



Council

Date: 20<sup>th</sup> February 2019

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**General Fund Revenue Budget 2019/20 to 2021/22**

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**Report of the Director of Finance**

1. **Purpose**

- 1.1 The purpose of this report is to ask the Council to consider the City Mayor's proposed budget for 2019/20 to 2021/22.
- 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 Council is enduring the most severe period of spending cuts we have ever experienced. The budget for this year is made more difficult because we do not know the extent of cuts required beyond 2019/20.
- 2.2 As a consequence of these cuts, the Council's budget (on a like for like basis) has fallen from £358m in 2010/11 to £294m in 2019/20. Despite this, spending on social care is demand led, and numbers of older people requiring care and looked after children have increased over this period. As a consequence, spending on all other services will fall from £192m to an estimated £102m, a cut of almost 60% in real terms.
- 2.3 We know from reports of the Institute of Fiscal Studies and our own analysis that government cuts have disproportionately hit the most deprived authorities (such as Leicester).
- 2.4 Since 2014/15, the Council's approach to achieving these substantial budget reductions has been based on the following approach:-
- (a) An in-depth review of discrete service areas (the "Spending Review Programme");
  - (b) Building up reserves, in order to "buy time" to avoid crisis cuts and to manage the Spending Review Programme effectively. We have termed this the "managed reserves strategy".

- 2.5 The Spending Review Programme is a continuous process. When individual reviews conclude, an Executive decision is taken and the budget is reduced in-year, without waiting for the next annual budget report. Executive decisions are informed by consultation with the public (where appropriate) and the scrutiny function.
- 2.6 This approach has served us well. Budgets for the period 2013/14 to 2015/16 contributed over £40m to reserves, which have been used to support budgets since 2016/17 and postpone the maximum impact of government cuts. This has been extended by regular reviews of reserves and other one-off monies available.
- 2.7 Because of this approach, the Council has sufficient reserves available to balance the budget in 2019/20, and will have some remaining for 2020/21.
- 2.8 Funding levels beyond 2019/20 are particularly uncertain, with the move to 75% rates retention, the Government's planned funding review and the risk of further centrally-imposed cuts to local government funding (set out in more detail in paragraphs 11.11 – 11.17). Initial proposals from the funding review suggest resource transfers from urban to rural areas. There are also significant unknowns around funding for social care services (see paragraph 7.7).
- 2.9 To mitigate these risks, further savings from the spending review process are being used to extend the managed reserves strategy beyond 2019/20. However, it seems inevitable that medium term budgets cannot be balanced without additional significant cuts.
- 2.10 As a consequence, the following approach has been adopted:-
- (a) The budget for 2019/20 has been balanced using reserves, and can be adopted as the Council's budget for that year;
  - (b) A further round of spending reviews has commenced ("Spending Review 4"). This has allocated target savings of £20m across departments, plus amounts outstanding from earlier rounds. To date, savings totalling £4.7m have been achieved since February 2018, and built into budget forecasts (see paragraph 6.6)
- 2.11 **What this means is that, in substance, the budget proposed is a one year budget. Projections of spending and income have been made beyond 2019/20, but they are uncertain and volatile.**
- 2.12 As we get more information, and greater certainty we will need to plan for future budgets. It is likely that Spending Review 4 will be insufficient.
- 2.13 In common with other authorities nationally, we continue to face growth in social care costs, and it is not impossible that these services will consume an ever greater proportion of the budget (squeezing out the traditional services provided to the whole community). Government intentions for social care funding beyond 2019/20 are not known; a Green Paper planned for mid-2018 has already been delayed several times, and is now intended to be published "by April". It will be some time before any reforms have an appreciable impact on our costs.

- 2.14 It should also be noted that there are some significant risks in the budget. These are described in paragraph 17, and to help mitigate these, a contingency of £1m has been included in the 2019/20 budget.
- 2.15 The budget provides for a council tax increase of 3% in 2019/20, which is the maximum available to us without a referendum.
- 2.16 Together with the other authorities in Leicestershire and the Combined Fire Authority, the Council successfully bid to pilot the Government's proposed 75% business rates retention scheme in 2019/20 (one year early). In addition to trialling the new approach, the pilot is expected to convey a financial benefit. The pilot also changes the way in which the Council receives its income in 2019/20; however, to aid understanding, the figures in this report:-
- a) show the income we would have received in the absence of a pilot;
  - b) make a prudent estimate that a further £2.9m will be available for one year only (see paragraph 11.6)
- 2.17 In the exercise of its functions, the City Council (or City Mayor) must have due regard to the Council's duty to eliminate discrimination, to advance equality of opportunity for protected groups and to foster good relations between protected groups and others. The budget is, in effect, a snap-shot of the Council's current commitments and decisions taken during the course of 2018/19. There are no proposals for decisions on specific courses of action that could have an impact on different groups of people. Therefore, there are no proposals to carry out an equality impact assessment on the budget itself, apart from the proposed council tax increase (this is further explained in paragraph 10 and the legal implications at paragraph 21). Where required, the City Mayor has considered the equalities implications of decisions when they have been taken and will continue to do so for future spending review decisions.

### 3. **Recommendations**

3.1 Subject to any amendments recommended by the Mayor, the Council is asked to:-

- (a) approve the budget strategy described in this report, and the formal budget resolution for 2019/20 which will be circulated separately;
- (b) note comments received on the draft budget (which are fewer than in previous years);
- (c) approve the budget ceilings for each service, as shown at Appendix One to this report;
- (d) approve the scheme of virement described in Appendix Two to this report;
- (e) note my view that reserves will be adequate during 2019/20, and that estimates used to prepare the budget are robust;
- (f) note the equality implications arising from the proposed tax increase, as described in paragraph 10 and Appendix Four;
- (g) approve the capital strategy, and associated prudential indicators, described in paragraph 19 and Appendix Three;
- (h) emphasise the need for outstanding spending reviews to be delivered on time, after appropriate scrutiny;

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

4.1 The table below summarises the proposed budget for 2019/20, and shows the forecast position for the following two years:-

|                                       | <b><u>2019/20</u></b><br><b>£m</b> | <b><u>2020/21</u></b><br><b>£m</b> | <b><u>2021/22</u></b><br><b>£m</b> |
|---------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b><u>Service budget ceilings</u></b> | 264.4                              | 256.9                              | 256.2                              |
| <b><u>Corporate Budgets</u></b>       |                                    |                                    |                                    |
| Capital Financing                     | 5.5                                | 5.9                                | 6.1                                |
| Miscellaneous Central Budgets         | (2.2)                              | (2.0)                              | (1.8)                              |
| Corporate Contingency                 | 1.0                                |                                    |                                    |
| Education Funding Reform              | 0.5                                | 1.0                                | 1.0                                |
| <b><u>Future Provisions</u></b>       |                                    |                                    |                                    |
| Inflation                             |                                    | 4.4                                | 8.8                                |
| Planning provision                    |                                    | 3.0                                | 6.0                                |
| <b>TOTAL SPENDING</b>                 | <b>269.2</b>                       | <b>269.2</b>                       | <b>276.3</b>                       |
| <b><u>Rates Retention</u></b>         |                                    |                                    |                                    |
| Business Rates                        | 62.3*                              |                                    |                                    |
| Business rates top-up grant           | 46.7*                              |                                    |                                    |
| Revenue Support Grant                 | 28.4*                              |                                    |                                    |
| Subtotal – Rates Retention            | 137.4                              | 137.1                              | 136.9                              |
| BR pilot                              | 2.9                                |                                    |                                    |
| Council Tax                           | 114.7                              | 117.8                              | 120.9                              |
| Collection Fund deficit               | (2.2)                              |                                    |                                    |
| New Homes Bonus                       | 6.9                                | 5.4                                | 5.0                                |
| Social Care grant                     | 4.3                                |                                    |                                    |
| <b>TOTAL RESOURCES</b>                | <b>263.9</b>                       | <b>260.3</b>                       | <b>262.8</b>                       |
| Underlying gap in resources           | 5.3                                | 8.9                                | 13.5                               |
| Demographic Pressures reserve         | (3.5)                              |                                    |                                    |
| Managed Reserves Strategy             | (1.8)                              |                                    |                                    |
| <b>Gap in resources</b>               | <b>NIL</b>                         |                                    |                                    |
| Projected tax increase                | 3.0%                               | 2.0%                               | 2.0%                               |

\* These sums will in practice be received through the business rates pilot. The figures above show the income we would have received in the absence of a pilot, with the estimated benefit of the pilot shown separately.

- 4.2 The budgets from 2020/21 are presented in broad terms only, as from 2020/21, the current business rates retention scheme will be replaced. We do not yet know the format of the new scheme – the table above assumes further cuts of £3m per year in real terms in each of 2020/21 and 2021/22.
- 4.3 The position in 2020/21 and 2021/22 is particularly volatile, and the above figures assume (in effect) that the Government will provide sufficient funding to meet demographic pressures in adult social care, and that the growth in looked after children costs can be contained. If this is not the case, and deeper cuts are also required, the gap in 2021/22 could increase from £13.5m to anything up to £50m.

## 5. **Council Tax**

- 5.1 The City Council's proposed tax for 2019/20 is £1,552.17, an increase of just below 3% compared to 2018/19.
- 5.2 The tax levied by the City Council constitutes only part of the tax Leicester citizens have to pay (albeit the major part). Separate taxes are raised by the police authority and the fire authority. These are added to the Council's tax, to constitute the total tax charged.
- 5.3 The total tax bill in 2018/19 for a Band D property was as follows:-

|                  | £               |
|------------------|-----------------|
| City Council     | 1,506.98        |
| Police           | 199.23          |
| Fire             | 64.71           |
| <b>Total tax</b> | <b>1,770.92</b> |

- 5.4 The actual amounts people are paying in 2018/19, 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.
- 5.5 The formal resolution will set out the precepts issued for 2019/20 by the Police and Crime Commissioner and the fire authority, together with the total tax payable in the city.

## 6. **Construction of the Budget**

- 6.1 By law, the role of budget setting is for the Council to determine:-
- (a) The level of council tax;
  - (b) The limits on the amount the City Mayor is entitled to spend on any service ("budget ceilings").
- 6.2 The proposed budget ceilings are shown at Appendix One to this report.

