
- 9.6 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.
- 9.7 A number of risks to the budget are addressed within this report (section 10 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.
10. **Risk Assessment and Estimates**
- 10.1 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.
- 10.2 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.
- 10.3 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, potentially arising from a new variant;
  - (d) Inflation, which has been increasing, and was expected to reach 4.4% by the spring of 2022 by the Office of Budgetary Responsibility; some commentators have suggested that it could even peak later next year at

as much as 6%. 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).

10.4 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 £1m 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.

10.5 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).

## 11. **Financial, Legal and Other Implications**

### 11.1 **Financial Implications**

This report is exclusively concerned with financial issues.

### 11.2 **Legal Implications**

11.2.1 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.

11.2.2 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.

11.2.3 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.

11.2.4 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 will undertake tailored consultation exercises with wider stakeholders in addition to ratepayers.

11.2.5 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 9. 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 One.

11.2.6 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**

**7<sup>th</sup> December 2021**

## Appendix 1

### 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 October 2021, there are 130,173 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.

<b>Band</b>	<b>No. of Properties</b>	<b>Weekly increase</b>	<b>Minimum Weekly Increase under CTSS</b>
A-	261	£0.54	£0.11
A	77,202	£0.65	£0.13
B	26,029	£0.76	£0.15
C	14,878	£0.87	£0.26
D	6,296	£0.98	£0.37
E	3,362	£1.19	£0.59
F	1,515	£1.41	£0.80
G	595	£1.63	£1.02
H	35	£1.95	£1.35
<b>Total</b>	<b>130,173</b>		

- 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. 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 household<sup>1</sup>. 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. 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 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 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.

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<sup>1</sup> *Dragged Down by Debt*, JRF, October 2021

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

- 6.1 The table below describes how each protected characteristic is likely to be affected by the proposed council tax increase. The table sets out anticipated impacts, along with mitigating actions available to reduce negative impacts.
- 6.2 Some protected characteristics are not, as far as we can tell, disproportionately affected (as will be seen from the table) because there is no evidence to suggest they are affected differently from the population at large. They may, of course, be disadvantaged if they also have other protected characteristics that are likely to be affected, as indicated in the following analysis of impact based on protected characteristic.

### Analysis of impact based on protected characteristic

Protected characteristic	Impact of proposal:	Risk of negative impact:	Mitigating actions:
<b>Age</b>	<p>Older people (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>
<b>Disability</b>	<p>Disability benefits have been reduced over time as thresholds for support have increased.</p> <p>The tax increase could have an impact on such household incomes.</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>
<b>Gender Reassignment</b>	<p>No disproportionate impact is attributable specifically to this characteristic.</p>		

Protected characteristic	Impact of proposal:	Risk of negative impact:	Mitigating actions:
<b>Pregnancy &amp; Maternity</b>	Maternity benefits have not been frozen and therefore kept in line with inflation. However, other social security benefits have been frozen, but without disproportionate impact arising for this specific protected characteristic.		
<b>Race</b>	<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.
<b>Religion or Belief</b>	No disproportionate impact is attributable specifically to this characteristic.		
<b>Sex</b>	Disproportionate impact on women who tend to manage household budgets and are responsible for childcare costs. Women are disproportionately lone parents. Analysis has identified lone parents as a group particularly likely to lose income from welfare reforms.	Incomes squeezed through low wages and reducing levels of benefit income. Increased risk for women as they are more likely to be lone parents.	<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>
<b>Sexual Orientation</b>	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.		

## Appendix 2

### Earmarked Reserves

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

	<b>Balance at 1/4/2021 £000</b>
<b><u>Ring-fenced Reserves</u></b>	
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
<b>Subtotal Ring-fenced Reserves</b>	<b>61,122</b>
<b><u>Departmental Earmarked Reserves</u></b>	
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
<b>Subtotal Departmental Reserves</b>	<b>48,221</b>
<b><u>Corporate Reserves</u></b>	
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
<b>Subtotal Corporate Reserves</b>	<b>218,869</b>
<b>Total Earmarked Reserves</b>	<b>328,212</b>

2. Earmarked reserves can be divided into ring-fenced reserves, which are funds held by the Council but for which we have obligations to other partners or organisations; departmental reserves, which are held for specific services; and corporate reserves, which are held for purposes applicable to the organisation as a whole. 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.
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 7 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;
- **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; to mitigate longer-term impacts of Covid-19; 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.

## Appendix 3

### 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 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 10% 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 now, 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 and demographic pressures). The rate of growth is now accelerating.



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. The need to achieve further savings for 24/25 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:

	<b>2022/23</b> <b>£m</b>	<b>2023/24</b> <b>£m</b>	<b>2024/25</b> <b>£m</b>
Net service budget (including inflation)	323.0	354.2	381.3
Corporate and other centrally held budgets	8.7	9.6	10.4
Contingency	1.0		
Planning provision		3.0	6.0
<b>Expenditure total</b>	<b>332.7</b>	<b>366.8</b>	<b>397.7</b>
Business rates income	65.3	67.3	69.1
Top-up payment	49.8	51.3	52.6
Revenue Support Grant	38.4	39.3	40.1
Council Tax	133.6	138.8	143.9
Collection Fund deficit	(2.9)	(2.4)	
Social Care grants	13.1	13.1	13.1
New Homes Bonus	3.7	2.7	1.7
<b>Income Total</b>	<b>301.0</b>	<b>310.2</b>	<b>320.5</b>
<b>Indicative Budget gap</b>	<b>31.7</b>	<b>56.6</b>	<b>77.2</b>

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

	Assumptions	Risks
<b>Expenditure</b>		
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 4.2% (CPI) in October 2021. If it remains high, there will be additional pressures on pay awards and non-pay inflation.</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>	
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>	
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>
<b>Income</b>		
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, in line with historic growth levels.</p>	<p>Further economic downturn leading to increased costs of council tax support to residents on a low income.</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>Business rates are particularly sensitive to economic conditions.</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>Government grant</p>	<p>Government-controlled elements of the rates retention scheme (RSG and top-up) increase in line with CPI inflation: 3.1% for 2022/23 and 2% thereafter.</p> <p>In 2022/23, RSG will increase by an estimated £9m, which is our share of the £1.4bn growth announced in the Comprehensive Spending Review. This includes funding to meet the cost of National Insurance increases.</p> <p>There is no net impact from Fair Funding reforms; the 2023 rates revaluation; or any move towards 75% local rates retention.</p> <p>We assume grant support towards Adult Social Care continues at 2021/22 cash levels, but no additional funding is available.</p>	<p>We do not yet have the details of local government funding for 2022/23 and subsequent years – these are expected in December.</p> <p>The impact and timing of Fair Funding reforms remains a significant unknown.</p>
<p><b>COVID-19 impacts</b></p>	<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>	