- 6.3 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.
- 6.4 The ceilings for each service have been calculated as follows:-
- The starting point is last year's budget, subject to any changes made since then which are permitted by the constitution (e.g. virement);
  - Decisions taken by the Executive in respect of spending reviews which are now being implemented have been deducted from the ceilings;
  - Increases in pay costs. While the "headline" pay increase for most local government employees is 2%, the pay spine is being revised from April 2019 to ensure it more effectively caters for the impact of the National Living Wage. The average increase is therefore higher at around 2.4%, weighted towards areas that have a greater proportion of employees on lower pay grades.
- 6.5 Apart from the above, no inflation has been added to departments' budgets for running costs or income, except for an allowance for:-
- Independent sector adult care (2%);
  - Foster care (2%);
  - Costs arising from the waste PFI contract (3.4% - RPI).
- 6.6 The following spending review decisions have been formally taken since February 2018, and budgets reduced accordingly:-

|  | <u>18/19</u><br><u>£000</u> | <u>19/20</u><br><u>£000</u> | <u>20/21</u><br><u>£000</u> | <u>21/22</u><br><u>£000</u> |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b><u>Spending Reviews 1 to 3:</u></b> |                             |                             |                             |                             |
| Neighbourhood Services                 | 109                         | 164                         | 419                         | 419                         |
| Sports Services                        | -                           | 250                         | 550                         | 1,200                       |
| Sexual Health Services                 | -                           | 555                         | 555                         | 555                         |
| Lifestyle Services                     | 475                         | 1,080                       | 1,080                       | 1,080                       |
| <b><u>Spending Review 4:</u></b>       |                             |                             |                             |                             |
| Corporate Resources                    | 886                         | 1,636                       | 1,768                       | 1,785                       |
| Adults Social Care                     | 1,067                       | 2,278                       | 2,348                       | 2,418                       |
| Regeneration & Culture                 | 391                         | 490                         | 440                         | 440                         |
|  | <b>2,928</b>                | <b>6,453</b>                | <b>7,160</b>                | <b>7,897</b>                |

Savings realised in 2018/19 are being used to support the managed reserves strategy into 2019/20 and 2020/21.

- 6.7 The latest round of spending reviews ("Spending Review 4") has asked departments to prepare plans to save an additional £20m, as well as completing outstanding reviews from earlier rounds.

## 7. **How Departments will live within their Budgets**

7.1 The role of the Council is to determine the financial envelopes within which the City Mayor has authority to act. In some cases, changes to past spending patterns are required to enable departments to live within their budgets. Actions taken, or proposed by the City Mayor, to live within these budgets are described below.

### Adult Social Care

7.2 In common with adult care services across the country, the department faces significant cost pressures. These principally arise from:-

- (a) Demographic growth – an ageing population means the number of older people potentially requiring care is increasing (which has been the pattern for many years);
- (b) More people living longer, but doing so in many cases with multiple health conditions that increase the level of care and support required (not just in older people, but more prominently for adults of working age who are supported by the department);
- (c) The impact of the increasing needs of services users as their conditions deteriorate over time. This is very significant with year on year increases in care package costs of 2.5%, 3.4% and 5.3% in the three years from 2015/16 to 2017/18. The current projection for 2018/19 is 5.5%;
- (d) Increasing numbers of service users with mental health conditions, with increases of more than 5% in 2016/17 and 2017/18.

7.3 In addition, the National Living Wage (NLW) has been increasing in stages to reach 60% of median earnings by 2020. The Low Pay Commission, which recommends rates, estimates that the NLW will reach this target at a rate of £8.62 per hour by 2020/21<sup>1</sup>. The series of increases in the NLW has created pressures for independent sector care providers, who seek to pass the cost on to local authorities. We have no knowledge of the Government's intention regarding the National Living Wage beyond 2020/21 (the Chancellor announced a review in the 29<sup>th</sup> October budget).

7.4 In 2019/20, the above pressures are expected to result in additional spending needs of £5m to £6m. Further pressure is anticipated from reduction in joint funding income from the NHS, estimated at £2m. Nonetheless, the proposed budget will enable the department to live within its resources:-

- (a) In 2016/17, a four-year growth package was approved by the Council. The final tranche of £2.8m is due in 2019/20;
- (b) The Government is providing additional monies through the Better Care Fund.

7.5 Additionally, the department is supporting its own budget pressures and contributing to the Council's Spending Review Programme. Measures to support

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<sup>1</sup> *National Minimum Wage Report 2018*, published November 2018



its own pressures include achieving staffing reductions of 20% (whilst maintaining stability), increasing productivity and empowering and supporting practitioners to take decisions and manage risk effectively on cost effective care packages. Overall management of the departmental budget means that some funding will be available to support the budget in 2020/21, after the current round of the Better Care Fund has ceased. The department has not overspent since 2015/16, unlike many adult social care departments elsewhere.

- 7.6 The department has so far contributed £2.4m of savings towards the new Spending Review 4 Programme.
- 7.7 Beyond 2019/20, attempting to budget for adult social care is a near impossibility. The current round of BCF ends after 2019/20; the Government recognises that there is a looming crisis, but the promised green paper to put the sector on a sustainable footing has now been delayed for over 12 months, and (at the time of writing) there is still no clear timetable for its publication. The pressures, however, continue to grow: if there is no replacement for BCF whatsoever, the shortfall could amount to anything up to £30m by 2021/22.

#### City Development and Neighbourhoods

- 7.8 The department provides a wide range of statutory and non-statutory services which contribute to the wellbeing and civic life of the City. It brings together local services in neighbourhoods and communities, economic strategy, strategic and local transportation, tourism, regeneration, the environment, culture, heritage, libraries, adult learning, housing and property management.
- 7.9 Historically, the department has been able to live within its budget. The nature of the department's services is such that it does not experience the same financial volatility as social care services.
- 7.10 The department is a major contributor to the Spending Review Programme. To date, it has achieved £18.7m in earlier rounds of the programme and has a target of £7.4m to achieve in respect of Spending Review 4.
- 7.11 In 2018/19, for the first time, the department needed to achieve savings to enable it to live within its resources. This arose from budget pressures in waste management, bereavement income, market income and community services income. The approach taken by the department was to make additional spending review savings (in effect, increasing its target to £8.8m). Savings already achieved as part of the Spending Review 4 Programme now mean the department is able to live within its budget and has begun to achieve further savings to support the corporate position. Future savings are expected to arise from further review of investment properties, new pay and display bays, and increased enforcement of bus lanes and urban clearways.
- 7.12 There is, nonetheless, a temporary pressure within the budget because the (completed) technical services review is taking longer to implement than anticipated. This pressure is being managed by means of additional short-term income generated by capital programme work.

## Health and Wellbeing

- 7.13 The health and wellbeing division consists of core public health services, together with sports and leisure provision. It is partly funded from public health grant and partly from the general fund.
- 7.14 Public health grant has been falling, and has fallen by a further £0.7m in 2019/20. In 2020/21, public health grant is expected to cease, and the money consolidated into the new 75% Business Rates Retention Scheme. This, however, remains uncertain as it is subject to agreement between the Ministry of Housing, Communities and Local Government; and the Department of Health – the latter may wish to impose requirements on how former public health grant is spent in the future. We have no indication of the equivalent amount of grant we will receive in 2020/21.
- 7.15 The department has completed all outstanding reviews from the earlier stages of the Spending Review Programme. Reviews of sports services, sexual health services and lifestyle services have all been completed in 2018/19, and have collectively contributed £2.8m to the Council's ongoing budget reductions. These reviews are now in the process of implementation. The department is able to manage within its budget for 2019/20 although it is facing cost pressures of around £120k associated with an increase in licensed drug treatment costs, as well as an estimated £570k as a result of the national pay award for NHS staff working in services commissioned by the Council. This has been escalated nationally to the Department of Health & Social Care, Public Health England and the LGA as a 'new burden' on local government which cannot be met within the existing grant without further service reductions.
- 7.16 The department is expecting to contribute to the Spending Review 4 Programme, with a key area being review of services provided to children aged 0-19.

## Corporate Resources and Support

- 7.17 The key challenge facing the department is to be as cost effective as possible, in order to maximise the amount of money available to run public facing services. The department has achieved £8.6m of savings since 2011/12 in earlier phases of the spending review programme, and is expected to save a further £3.3m as part of the Spending Review 4 Programme. £1.9m of this has already been achieved.
- 7.18 The department will manage within its budget ceilings for 2019/20, having absorbed new spending pressures. These pressures include:-
- (a) Additional legal posts to manage workload (£0.4m) which will be met from a combination of charges to the HRA, charges to the capital programme and a review of working arrangements. A further £0.4m for childcare lawyers is being funded from within existing budgets;
  - (b) The department is paying £0.5m per year on an offsite benefits processing contract. The need for this arises from difficulties in retaining staff (the service has a limited "shelf life", given the move to Universal Credit) and the need to improve performance and increase available subsidy. It is anticipated that the cost will be met from savings achieved;

- (c) Reductions in housing benefit administration grant will be compensated by departmental reserves in 2019/20. We do not know what grant arrangements beyond 2019/20 will be.

### Children's Services

- 7.19 In common with authorities across the country, increasing demand for social care services is putting considerable pressure on the budget of the department (and of the Council).
- 7.20 Without additional funding the department will be facing an impossible task of meeting pressures estimated at £10m to £11m in 2019/20. The key cost pressures facing the department are:-
  - (a) Social care placement costs, where there is a pressure of some £6m. This is a combination of increasing numbers of looked after children with new entrants to care averaging 260 per annum in recent years (this level is now being reduced because of referral of cases to new therapeutic intervention teams); continued reliance on independent fostering agents (over 20% of total foster care placements); and the number of children in external residential placements (although this has reduced from 40 to 33 since the beginning of 2018/19);
  - (b) Pressures in respect of transport costs for looked after children and SEN pupils (around £2m);
  - (c) Continued pressures as a consequence of inability to recruit social workers, and the need to use agency staff while we "grow our own";
  - (d) Pressures of £2m from previous years which have been dealt with by one-off money (these, themselves, arise from the same issues described above).
- 7.21 Pressures on children's social care has started to be acknowledged by the Government, and funding made available for social care in 2019/20 is now also (expressly) intended for children's social care as well as adult care. The need for the Government to increase funding in this area continues to be made by us, and the LGA. Nonetheless, the director is reviewing options to reduce costs on a permanent basis with a view to bringing the department back to within its budget in later years (there is no expectation of any contribution to the authority's spending review targets in 2020/21).
- 7.22 Measures being considered to reduce costs include the following. These are being supported by funding from the business rates pilot:-
  - (a) Continued development and extension of therapeutic intervention teams by adding a further Multi-Systemic Therapy Child Abuse and Neglect team (now operational); and a Functional Family Therapy Child Welfare team (also now operational). It is expected that these teams will divert 80 children from care per year;

- (b) Reducing the use of independent fostering agencies by increasing the number of internal foster carers. We will be reviewing our approach to recruitment, and are targeting a net increase of 10 placements per year;
- (c) Continuing to reduce external residential placements: a process of challenge has been introduced by means of a monthly placements panel;
- (d) Investigation of options to reduce transport costs and promote independence.

7.23 In 2019/20, the budget will be supported by use of £4.4m of one-off monies held by the department; and a corporate contribution of £3.7m. In addition, estimated business rates pilot income of £2.3m will be made available. The longer-term position will be developed in early 2019, in the light of emerging Government proposals for public spending. Proposals will be shared with the Children, Young People and Schools' Scrutiny Commission as they develop.

## 8. Corporately held Budgets

8.1 In addition to the service budget ceilings, some budgets are held corporately. These are described below (and shown in the table at paragraph 4).

8.2 The budget for **capital financing** represents the cost of interest and debt repayment on past years' capital spending. This budget is not controlled to a cash ceiling, and is managed by the Director of Finance. Costs which fall to be met by this budget are driven by the Council's treasury management strategy, which is also on your agenda, and are affected by decisions made by the Director of Finance in implementation of this policy.

8.3 Capital financing costs have reduced significantly from previous years; predominantly, this is the result of implementing a change in the minimum revenue policy provision that the Council is required to set aside to repay debts (in effect, the saving means that debt is being repaid more slowly). This policy was approved by the Council in November 2015, but implementation was deferred until now. In addition, interest on investments is higher due to a combination of higher interest rates and higher cash balances than anticipated.

8.4 A one-off **corporate contingency** of £1m has been created in 2019/20 to manage significant pressures that arise during the year. This is particularly appropriate given the scale of reductions departments are having to make.

8.5 As set out in previous reports, **education funding reforms** have reduced the amount available to support centrally-managed services for schools and pupils, and for higher-needs pupils. These changes have a knock-on impact to general fund budgets. A provision has been made accordingly. (As well as the corporately held budget, some funding is now included in the departmental budget).

8.6 **Miscellaneous central budgets** include external audit fees, pensions costs of some former staff, levy payments to the Environment Agency, bank charges, monies set aside to assist council taxpayers suffering hardship and other sums it is not appropriate to include in service budgets. These budgets are offset by the

effect of charges from the general fund to other statutory accounts of the Council (which exceed the miscellaneous costs, but are reducing over time).

## 9. **Future Provisions**

9.1 This section of the report describes the future provisions shown in the table at paragraph 4 above. These are all indicative figures – budgets for these years will be set in February prior to the year in question.

9.2 The provision for **inflation** includes money for:-

- (a) Pay awards in 2020/21 and 2021/22. It is assumed that local funding will be required equivalent to 1% per annum;
- (b) A contingency for inflation on running costs for services unable to bear the costs themselves. These are: waste disposal, independent sector residential and domiciliary care, and foster payments.

9.3 A **planning provision** has been set aside to manage uncertainty. Our general policy is to set aside a cumulative £3m per year, each year for the duration of the strategy. This can then be removed in subsequent budget reports, to the extent that it has not been utilised elsewhere. In recent years, it has been used to deal with the impact of education funding reform, and with continuing cost pressures in social care.

## 10. **Budget and Equalities**

10.1 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.

10.2 In accordance with section 149 of the Equality Act, 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.

10.3 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.

10.4 When making decisions, the Council (or decision maker, in this case the City Mayor) must be clear about any equalities implications of the course of action proposed. In doing so, it must consider the likely impact on those likely to be affected by the recommendation; their protected characteristics; and (where negative impacts are anticipated) mitigating actions that can be taken to reduce or remove that negative impact.

- 10.5 This report seeks approval to the proposed budget strategy. The report sets out financial ceilings for each service which act as maxima above which the City Mayor cannot spend (subject to his power of virement). However, decisions on services to be provided within the budget ceilings are taken by managers or the City Mayor separately from the decision regarding the budget strategy. Therefore, the report does not contain details of specific service proposals. However, the budget strategy does recommend a proposed council tax increase for the city's residents. The City Council's proposed tax for 2019/20 is £1,552.17, an increase of just below 3% compared to 2018/19. 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.
- 10.6 The 2018/19 budget report noted that disposable income had fallen in real terms due to slow wage growth, welfare changes and inflation. The context has changed slightly over the last year with the ASDA Income Tracker September 2018 highlighting that family spending power is up by an average £7.45 per week year on year in September 2018, an annual increase of 3.8%. Income growth has been boosted across most regions with UK families seeing the fastest pay growth since 2008. Inflation peaked at 3.1% in late 2017, and has now fallen back to 2.1% as measured by the Consumer Price Index (CPI). It is not expected to rise significantly in the short term, although analysts stress the uncertainties caused by Brexit.
- 10.7 The ASDA income tracker is an indicator of the economic prosperity of 'middle Britain', taking into account income, tax and all basic expenditure. ASDA's customer base matches the UK demographic more closely than that of other supermarkets.
- 10.8 In most cases, the change in council tax (£0.67/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. 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 differential impact dependent upon a household's disposable income.
- 10.9 Some households reliant on social security benefits are likely to be adversely affected due to the cumulative impact of further implementation of the Government's welfare reforms, in particular the rollout of Universal Credit full service which was implemented in Leicester in June 2018.
- 10.10 The Council has a number of mitigating actions in place to provide council tax reductions, exemptions or support for particular groups and some relief in instances of short term financial crisis.
- 10.11 There are council tax reductions and exemptions available for some individuals from protected characteristic groups, provided they meet certain criteria. Those on low income can qualify for council tax support of up to 80% of council tax (100% for older people). Some people may qualify for a reduction if their home has been specially adapted due to a disability for them or someone who lives with them, if there are severely mentally impaired adults in receipt of particular

benefits in the household, and care leavers under 25 years of age who have previously been a resident in a care home or similar facility provided by Leicester City Council.

- 10.12 Locally, Council services provide (or fund) a holistic safety net including the provision of advice, personal budgeting support, and signposting provision of necessary household items. In particular, the Council provides £500,000 annually in Council Tax Discretionary Relief for households with a low income who are in financial difficulties over and above the council tax support scheme; and also supports Crisis Support Grants covering food, fuel, white goods and essential items through the Community Support Grant scheme. The Council also assists with rent shortfalls in the form of Discretionary Housing Payments (£1.1m in 2018/19). It is important to note that these mitigating actions are now the sole form of safety net support available to households in the city. A House of Commons Works and Pensions Committee report in January 2016 ('The local welfare safety net') described this devolution of discretionary support to those in short term financial crisis to local government. There is now no other source of Government support available.
- 10.13 Leicester is ranked as the 21<sup>st</sup> most deprived local authority in the country according to the 2015 Indices of Multiple Deprivation. In addition to provision of a 'local welfare safety net', council services seek to address inequalities of opportunity that contribute to this deprivation. They do this by seeking to improve equality of outcomes for those residents that we can directly support.
- 10.14 Our Public Sector Equality Duty is a continuing duty, even after decisions have been made and proposals have been implemented. Periodically we review the outcomes of earlier decisions to establish whether mitigating actions have been carried out and the impact they have had. The Council has a legal duty to set a balanced budget. The spending review programme enables us to assess our service provision from the perspective of the needs of individual residents. This "person centred" approach to our decision making ensures that the way we meet residents' needs with reducing resources can be kept under continuous review – in keeping with our Public Sector Equality Duty.
- 10.15 A key concern in terms of potential for significant equalities implications is the uncertainty and challenges around the funding of Adult Social Care in the long term. In the current financial climate, a lower council tax increase would require even greater cuts to services. While it is not possible to say where these cuts would fall (and therefore which specific groups would be affected), the users of Adult Social Care are mostly older people or, to a lesser extent, adults who have a disability and therefore there are likely to be negative equalities implications arising from a decision to implement a lower council tax increase.
- 10.16 Where there are changes to policy, service or function in the future, an individual Equalities Impact Assessment will be undertaken to identify the specific equalities impacts and inform the development of proposals, including any mitigating actions where a disproportionate negative impact on a protected characteristic/s is identified.
- 10.17 An analysis of the impact on protected groups is provided at Appendix Four.

## 11. Rates Retention scheme and 75% rates pilot

- 11.1 Since 2013, local government has retained 50% of the rates collected locally, with the other 50% being paid to central government. In Leicester, 1% is paid to the fire authority, and 49% has been retained by the Council. This is known as the “Business Rate Retention Scheme”.
- 11.2 In recognition of the fact that different authorities’ ability to raise rates does not correspond to needs, there are additional elements of the business rates retention scheme:
- (a) a **top-up to local business rates**, paid to authorities with lower taxbases relative to needs (such as Leicester) and funded by authorities with greater numbers of higher-rated businesses.
  - (b) **Revenue Support Grant (RSG)**, which has declined sharply in recent years as it is the main route for the government to deliver cuts in local government funding (and the methodology for doing this has disproportionately disadvantaged deprived authorities).
- 11.3 The government plans to change the rate retention scheme from 2020/21, with the proportion of rates retained locally increasing to 75% (and other elements of the local government finance system reduced to compensate, so the overall financial effect is neutral).
- 11.4 In preparation for the introduction of the new scheme, the government sought bids for groups of authorities to become pilot areas for 75% rates retention in 2019/20, ahead of the new system nationally. Leicester and Leicestershire prepared a successful bid, covering the City, County, all seven district councils and the Fire Authority.
- 11.5 The benefits of the pilot are likely to be an opportunity to influence the Government’s thinking, creation of more opportunities for joint working, and an expectation of financial benefit through retaining more rates growth. On initial estimates, the pilot will secure some £16m for the sub-region, although this figure depends on the level of rates income achieved across the pilot area.
- 11.6 The pilot is governed by an agreement between the authorities involved, which sets out how the additional funds will be used. Each authority will receive at least the same total funding as they would under 50% rates retention. Surpluses are then allocated in order according to the agreement. The first tranche (£7.1m) is to help secure financial sustainability, particularly in children’s social care. It is proposed that our estimated share of £2.9m will be used to fund the following, which is reflected in the budget:
- £2.3m for Children’s Social Care, which will pay for the initiatives described in paragraph 7.22 above, with the aim of securing longer-term budget savings;
  - £0.1m funding for countywide anti-fraud initiatives;
  - £0.1m to match-fund One Public Estate;
  - £0.2m for the digital transformation team;
  - £0.1m to meet pressures on homelessness;
  - £0.1m held as a provision towards further joint initiatives with the districts or County council.



- 11.7 These sums are included in the relevant budget ceilings at Appendix One, where appropriate. If the pilot produces a higher surplus, this will be used towards housing and commercial infrastructure. This will be managed through the capital budget process, and is therefore outside the scope of this report.
- 11.8 There are risks associated with this funding: if rates income falls across the pilot area, the surplus achieved will be lower, and so will the City's share. However, rates income would need to fall significantly before the predicted surplus will be less than £7.1m.
- 11.9 Our estimates of rates income take into account the amount of income we believe we will lose as a consequence of successful appeals. The majority of appeals against the 2017 revaluation have not yet been decided, and appeals have been a source of volatility since business rates retention was introduced. Despite Government attempts to reduce this volatility, we have again seen significant losses through appeals in 2018, and this is likely to continue as there are still a large number of outstanding appeals from earlier years (and any successful appeals will be backdated, potentially for several years).
- 11.10 The final figure for appeals may be higher or lower than the estimate built into the budget. For 2019/20, 49% of this volatility will be borne by the Council directly. A further 25% will affect the calculated surplus for the pilot, and will therefore be spread across the authorities involved (similarly, we will see a share of gains or losses from changes to rates income across the Leicestershire districts).

#### Funding from 2020/21

- 11.11 No figures have been made available for local government funding after 2019/20, either nationally or locally. Despite headlines of "the end of austerity", analysis of the Chancellor's October budget statement implies a less optimistic picture. After paying for commitments, including an increase in NHS funding, it appears that the amount available for other unprotected services will be (at best) remaining at its 2019/20 level.
- 11.12 Further information on future funding levels will be available in the government's Spending Review, due to be published in 2019. This will set out spending totals for government departments for years past 2019/20, but not the funding available to individual local authorities. We do not yet know how many years the Spending Review will cover.
- 11.13 A reform of local government funding is planned to take effect from April 2020, increasing the proportion of rates retained locally to 75%. In itself, this change should be financially neutral, as the additional business rates income will be offset by the loss of RSG and some other grants. The reforms may also make attempts to cushion some of the volatility arising from appeals at an individual authority level. There is likely to be a more substantial effect on the Council's finances from the "fair funding review" planned for the same date, which will redistribute resources between councils.
- 11.14 The current funding formula is complex, and has not been updated since 2013. One outcome of the funding review is likely to be a simpler, more up-to-date

means of measuring each authority's need to spend. In itself, this should be beneficial to us as it will take into account our rapid population growth in recent years, and should (unlike the current formula) fully reflect the differences in council taxbase between different areas of the country. However, there are other pressures on the limited amount of funding available, including intensive lobbying from some authorities over perceived extra costs in rural areas.

- 11.15 What we know of the Government's proposals – currently the subject of consultation – suggests that the new system is likely to remove deprivation altogether from the calculation for around a quarter of overall funding. This is intended to cover a variety of “foundation” services including public transport, cultural and leisure services, homelessness and waste management. At the same time, there will be increased weighting given to rural areas. Although detailed figures are not yet available, the combined result of these changes will be a significant shift of funding towards rural areas, and away from comparatively deprived cities such as Leicester.
- 11.16 In the first few years, the new funding formula is likely to be subject to a significant amount of damping, to protect authorities from a sudden loss of resources. Since the overall funding for local government is fixed, this can only come from reducing the amounts paid to authorities that gain from the new formula. This means the new formula will take some years to be fully implemented.
- 11.17 The budget assumes (real-terms) cuts of £3m per year in each of 2020/21 and 2021/22, which is significantly less than the cuts seen in recent years. This is a significant risk in the medium-term budget, which is discussed further in paragraph 17 below.

## 12. Council Tax

- 12.1 Council tax income is estimated at £114.7m in 2019/20, based on a tax increase of just below 3%, which is the maximum we can increase tax without a referendum. For planning purposes, tax increases of 2% per year have been assumed in each of 2020/21 and 2021/22.
- 12.2 Since 2016/17, social care authorities have been given additional flexibility (the “social care precept”) to help mitigate the growing costs of social care. We have already used our maximum social care flexibility and therefore cannot increase tax beyond 3% in 2019/20.
- 12.3 Council tax income includes the additional revenue raised from the Empty Homes Premium, which increases the charge by 50% for a property left empty for more than six months. From April 2019, the premium will be increased to 100%, as determined by Council in November.

## 13. Collection Fund Surpluses / Deficits

- 13.1 Collection fund surpluses arise when more tax is collected than assumed in previous budgets. Deficits arise when the converse is true.
- 13.2 The Council has an estimated **council tax collection fund surplus** of £1.5m, after allowing for shares paid to the police and fire authorities. This has arisen

because of growth in the number of homes liable to pay tax (which has been greater than was assumed when the budget was set) and a reduction in the costs of the council tax support scheme, linked to improvements in the local economy.

- 13.3 The Council has an estimated **business rates collection fund deficit** of £3.6m. This is due to the cost of appeals, particularly a larger than anticipated rates reduction on a large property in the city that has been backdated to 2005, and the effect of a recent ruling on the rates chargeable on ATM machines.

#### 14. Other government grants

- 14.1 The Government also controls a range of other grants. With the exception of New Homes Bonus and Adult Social Care Grant, these are not shown in the table at paragraph 4.1, as they are treated as income to departments (departmental budgets are consequently lower than they would have been).

- 14.2 These other grants include:-

- (a) **New Homes Bonus (NHB)**. This is a grant which roughly matches the council tax payable on new homes, and homes which have ceased to be empty on a long term basis. The future of NHB beyond 2019/20 is in doubt, and it may be rolled into the new business rates retention scheme.
- (b) **Dedicated Schools Grant (DSG)**, which funds schools' own spending and a range of education-related central services, was reformed in 2018/19, leading to a reduction in the funding available for school improvement and SEN support services provided centrally.
- (c) The **Better Care Fund** has increased nationally, and the city will receive £15.5m in 2019/20. The increase has been termed the "Improved Better Care Fund" (iBCF). iBCF is not entirely new money – some is being met from cuts to NHB, and from a reduction in the amount available for RSG. The future of the entire BCF after 2019/20 is unclear.
- (d) Additional funding to support **Adult Social Care** has been made available each year since 2017/18, although this has been as a series of one-off allocations rather than a stable funding stream. A further £650 million nationally will be available in 2019/20; our share of this funding is £4.3m.

#### 15. General Reserves and the Managed Reserves Strategy

- 15.1 In the current climate, it is essential that the Council maintains reserves to deal with the unexpected. This might include continued spending pressures in demand led services, or further unexpected Government grant cuts.
- 15.2 The Council has agreed to maintain a minimum balance of £15m of reserves. The Council also has a number of earmarked reserves, which are further discussed in section 16 below.
- 15.3 In the 2013/14 budget strategy, the Council approved the adoption of a managed reserves strategy. This involved contributing money to reserves in 2013/14 to 2015/16, and drawing down reserves in later years. This policy has bought time

to more fully consider how to make the substantial cuts which are necessary. Since 2016/17, these reserves have been drawn down to balance the budget, although some remain to support 2019/20 and 2020/21.

15.4 The managed reserves strategy will be extended as far as we can: the rolling programme of spending reviews enables any in-year savings to extend the strategy. Additional money has been made available since the 2018/19 budget was set, and future reviews should enable further contributions to be made. Given the uncertainty around future funding, it is essential that these reviews are implemented promptly to ensure that managed reserves are available to mitigate the medium-term funding risks.

15.5 The table below shows the forecast reserves available to support the managed reserves strategy:-

|                            | <b>2018/19</b> | <b>2019/20</b> |
|----------------------------|----------------|----------------|
|                            | <b>£m</b>      | <b>£m</b>      |
| Brought forward            | 21.8           | 19.7           |
| Additional savings in year | 3.4            |                |
| Earmarked reserves review  | 1.4            |                |
| Other provisions review    | 3.3            |                |
| Planned use                | (10.2)         | (1.8)          |
| <b>Carried forward</b>     | <b>19.7</b>    | <b>17.9</b>    |

15.6 The Council has recently secured a retrospective refund of VAT amounting to £2.5m and a one-off distribution of £1.5m arising from the Government allocating sums formerly top-sliced from national grant. These sums are presently being retained in case they are needed to match fund a £10m “Transforming Cities” bid, for which we are one of 10 shortlisted areas. The bid is for public transport, cycling and walking projects that contribute to the local economy, cut congestion and improve air quality.

15.7 In the budget monitoring report for period 6, the intention of reducing capital financing charges in 2018/19 was noted. This will be considered further at outturn. If approved, there will be a further one-off saving (not reflected in the figures above).

## 16. Earmarked Reserves

16.1 In addition to the general reserves, the Council also holds earmarked reserves which are set aside for specific purposes. A schedule is provided at Appendix Five.

16.2 Earmarked reserves are kept under review, and amounts which are no longer needed for their original purpose will be used to extend the managed reserves strategy. The most recent review took place after the close of the 2017/18 financial year, and identified £1.4m of reserves that could be used for this purpose.

- 16.3 The 2019/20 budget also proposes using the Demographic Pressures reserve of £3.5m to support the budget. This reserve was established from savings in Adult Social Care in previous years, to help cushion the ongoing increases in care costs due to an ageing and higher-needs population.
- 16.4 In addition, provisions and other amounts set aside have been reviewed. A provision of £3.3m for pay due to carers on sleep-in duties is not now required, following more recent legal developments, and this amount will be transferred to managed reserves.

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

- 17.1 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.
- 17.2 In the current climate, it is inevitable that the budget carries significant risk.
- 17.3 In my view, although very difficult, the budget for 2019/20 is achievable subject to the risks and issues described below.
- 17.4 There are risks in the 2019/20 budget arising from:-
- (a) Social care spending pressures - specifically the risks of further growth in the cost of care packages above budget assumptions, risks to our BCF income due to government expectations (particularly relating to delayed transfers of care) and inability to contain the costs of looked after children;
  - (b) Ensuring spending reviews which have already been approved, but not yet implemented, deliver the required savings;
  - (c) Achievability of estimated rates income (although technically any shortfall will appear as a collection fund deficit in the 2020/21 budget), and particularly the extent of successful appeals against the 2017 revaluations;
  - (d) Achievement of rates income county-wide, affecting the estimated pilot surplus (although this will also appear as a deficit in 2020/21).
- 17.5 From 2020/21 and beyond, the budget projections are particularly uncertain. Risks to a balanced budget in these years include:-
- (a) Non-achievement, or delayed achievement, of the remaining spending review savings; and/or further budget pressures within service departments meaning that any savings achieved cannot be used to reduce the overall budget gap;
  - (b) The considerable task facing Children's Services to balance its budget in the medium term;
  - (c) Loss of future resources. The funding landscape after 2019/20 is largely unknown, with the move to 75% business rates retention and the planned needs review (which could result in a gain or loss to the Council). The risk of further cuts to funding in 2020/21 and 2021/22 is significant;

- (d) Longer-term reforms to social care funding and expectations on local authorities, and the need to manage ongoing demographic pressures. Crucially, we need to know what additional funding the Government will make available after 2019/20;
- (e) Continuing increases in pay costs. Upward pressures may lead to pay increases above the amount provided in the budget. Each 1% on pay costs around £1.7 million in direct costs, and will also impact on contract costs, particularly in Adult Social Care.

17.6 A further risk is economic downturn, nationally or locally. This could result in new cuts to grant; falling business rate income; and increased cost of council tax reductions for taxpayers on low incomes. It could also lead to a growing need for council services and an increase in bad debts. The effect of Brexit remains to be seen.

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

- (a) A minimum balance of £15m reserves will be maintained;
- (b) A one-off corporate contingency of £1m is included in the budget for 2019/20;
- (c) A planning contingency is included in the budget from 2020/21 onwards (£3m per annum accumulating);
- (d) Spending Review savings are being implemented as soon as possible, and the resulting savings “banked” to support future budgets.

17.8 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 2019/20, some exceptions are made, and it is believed that services will be able to manage without an allocation).

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

18.1 Comments on the draft budget have been sought from:

- (a) The Council’s scrutiny function;
- (b) Key partners and other representatives of communities of interest;
- (c) Business community representatives (a statutory consultee);
- (d) The Council’s trade unions.

18.2 Comments received are summarised at Appendix Six. Scrutiny minutes will be circulated separately with your agenda.

## 19. **Capital Strategy**

19.1 There is a new requirement on local authorities to prepare a capital strategy each year, which sets out our approach to capital expenditure and financing at a high level.

- 19.2 The proposed capital strategy is set out at Appendix Three. This also includes the policy on repaying debt and the prudential indicators which assess the affordability of new borrowing.
- 19.3 The capital strategy also fully implements the minimum revenue provision (MRP) policy approved in November 2015. In previous years, this has not been fully implemented as we have voluntarily set aside additional funds for debt repayment.
- 19.4 The new policy will make substantial savings against the revenue budget (in excess of £6 million per year in 2019/20 and 2020/21), although these are paper rather than real savings – they result from a slower repayment of historic debt. Members are also asked to note that the savings will tail off gradually in subsequent years.

## 20. **Financial Implications**

- 20.1 This report is exclusively concerned with financial issues.
- 20.2 Section 106 of the Local Government Finance Act 1992 makes it a criminal offence for any member with arrears of council tax which have been outstanding for two months or more to attend any meeting at which a decision affecting the budget is to be made unless the member concerned declares the arrears at the outset of the meeting and that as a result s/he will not be voting. The member can, however, still speak. The rules are more circumscribed for the City Mayor and Executive. Any executive member who has arrears outstanding for 2 months or more cannot take part at all.

## 21. **Legal Implications (Kamal Adatia)**

- 21.1 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.
- 21.2 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.
- 21.3 As well as detailing the recommended council tax increase for 2019/20, 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.

- 21.4 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.
- 21.5 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 10. 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. 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 Four.
- 21.6 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.

## 22. **Other Implications**

| <b>Other Implications</b>           | <b>Yes/No</b> | <b>Paragraph References within the report</b>   |
|-------------------------------------|---------------|---|
| Equal Opportunities                 | Y             | Paragraph 10  |
| Policy                              | Y             | The budget sets financial envelopes within which Council policy is delivered  |
| Sustainable and Environmental       | N             | The budget is a set of financial envelopes within which service policy decisions are taken. The proposed 2019/20 budget reflects existing service policy. |
| Crime & Disorder                    | N             |   |
| Human Rights Act                    | N             |   |
| Elderly People/People on Low Income | N             |   |

Background information relevant to this report is already in the public domain.

## 23. **Report Authors**

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8<sup>th</sup> February 2019

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**Budget Ceilings**

|  | Revised<br>2018/19<br>budget<br>£000s | Spending<br>Reviews<br>£000s | Inflation<br>£000s | One-off<br>funding in<br>budget<br>£000s | Other<br>changes<br>£000s | BUDGET<br>CEILING<br>2019/20<br>£000s |
|--|---------------------------------------|------------------------------|--------------------|--|---------------------------|---------------------------------------|
| <b><u>1. City Development &amp; Neighbourhoods</u></b>       |                                       |                              |                    |  |                           |                                       |
| <b><u>1.1 Neighbourhood &amp; Environmental Services</u></b> |                                       |                              |                    |  |                           |                                       |
| Divisional Management  | 370.1                                 | (4.9)                        | 6.4                |  |                           | 371.6                                 |
| Regulatory Services  | 3,192.5                               | (4.2)                        | 82.2               |  |                           | 3,270.5                               |
| Waste Management   | 16,776.5                              | (0.1)                        | 547.5              |  |                           | 17,323.9                              |
| Parks & Open Spaces  | 3,780.4                               | (319.0)                      | 267.7              |  |                           | 3,729.1                               |
| Neighbourhood Services                                       | 5,427.2                               | (66.8)                       | 105.1              |  |                           | 5,465.5                               |
| Standards & Development                                      | 1,384.6                               | (28.0)                       | 55.3               |  |                           | 1,411.9                               |
| <b><i>Divisional sub-total</i></b>                           | <b>30,931.3</b>                       | <b>(423.0)</b>               | <b>1,064.2</b>     | <b>0.0</b>                               | <b>0.0</b>                | <b>31,572.5</b>                       |
| <b><u>1.2 Tourism, Culture &amp; Inward Investment</u></b>   |                                       |                              |                    |  |                           |                                       |
| Arts & Museums   | 4,438.7                               | (100.1)                      | 62.2               |  |                           | 4,400.8                               |
| De Montfort Hall   | 866.7                                 | (281.3)                      | 54.2               |  |                           | 639.6                                 |
| City Centre  | 99.4                                  |                              | 3.4                |  |                           | 102.8                                 |
| Place Marketing Organisation                                 | 394.2                                 |                              | 4.1                |  |                           | 398.3                                 |
| Economic Development   | 258.3                                 | (71.7)                       | 29.8               |  |                           | 216.4                                 |
| Markets  | (341.1)                               | (3.7)                        | 15.5               |  |                           | (329.3)                               |
| Divisional Management  | 73.7                                  | 155.3                        | 3.9                |  |                           | 232.9                                 |
| <b><i>Divisional sub-total</i></b>                           | <b>5,789.9</b>                        | <b>(301.5)</b>               | <b>173.1</b>       | <b>0.0</b>                               | <b>0.0</b>                | <b>5,661.5</b>                        |
| <b><u>1.3 Planning, Development &amp; Transportation</u></b> |                                       |                              |                    |  |                           |                                       |
| Transport Strategy   | 9,956.4                               | (2.5)                        | 70.1               |  |                           | 10,024.0                              |
| Highways   | 4,738.6                               | (101.6)                      | 106.5              |  | (315.7)                   | 4,427.8                               |
| Planning   | 924.9                                 |                              | 52.5               |  |                           | 977.4                                 |
| Divisional Management  | 210.3                                 | (6.7)                        | 4.3                |  |                           | 207.9                                 |
| <b><i>Divisional sub-total</i></b>                           | <b>15,830.2</b>                       | <b>(110.8)</b>               | <b>233.4</b>       | <b>0.0</b>                               | <b>(315.7)</b>            | <b>15,637.1</b>                       |
| <b><u>1.4 Estates &amp; Building Services</u></b>            |                                       |                              |                    |  |                           |                                       |
|  | 5,253.8                               | (1,195.6)                    | 211.9              | 100.0                                    | 0.0                       | 4,370.1                               |
| <b><u>1.5 Housing Services</u></b>                           |                                       |                              |                    |  |                           |                                       |
|  | 3,325.7                               | (312.1)                      | 126.1              | 0.0                                      | (122.8)                   | 3,016.9                               |
| <b><u>1.6 Departmental Overheads</u></b>                     |                                       |                              |                    |  |                           |                                       |
| Adult Skills   | (870.4)                               |                              |                    |  |                           | (870.4)                               |
| School Organisation & Admissions                             | 790.2                                 |                              | 31.0               |  |                           | 821.2                                 |
| Overheads  | 629.8                                 | (0.1)                        | 3.5                |  |                           | 633.2                                 |
| <b><i>Divisional sub-total</i></b>                           | <b>549.6</b>                          | <b>(0.1)</b>                 | <b>34.5</b>        | <b>0.0</b>                               | <b>0.0</b>                | <b>584.0</b>                          |
| <b>DEPARTMENTAL TOTAL</b>                                    | <b>61,680.5</b>                       | <b>(2,343.1)</b>             | <b>1,843.2</b>     | <b>100.0</b>                             | <b>(438.5)</b>            | <b>60,842.1</b>                       |

## Appendix One

|   | Revised<br>2018/19<br>budget<br>£000s | Spending<br>Reviews<br>£000s | Inflation<br>£000s | One-off<br>funding in<br>budget<br>£000s | Other<br>changes<br>£000s | BUDGET<br>CEILING<br>2019/20<br>£000s |
|---|---------------------------------------|------------------------------|--------------------|--|---------------------------|---------------------------------------|
| <b><u>2.Adults</u></b>                                  |                                       |                              |                    |  |                           |                                       |
| <b><u>2.1 Adult Social Care &amp; Safeguarding</u></b>  |                                       |                              |                    |  |                           |                                       |
| Other Management & support                              | 604.6                                 | (1.0)                        | 47.5               |  |                           | 651.1                                 |
| Safeguarding  | 107.3                                 | (0.1)                        | 4.1                |  |                           | 111.3                                 |
| Preventative Services                                   | 5,879.4                               | (9.2)                        | 145.7              |  |                           | 6,015.9                               |
| Independent Sector Care Package Costs                   | 89,400.5                              | (400.0)                      | 1,878.8            |  | 5,968.0                   | 96,847.3                              |
| Care Management (Localities)                            | 6,656.3                               | (4.6)                        | 150.9              |  |                           | 6,802.6                               |
| <b><i>Divisional sub-total</i></b>                      | <b>102,648.1</b>                      | <b>(414.9)</b>               | <b>2,227.0</b>     | <b>0.0</b>                               | <b>5,968.0</b>            | <b>110,428.2</b>                      |
| <b><u>2.2 Adult Social Care &amp; Commissioning</u></b> |                                       |                              |                    |  |                           |                                       |
| Enablement & Day Care                                   | 3,046.7                               | (162.4)                      | 102.1              |  |                           | 2,986.4                               |
| Care Management (LD & AMH)                              | 4,741.7                               | (6.6)                        | 101.2              |  |                           | 4,836.3                               |
| Preventative Services                                   | 2,919.1                               | (650.7)                      | 3.0                |  |                           | 2,271.4                               |
| Contracts, Commissioning & Other Support                | 4,672.1                               | (0.1)                        | 80.9               |  | (200.0)                   | 4,552.9                               |
| Substance Misuse  | 5,559.7                               |                              |                    |  |                           | 5,559.7                               |
| Departmental  | (19,576.2)                            | (0.1)                        | 11.1               | 570.0                                    | (1,782.5)                 | (20,777.7)                            |
| <b><i>Divisional sub-total</i></b>                      | <b>1,363.1</b>                        | <b>(819.9)</b>               | <b>298.3</b>       | <b>570.0</b>                             | <b>(1,982.5)</b>          | <b>(571.0)</b>                        |
| <b><u>2.3 Health and Wellbeing</u></b>                  |                                       |                              |                    |  |                           |                                       |
| Adults' Services  | 4,805.6                               | (555.0)                      |                    |  |                           | 4,250.6                               |
| Children's 0-19 Services                                | 9,267.5                               | (250.0)                      |                    |  |                           | 9,017.5                               |
| Lifestyle Services                                      | 1,855.0                               | (605.0)                      | 9.2                |  |                           | 1,259.2                               |
| Staffing, Infrastructure & Other                        | 1,331.2                               |                              | 27.8               |  |                           | 1,359.0                               |
| Sports Services   | 2,811.4                               | (250.1)                      | 200.3              |  |                           | 2,761.6                               |
| <b><i>Divisional sub-total</i></b>                      | <b>20,070.7</b>                       | <b>(1,660.1)</b>             | <b>237.3</b>       | <b>0.0</b>                               | <b>0.0</b>                | <b>18,647.9</b>                       |
| <b>DEPARTMENTAL TOTAL</b>                               | <b>124,081.9</b>                      | <b>(2,894.9)</b>             | <b>2,762.6</b>     | <b>570.0</b>                             | <b>3,985.5</b>            | <b>128,505.1</b>                      |

## Appendix One

|   | Revised<br>2018/19<br>budget<br>£000s | Spending<br>Reviews<br>£000s | Inflation<br>£000s | One-off<br>funding in<br>budget<br>£000s | Other<br>changes<br>£000s | BUDGET<br>CEILING<br>2019/20<br>£000s |
|---|---------------------------------------|------------------------------|--------------------|--|---------------------------|---------------------------------------|
| <b><u>3. Education &amp; Children's Services</u></b>                  |                                       |                              |                    |  |                           |                                       |
| <b><u>3.1 Strategic Commissioning &amp; Business Support</u></b>      | 706.2                                 | 0.0                          | 17.1               | 0.0                                      | 0.0                       | 723.3                                 |
| <b><u>3.2 Learning Quality &amp; Performance</u></b>                  |                                       |                              |                    |  |                           |                                       |
| Raising Achievement   | 1,472.0                               | (4.1)                        | 29.9               |  |                           | 1,497.8                               |
| Learning & Inclusion  | 1,835.2                               |                              | 49.6               |  |                           | 1,884.8                               |
| Special Education Needs and Disabilities                              | 7,341.4                               |                              | 72.5               |  |                           | 7,413.9                               |
| <b><i>Divisional sub-total</i></b>                                    | <b>10,648.6</b>                       | <b>(4.1)</b>                 | <b>152.0</b>       | <b>0.0</b>                               | <b>0.0</b>                | <b>10,796.5</b>                       |
| <b><u>3.3 Children, Young People and Families</u></b>                 |                                       |                              |                    |  |                           |                                       |
| Children In Need  | 9,124.3                               | (19.7)                       | 140.0              |  |                           | 9,244.6                               |
| Looked After Children   | 35,393.5                              |                              | 433.4              | 6,000.0                                  |                           | 41,826.9                              |
| Safeguarding & QA   | 2,475.9                               |                              | 56.0               |  |                           | 2,531.9                               |
| Early Help Targeted Services  | 5,131.4                               |                              | 120.7              |  |                           | 5,252.1                               |
| Early Help Specialist Services  | 2,520.8                               |                              | 90.5               |  |                           | 2,611.3                               |
| <b><i>Divisional sub-total</i></b>                                    | <b>54,645.9</b>                       | <b>(19.7)</b>                | <b>840.6</b>       | <b>6,000.0</b>                           | <b>0.0</b>                | <b>61,466.8</b>                       |
| <b><u>3.4 Departmental Resources</u></b>                              |                                       |                              |                    |  |                           |                                       |
| Departmental Resources  | (2,107.3)                             |                              | 11.1               |  | (342.1)                   | (2,438.3)                             |
| Education Services Grant  | (1,694.0)                             |                              |                    |  |                           | (1,694.0)                             |
| <b><i>Divisional sub-total</i></b>                                    | <b>(3,801.3)</b>                      | <b>0.0</b>                   | <b>11.1</b>        | <b>0.0</b>                               | <b>(342.1)</b>            | <b>(4,132.3)</b>                      |
| <b>DEPARTMENTAL TOTAL</b>   | <b>62,199.4</b>                       | <b>(23.8)</b>                | <b>1,020.8</b>     | <b>6,000.0</b>                           | <b>(342.1)</b>            | <b>68,854.3</b>                       |
| <b><u>4. Corporate Resources Department</u></b>                       |                                       |                              |                    |  |                           |                                       |
| <b><u>4.1 Delivery, Communications &amp; Political Governance</u></b> | <b>5,765.1</b>                        | <b>(1.1)</b>                 | <b>124.2</b>       | <b>0.0</b>                               | <b>0.0</b>                | <b>5,888.2</b>                        |
| <b><u>4.2 Financial Services</u></b>                                  |                                       |                              |                    |  |                           |                                       |
| Financial Support   | 4,792.0                               | (3.6)                        | 145.1              |  |                           | 4,933.5                               |
| Revenues & Benefits   | 5,870.3                               |                              | 206.5              | 100.0                                    |                           | 6,176.8                               |
| <b><i>Divisional sub-total</i></b>                                    | <b>10,662.3</b>                       | <b>(3.6)</b>                 | <b>351.6</b>       | <b>100.0</b>                             | <b>0.0</b>                | <b>11,110.3</b>                       |
| <b><u>4.3 Human Resources</u></b>                                     | <b>3,842.5</b>                        | <b>(1.1)</b>                 | <b>99.9</b>        | <b>0.0</b>                               | <b>0.0</b>                | <b>3,941.3</b>                        |
| <b><u>4.4 Information Services</u></b>                                | <b>9,279.5</b>                        | <b>(750.4)</b>               | <b>109.8</b>       | <b>0.0</b>                               | <b>0.0</b>                | <b>8,638.9</b>                        |
| <b><u>4.5 Legal Services</u></b>                                      | <b>2,628.5</b>                        | <b>(0.3)</b>                 | <b>98.8</b>        | <b>0.0</b>                               | <b>0.0</b>                | <b>2,727.0</b>                        |
| <b>DEPARTMENTAL TOTAL</b>   | <b>32,177.9</b>                       | <b>(756.5)</b>               | <b>784.3</b>       | <b>100.0</b>                             | <b>0.0</b>                | <b>32,305.7</b>                       |
| <b>TOTAL -Service Budget Ceilings</b>                                 | <b>280,139.7</b>                      | <b>(6,018.3)</b>             | <b>6,410.9</b>     | <b>6,770.0</b>                           | <b>3,204.9</b>            | <b>290,507.2</b>                      |
| <b><i>less public health grant</i></b>                                | <b>(26,804.0)</b>                     | <b>0.0</b>                   | <b>0.0</b>         |  | <b>701.0</b>              | <b>(26,103.0)</b>                     |
| <b>NET TOTAL</b>  | <b>253,335.7</b>                      | <b>(6,018.3)</b>             | <b>6,410.9</b>     | <b>6,770.0</b>                           | <b>3,905.9</b>            | <b>264,404.2</b>                      |

**Scheme of Virement**

1. This appendix explains the scheme of virement which will apply to the budget, if it is approved by the Council.

**Budget Ceilings**

2. Strategic 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. Strategic 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. Strategic directors are responsible, in consultation with the appropriate Assistant Mayor if necessary, for determining whether a proposed virement would give rise to a change of Council policy.
5. Movement of money between budget ceilings is not virement to the extent that it reflects changes in management responsibility for the delivery of services.
6. The City Mayor is authorised to increase or reduce any budget ceiling. The maximum amount by which any budget ceiling can be increased during the course of a year is £5m. Increases or reductions can be carried out on a one-off or permanent basis.
7. The Director of Finance may vire money between budget ceilings where such movements represent changes in accounting policy, or other changes which do not affect the amounts available for service provision.
8. Nothing above requires the City Mayor or any director to spend up to the budget ceiling for any service.

**Corporate Budgets**

9. The following authorities are granted in respect of corporate budgets:
  - (a) the Director of Finance may incur costs for which there is provision in miscellaneous corporate budgets, except that any policy decision requires the approval of the City Mayor;
  - (b) the City Mayor may determine the use of the corporate contingency;
  - (c) the City Mayor may determine the use of the provision for Education Funding reform.

### 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. Strategic directors may add sums to an earmarked reserve, from:
  - (a) a budget ceiling, if the purposes of the reserve are within the scope of the service budget;
  - (b) a carry forward reserve, subject to the usual requirement for a business case.
12. Strategic 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.

**Proposed Capital Strategy**

**Introduction**

- 1.1 There is a new requirement on local authorities to prepare a capital strategy each year, which sets out our approach to capital expenditure and financing at a high level. The requirement to prepare a strategy arises from Government concerns about certain authorities borrowing substantial sums to invest in commercial property, outside the vicinity of the Council concerned (something the City Council has never done).
- 1.2 There is also a new requirement on local authorities to prepare an investment strategy, which specifies our approach to making investments other than day to day treasury management investments (the latter is included in our treasury management strategy, as in previous years). The new investment strategy is presented as a separate report on your agenda.
- 1.3 This appendix sets out the proposed capital strategy for the Council's approval. It incorporates our policy on repaying debt, which used to be approved separately.

**2. Capital Expenditure**

- 2.1 The Council's capital expenditure plans are approved by the full Council, on the basis of two reports:-
  - (a) The corporate capital programme – this covers periods of one or more years, and is always approved in advance of the period to which it relates. It is often, but need not be, revisited annually (it need not be revisited if plans for the subsequent year have already been approved);
  - (b) The Housing Revenue Account (HRA) capital programme – as this is funded primarily from revenue, it is considered as part of the HRA budget strategy which is submitted each year.
- 2.2 The capital programme is split into:-
  - (a) Immediate starts – being schemes which are approved by the Council and can start as soon as practical after the council has approved the programme. Such schemes are specifically described in the relevant report;
  - (b) Policy provisions, which are subsequently committed by the City Mayor (and may be less fully described in the report). The principle here is that further consideration is required before the scheme can start.
- 2.3 The corporate capital programme report sets out authorities delegated to the City Mayor. Decisions by the City Mayor are subject to normal requirements in the constitution (e.g. as to prior notice and call-in).

2.4 Monitoring of capital expenditure is carried out by the Executive and the Overview Select Committee. Reports are presented on 3 occasions during the years, and at outturn. For this purpose, immediate starts have been split into three categories:-

- (a) **Projects** – these are discrete, individual schemes such as a road scheme or a new building. These schemes are monitored with reference to physical delivery (rather than an annual profile of spending). We do, of course, still want to make sure that the overall budget is not going to be exceeded;
- (b) **Work Programmes** – these are minor works or similar schemes where there is an allocation of money to be spent in a particular year. The focus of monitoring is on whether the money is spent in the years for which it is approved;
- (c) **Provisions** – these are sums of monies set aside in case they are needed, but where low spend is a favourable outcome rather than indicative of a problem.

2.5 When, during the year, proposals to spend policy provisions are approved, a decision on classification is taken at that time (i.e. a sum will be added to projects, work programmes or provisions as the case may be).

2.6 The authority does not capitalise expenditure, except where it can do so in compliance with proper practices: it does not apply for directions to capitalise revenue expenditure.

2.7 Past and forecast capital expenditure is:

| <b>Area of expenditure</b>        | <b>2018/19<br/>Estimate<br/>£000s</b> | <b>2019/20<br/>Estimate<br/>£000s</b> |
|-----------------------------------|---------------------------------------|---------------------------------------|
| Children's Services               | 41,938                                | 60,550                                |
| Young People                      | 20                                    | 20                                    |
| Resources ICT                     | 1,866                                 | 807                                   |
| Transport                         | 34,250                                | 27,588                                |
| Cultural & Neighbourhood Services | 11,893                                | 8,984                                 |
| Environmental Services            | 379                                   | 0                                     |
| Economic Regeneration             | 31,472                                | 21,952                                |
| Adult Care                        | 1,967                                 | 9,924                                 |
| Public Health                     | 1,808                                 | 1,811                                 |
| Property                          | 4,853                                 | 2,995                                 |
| Vehicles                          | 198                                   | 0                                     |
| Housing Strategy & Options        | 1,970                                 | 17,045                                |
| Corporate Loans                   | 0                                     | 0                                     |
| <b>Total General Fund</b>         | <b>132,614</b>                        | <b>151,676</b>                        |
| Housing Revenue Account           | 16,373                                | 31,040                                |
| <b>Total</b>                      | <b>148,987</b>                        | <b>182,716</b>                        |

2.8 The Council's Estates and Building Services Division provides professional management of non-housing property assets. This includes maintaining the properties, collecting any income, rent reviews, ensuring that lease conditions are complied with and that valuations are regularly updated at least every 5 years. A capital programme provision is made each year for significant

improvements or renovation: spending need is initially prioritised by the division and formally approved by the City Mayor.

- 2.9 The Housing Division provides management of tenanted dwellings. As the HRA capital programme is almost entirely funded from tenants' rents, both major and minor repairs are (directly or indirectly) met from tenants' rents. The criteria used to plan major works are in the table below:-

| <b>Component for Replacement</b> | <b>Leicester's Replacement Condition Criteria</b>  | <b>Decent Homes Standard: Maximum Age</b>  |
|----------------------------------|--|--|
| Bathroom                         | All properties to have a bathroom for life by 2030 | 40 years / 30 years  |
| Central Heating Boiler           | Based on assessed condition                        | 15 years (future life span of new boilers is expected to be on average 12 years) |
| Chimney                          | Based on assessed condition                        | 50 years   |
| Windows & Doors                  | Based on assessed condition                        | 40 years   |
| Electrics                        | Every 30 years                                     | 30 years   |
| Kitchen                          | All properties to have an upgraded kitchen by 2030 | 30 years / 20 years  |
| Roof                             | Based on assessed condition                        | 50 years (20 years for flat roofs)   |
| Wall finish (external)           | Based on assessed condition                        | 80 years   |
| Wall structure                   | Based on assessed condition                        | 60 years   |

### 3. **Financing Capital Expenditure**

- 3.1 Most capital expenditure of the Council is financed as soon as it is spent (by using grants, capital receipts, revenue budgets or the capital fund). The Council will only incur spending which cannot be financed in this way in strictly limited circumstances. Such spending is termed "prudential borrowing" as we are able to borrow money to pay for it. (The treasury management strategy explains why in practice we don't need to borrow on the external market: we must still, however, account for it as borrowing and make "repayments" from revenue each year). Circumstances in which the Council will use "prudential borrowing" are:-

- (a) Where spending facilitates a future disposal, and it is estimated that the proceeds will be sufficient to fully cover the initial costs;
- (b) Where spending can be justified with reference to an investment appraisal (this is further described in the separate investment strategy). This also includes social housing, where repayment costs can be met from rents;
- (c) Other "spend to save" schemes where the initial cost is paid back from revenue savings or additional income;
- (d) Where, historically, the Council has used leasing for vehicles or equipment, and revenue budgets already exist to meet the cost;
- (e) "Once in a generation" opportunities to secure significant strategic investment that will benefit the city for decades to come.



- 3.2 The Council measures its capital financing requirement, which shows how much we would need to borrow if we borrowed for all un-financed capital spending (and no other purpose). This is shown in the table below:-

|              | 2018/19<br>Estimate<br>£m | 2019/20<br>Estimate<br>£m | 2020/21<br>Estimate<br>£m | 2021/22<br>Estimate<br>£m |
|--------------|---------------------------|---------------------------|---------------------------|---------------------------|
| HRA          | 210                       | 210                       | 209                       | 209                       |
| General Fund | 260                       | 255                       | 248                       | 241                       |

*(The table above excludes PFI schemes).*

- 3.3 Projections of actual external debt are included in the treasury management strategy, which is elsewhere on your agenda.

#### 4. **Debt Repayment**

- 4.1 As stated above, the Council usually pays for capital spending as it is incurred. However, this has not always been the case. In the past, the Government encouraged borrowing and money was made available in Revenue Support Grant each year to pay off the debt (much like someone paying someone else's mortgage payments).
- 4.2 The Council makes charges to the general fund budget each year to repay debt incurred for previous years' capital spending. (In accordance with Government rules, no charge needs to be made to the Housing Revenue Account: we do, however, make charges for newly built property).
- 4.3 The general underlying principle is that the Council seeks to repay debt over the period for which taxpayers enjoy the benefit of the spending it financed.
- 4.4 Where borrowing pays for an asset, debt is repaid over the life of the asset.
- 4.5 Where borrowing pays for an investment, debt is repaid over the life of the Council's interest in the asset which has been financed (this may be the asset life, or may be lower if the Council's interest is subject to time limits). Where borrowing funds a loan to a third party, repayment will never exceed the period of the loan.
- 4.6 Charges to revenue will be based on an equal instalment of principal, or set on an annuity basis, as the Director of Finance deems appropriate.
- 4.7 Debt repayment will normally commence in the year following the year in which the expenditure was incurred. However, in the case of expenditure relating to the construction an asset, the charge will commence in the year after the asset becomes operational or the year after total expenditure on the scheme has been completed.
- 4.8 The following are the maximum asset lives which can be used:-
- (a) Land – 50 years;
  - (b) Buildings – 50 years;
  - (c) Infrastructure – 40 years;
  - (d) Plant and equipment – 20 years;
  - (e) Vehicles – 12 years.

- 4.9 Some investments governed by the treasury strategy may be accounted for as capital transactions. Should this require debt repayment charges, a time period consistent with the business plan (and formal guidance) will be employed. Share capital has a maximum “life” of 20 years.
- 4.10 Authority is given to the Director of Finance to voluntarily set aside sums for debt repayment, over and above the amounts determined in accordance with the above rules, where she believes the standard charge to be insufficient, or in order to reduce the future debt burden to the authority.
- 4.11 Voluntary set aside has been made in past years, in line with approved budget strategies. Prior to 2015/16, the Council had a policy requiring higher sums to be set aside than the current policy requires. In November 2015, the policy was changed by the Council to one which is essentially the one stated above. Subsequent budgets, however, deliberately topped up the amount of repayment to previous levels. In this way, the Council postponed potential budget savings until Government grant cuts made implementation essential (after all, the “budget savings” only arise from slower payment of debt). As a consequence, the Council has set aside (cumulatively) £17m more than the amount determined by the policy approved in 2015.
- 4.12 The law permits the Council to “claim back” sums set aside voluntarily in previous years by reducing subsequent years’ debt repayment. The Council will only do this in the following circumstances:-
- (a) To support the Council’s treasury management strategy. For instance, using these sums gives the Council access to a wider pool of collective property investments than we could otherwise use because of accounting restrictions (and hence access to better investment opportunities);
  - (b) For the acquisition of other investments permitted by the investments strategy, where it is appropriate to capitalise spending so that revenue savings can be delivered immediately.
- 4.13 Once investments acquired through sums “claimed back” are redeemed, the receipt will be set aside again for debt repayment.
- 4.14 In circumstances where the investment strategy permits use of borrowing to support projects which achieve a return, the Director of Finance may adopt a different approach to debt repayment to reflect the financing costs of such schemes. The rules governing this are included in the investment strategy.
- 4.15 The ratio of financing costs to net revenue budget is estimated to be:-

|              | <b>2019/20</b> | <b>2020/21</b> | <b>2021/22</b> |
|--------------|----------------|----------------|----------------|
|              | <b>%</b>       | <b>%</b>       | <b>%</b>       |
| General Fund | 2.1            | 2.3            | 2.3            |
| HRA          | 10.1           | 10.0           | 9.9            |

## 5. **Commercial Activity**

- 5.1 The Council has for many decades held commercial property. It may decide to make further commercial investments in property, or give loans to others to support commercial investment. Our approach is described in the investment strategy, which sets the following limitations:-
- (a) The Council will not make such investments purely to generate income. Each investment will also benefit the Council's service objectives (most probably, in respect of economic regeneration and jobs). It will, however, invest to improve the financial performance of the corporate estate;
  - (b) The Council will not make investments outside of the LLEP area (or just beyond its periphery) except as described below. We would not, for instance, borrow money to buy a shopping centre 100 miles from Leicester;
  - (c) There is one exception to (b) above, which is where the investment meets a service need other than economic regeneration. An example might be a joint investment in solar panels, in collaboration with other local authorities; or investment in a consortium serving local government as a whole. In these cases, the location of the asset is not necessarily relevant.
- 5.2 Such investments will only take place (if they are of significant scale) after undertaking a formal appraisal, using external advisors if needs be. Nonetheless, as such investments also usually achieve social objectives, the Council is prepared to accept a lower return than a commercial funder would, and greater risk than it would in respect of its treasury management investments. Such risk will always be clearly described in decision reports (and decisions to make such investments will follow the normal rules in the Council's constitution).
- 5.3 Although the Council accepts that an element of risk is inevitable from commercial activity, it will not invest in schemes whereby (individually or collectively) it would not be able to afford the borrowing costs if they went wrong. As well as undertaking a formal appraisal of schemes of a significant scale, the Council will take into account what "headroom" it may have between the projected income and projected borrowing costs.

## 6. **Knowledge and Skills**

- 6.1 The Council employs a number of qualified surveyors and accountants as well as a specialist team for economic development who can collectively consider investment proposals. It also retains external treasury management consultants (currently Arlingclose). For proposed investments of a significant scale, the Council may employ external specialist consultants to assist its decision making.

**Equality Impact Assessment**

**1. Purpose**

1.1 The purpose of this appendix is to present the equalities impact of the proposed 2.99% council tax increase. This is the maximum increase that the Government will allow us without a referendum

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

2.1 Since April 2013, as a consequence of the Government’s welfare reforms, all working age households in Leicester have been 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.

2.2 NOMIS<sup>2</sup> figures for the city (September 2018) indicate that, of the 234,000 working-age residents, 157,300 (67%) are in employment. The 33% not in employment include the unemployed, students, those unable to work through sickness or disability. The working age population is inclusive of all protected characteristics. In 2016 (the most recent data available) there were 30,000 working age benefit claimants, although it is likely this number has now changed. Benefit claimants include people in work as well as people out of work.

**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.

3.2 For band B properties (almost 80% of the city’s properties are in bands A or B), the proposed annual increase in council tax is £35.15; the minimum annual increase for households eligible under the CTSS would be £7.03.

| <b>Band</b>  | <b>No. of Households</b> | <b>Weekly Increase</b> | <b>Maximum Relief (80%)</b> | <b>Minimum Weekly Increase</b> |
|--------------|--------------------------|------------------------|-----------------------------|--------------------------------|
| A-           | 276                      | £0.48                  | £0.39                       | £0.10                          |
| A            | 76,105                   | £0.58                  | £0.46                       | £0.12                          |
| B            | 25,090                   | £0.67                  | £0.54                       | £0.13                          |
| C            | 14,544                   | £0.77                  | £0.54                       | £0.23                          |
| D            | 6,074                    | £0.87                  | £0.54                       | £0.33                          |
| E            | 3,277                    | £1.06                  | £0.54                       | £0.52                          |
| F            | 1,476                    | £1.25                  | £0.54                       | £0.71                          |
| G            | 581                      | £1.44                  | £0.54                       | £0.91                          |
| H            | 36                       | £1.73                  | £0.54                       | £1.19                          |
| <b>Total</b> | <b>127,459</b>           |                        |                             |                                |

NB: “A-“ properties refer to band A properties receiving an extra reduction for Disabled Relief

<sup>2</sup> NOMIS is an Office for National Statistics web based service that provides free UK labour market statistics from official sources.

#### 4. **Risks over the coming year**

- 4.1 As predicted in the previous year's report (2018/19) inflation has fallen. It peaked at 3.1% in late 2017 and has now fallen back to 2.1% which has had a positive impact on disposable income. However, although inflation is not expected to rise significantly in the short term, analysts have stressed that the uncertainties caused by Brexit could pose a risk. In addition, the 2018 update of the Joseph Rowntree Foundation's Minimum Income Standard (MIS) highlights that over the last decade there have been significant increases in domestic fuel costs and increase in transport costs impacting those reliant on public transport, particularly those of working age who commute. These essential costs are likely to impact most on low income households, particularly if their access to technology is limited as they may be less able to take advantage of price comparisons to shop around for competitive prices.
- 4.2 Previous analyses have concluded that groups particularly adversely affected by welfare reforms include lone parents, families with three or more children, and households with a disabled member. It is unclear how these will have changed following more recent announcements of changes to welfare policy (e.g. changes to the two-child limit for support).

#### 5. **Overall impact**

- 5.1 Any increased costs will be a problem for some households with limited incomes, as they could be squeezed by welfare reforms alongside inflationary increases of many basic requirements such as household fuel and transport.
- 5.2 The weekly increase in council tax, however, is small for many of these households, as can be seen from the table above. It must also be taken into account there are also potential equalities implications in the event that a decision were made to not increase Council Tax or to agree a lower council tax increase. In the current financial context, this would require even greater cuts to services, which may disproportionately affect protected groups.

#### 6. **Mitigating actions**

- 6.1 For residents likely to experience short term financial crises as a result of the cumulative impacts of the above risks, the Council has a range of mitigating actions as described in the report. These include: funding through Discretionary Housing Payments; 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.

#### 7. **What protected characteristics are affected?**

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

## Analysis of impact based on protected characteristic

| Protected characteristic       | Impact of proposal:  | Risk of negative impact:  | Mitigating actions:  |
|--------------------------------|--|---|--|
| <b>Age</b>                     | <p>Older people are least affected by a potential increase in council tax. Older people (pension age &amp; older) have been relatively protected from the impacts of the recession &amp; welfare cuts, as they receive protection from inflation in the uprating of state pensions. Low-income pensioners also have more generous (up to 100%) council tax relief. However, in the current financial climate, a lower council tax increase would require even greater cuts to services. While it is not possible to say where these cuts would fall exactly, there are potential negative impacts for this group as older people are the primary service users of Adult Social Care.</p> <p>Working age people bear the brunt of the impacts of welfare reform reductions – particularly those with children. Whilst an increasing proportion of working age residents are in work, national research indicates that those on low wages are failing to get the anticipated uplift of the National Living Wage.</p> | Working age households and families with children – incomes 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.   |
| <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. 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 as their household incomes are squeezed further as a result of reduced benefits. | 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. |
| <b>Gender Reassignment</b>     | No disproportionate impact is attributable specifically to this characteristic.  |   |  |
| <b>Pregnancy and Maternity</b> | <p>Maternity benefits will not be frozen and therefore kept in line with inflation.</p> <p>However, other social security benefits will be frozen, but without disproportionate impact arising for this specific protected characteristic.</p>   |   |  |

|                                  |  |   |  |
|----------------------------------|--|---|--|
| <p><b>Race</b></p>               | <p>Those with white backgrounds are disproportionately on low incomes (indices of multiple deprivation) and in receipt of social security benefits. Some BME people are also low income and on benefits.</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>Household income being further squeezed through low wages and reducing levels of benefit income.</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. Where required, interpretation and translation will be provided in line with the Council's policy to remove barriers to accessing the support identified.</p> |
| <p><b>Religion or Belief</b></p> | <p>No disproportionate impact is attributable specifically to this characteristic.</p>   |   |  |
| <p><b>Sex</b></p>                | <p>Disproportionate impact on women who tend to manage household budgets and are responsible for childcare costs. Women are disproportionately lone parents. Previous analysis has identified lone parents as a group particularly likely to lose income from welfare reforms (although this will have changed following more recent policy announcements).</p>                                  | <p>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> | <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>                            |
| <p><b>Sexual Orientation</b></p> | <p>No disproportionate impact is attributable specifically to this characteristic.</p>   |   |  |

**Earmarked Reserves**

1. Earmarked reserves as reported to Overview Select Committee in September 2018 were as follows. These figures take account of the release of £1.4m from departmental reserves to support the managed reserves strategy:

|  | <b><u>Current Balance</u></b><br><b>£k</b> |
|--|--|
| <b><u>Departmental Reserves</u></b>                    |  |
| Adult Social Care                                      | 5,244                                      |
| Children's Services                                    | 1,127                                      |
| City Development & Neighbourhoods<br>Housing (non HRA) | 1,117<br>843                               |
| Health & Wellbeing                                     | 1,471                                      |
| Delivery Communications & Political Governance         | 5,136                                      |
| ICT  | 3,769                                      |
| Financial Services                                     | 3,710                                      |
| Other Corporate Resources Department                   | 1,257                                      |
|  | <hr/>                                      |
| <b>Subtotal – departmental</b>                         | <b>23,673</b>                              |
| <b><u>Corporate Reserves</u></b>                       |  |
| Managed Reserves Strategy                              | 21,824                                     |
| Demographic Pressures Reserve                          | 3,455                                      |
| BSF Financing  | 11,533                                     |
| Capital Programme Reserve                              | 41,395                                     |
| Severance fund   | 7,265                                      |
| Insurance Fund   | 9,099                                      |
| Service Transformation                                 | 6,087                                      |
| Welfare Reform   | 3,789                                      |
| Other corporate reserves                               | 4,015                                      |
|  | <hr/>                                      |
| <b>Subtotal – Corporate</b>                            | <b>108,463</b>                             |
| <b><u>Ringfenced Reserves</u></b>                      |  |
| NHS Joint Working Projects                             | 1,769                                      |
| Public Health Transformation                           | 1,668                                      |
| School Capital Fund                                    | 2,383                                      |
| Schools Buyback  | 1,073                                      |
| Dedicated Schools Grant not delegated to schools       | 15,783                                     |
| School & PRU balances                                  | 12,009                                     |
|  | <hr/>                                      |
| <b>TOTAL RINGFENCED</b>                                | <b>34,686</b>                              |
| <b><u>Total earmarked reserves</u></b>                 | <b>166,823</b>                             |
|  | <hr/>                                      |



2. Earmarked reserves can be broadly divided into ring-fenced reserves, which are funds held by the Council but for which we have obligations to other partners or organisations; departmental reserves, which are held for specific services; and corporate reserves, which are held for purposes applicable to the organisation as a whole.
3. Ring-fenced reserves include:-
  - **NHS joint working projects:** for joint projects with the NHS;
  - **Public Health Transformation:** for costs of relocating sexual health clinic, service transformation and channel shift;
  - Amounts originating from **Dedicated Schools Grant** which are, by, law, ring-fenced to schools or relevant non-delegated functions.
4. Departmental reserves include amounts held by service departments to fund specific projects or identified service pressures. Significant amounts include:-
  - **Adult Social Care:** to meet budget pressures and balance the budget in 2018/19 and 2019/20;
  - **Children's Services:** to balance the budget in 2018/19;
  - **City Development and Neighbourhoods:** to meet known additional pressures, including one off costs associated with highways functions and the cost of defending planning decisions;
  - **Housing:** to meet spikes in bed & breakfast costs; sourcing private sector landlords; costs associated with economic migrants; and for development work associated with a subsidiary housing company;
  - **Health & Wellbeing:** to support service pressures, channel shift and transitional costs;
  - **Delivery, Communications & Political Governance:** principally for expenditure incurred to retain the Digital Transformation team until 2020/21, temporary and one-off staffing costs in HR/Payroll, costs associated with the Hinckley Road fire, and for future elections.
  - **ICT:** rolling funds for network and server upgrades, mobile airtime and upgrade of the PC Stock;
  - **Financial Services:** for expenditure on replacing the Council's main finance system; funding the Service Analysis Team; transitional costs associated with the transfer of the audit function to the County Council; spikes in benefit processing and overpayment recovery; and to mitigate budget pressures including reducing grant income to the Revenues & Benefits service.
5. Corporate reserves include:-
  - **Managed Reserves Strategy:** a key element to delivering this budget strategy, as set out in para. 15 of this report;
  - **Demographic Pressures:** to help meet cost of demographic changes in adult social care, and reduce the burden on council tax payers – now used as part of the 2019/20 budget strategy;
  - **BSF Financing:** to manage costs over the remaining life of the BSF scheme and lifecycle maintenance costs of the redeveloped schools;

- **Capital Programme Reserve:** to support approved spending on the Council's capital programme. This is committed to meet the costs of the 2018/19 and 2019/20 capital programme;
- **Severance Fund:** to facilitate ongoing savings by meeting the redundancy and other costs arising from budget cuts;
- **Insurance Fund:** to meet the cost of claims which are self-insured;
- **Service Transformation Fund:** to fund projects which redesign services enabling them to function effectively at reduced cost;
- **Welfare Reform:** set aside to support welfare claimants who face crisis, following the withdrawal of government funding for this purpose;
- **Other reserves:** includes monies for spend to save schemes that reduce energy consumption, the combined heat and power reserve, and the surplus property reserve to prepare assets for disposal.

**Comments from Partners**

1. Fewer comments have been received than in previous years. Comments from scrutiny committees will be circulated with your agenda.
2. The **New Parks Community Panel** expressed their support for the proposals.
3. The **Older People's Forum** noted the draft budget report and recognised the financial pressures that the Council was currently enduring.
4. The **Tenants' and Leaseholders Forum** made comments in support of the increase to the empty property premium; and expressed concern that housing replacement criteria, as set out in the Capital Strategy, were not being met.