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# Revenue Budget 2025/26

Decision to be taken by: Council

Date of meeting: Draft for 19 February 2025

Lead director: Amy Oliver, Director of Finance

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City Mayor

## **Useful information**

- Ward(s) affected: All
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- Report version number: 1

### **1. Purpose**

- 1.1 The purpose of this report is to present the City Mayor's strategy for balancing the budget for the next 3 years and to seek approval to the actual budget for 2025/26. The strategy includes the use of one-off money, additional borrowing to pay for committed capital spending, savings in previously approved capital programmes and reductions in annual service spending. It is designed to ensure we remain financially sustainable until at least 2027/28. Some of the necessary approvals are included in the capital programme report, which is elsewhere on your agenda; the rest are contained in this report.
- 1.2 Whilst the strategy is intended to keep us sustainable until 2027/28, we will need to make further, deep spending reductions by 2028/29 unless the Government finds sufficient additional resources to rescue the sector from its current plight. The City Mayor will continue to make these points to the Government.
- 1.3 The proposed budget for 2025/26 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 As members will be aware, the medium-term financial outlook is the most severe we have ever known. Like many authorities, we face increasing difficulties in being able to balance our budget. Some authorities have already reached this position and been forced to issue a formal report under section 114 of the Local Government Finance Act 1988. In previous years, we have used a "managed reserves policy", by which specific reserves have been set aside to support budgets and buy us time to make cuts. The available resources for this are rapidly running out.
- 2.2 The background to this severe outlook is set out in section 4 of this report, as well as actions that have already been taken in response.
- 2.3 At the time of writing, we do not have the local government finance settlement for 2025/26, so this draft budget report is based on estimates of income. However, previous announcements strongly imply that our estimates are unlikely to change significantly, and therefore we will still have a substantial gap between our annual spending and income. The report will be revised before full Council in February.

- 2.4 The overarching strategy to ensure financial sustainability is outlined in section 5. It is aimed at maximising one-off resources to buy time, controlling costs in demand led services and making savings to other services. If it succeeds, we will not face a section 114 report in the next 3 years. There are, nonetheless, risks which are set out in paragraph 16. Given the savings we have had to make in the last decade, the task of finding more is becoming increasingly difficult.
- 2.5 The report proposes a council tax increase of just under 5%, which is the maximum we believe we will be allowed to set without a referendum.
- 2.6 The medium-term outlook is attached at Appendix 4 and shows the escalating scale of the financial pressures facing the council.

### 3. **Recommendations**

#### 3.1 Council is recommended to:

- (a) approve the three year budget strategy described in this report;
- (b) approve the proposed budget and council tax for 2025/26, including the recommendations in the formal budget resolution, subject to any changes proposed by the City Mayor when he makes his final proposal to the Council;
- (c) approve the budget ceilings for each service, drafts of which are shown at Appendix 1 to this report;
- (d) approve the scheme of virement described in Appendix 2 to this report;
- (e) approve the use of the £90m capital fund to support the revenue budget strategy (dependent on decisions taken in respect of the capital programme for 2025/26, which is elsewhere on your agenda);
- (f) approve the changes to earmarked reserves to support the overall strategy as described in Appendix 5;
- (g) note my view on the adequacy of reserves and the estimates used in preparing the budget;
- (h) note the equality implications arising from the proposed tax increase, as described in paragraph 15 and Appendix 3;
- (i) note the medium-term financial strategy and forecasts presented at Appendix 4, and the significant financial challenges that lie ahead;
- (j) approve the capital receipts flexibility policy at Appendix 7.

#### 3.2 In relation to Council Tax on empty properties, Council will be recommended to approve the premiums and discounts outlined in Appendix 6 (to follow).

## 4. **Background**

### 4.1 The background to our financial predicament is:

(a) a “decade of austerity” between 2010 and 2020 in which services other than social care had to be reduced by 53% in real terms. This has substantially reduced the scope to make further cuts;

(b) the covid-19 pandemic where we set “stop gap” budgets whilst we dealt with the immediate emergency. Budgets in 2021/22 to 2022/23 were therefore supported by reserves;

(c) recent cost pressures, shared by authorities across the country. These include pressures on the costs of children that are looked after and support for homeless households, as well as the long-standing pressures in adult social care and the hike in inflation after the invasion of Ukraine. The budgets for 2023/24 and 2024/25 were supported by a further £34m and £61m of reserves respectively;

(d) an anticipated new round of funding constraint. This was implied by the former Government’s spending plans; plans published by the new Government in the Chancellor’s October budget also imply unprotected services such as local government will be subject to restraint (although we won’t get detail about the position for 2026/27 and 2027/28 until spring 2025);

4.2 The previous Government’s chosen measure of a council’s ability to spend was “core spending power” which has, in fact, recently been increasing faster than inflation. It is not, however, increasing as fast as spending need. Core spending power increased by £29.1m in 2024/25 (8.1%); £71.5m of pressures were built into the budget.

4.3 Core spending power is not the same as Government grant funding. Most is raised locally, through council tax and business rates. Only a small element consists of government grant.

4.4 It is worth commenting that the previous Government’s “fair funding” review of grant allocation was continuously delayed, and leaves us to provide services to a population far in excess of our last needs assessment (population has grown faster than elsewhere in the country, so an equitable system would ought to give us a greater share of the national pot). The new Government has promised to complete a review in time for the 2026/27 finance settlement, although full implementation is expected to take several years.

4.5 The Council has already made substantial cost savings since 2010/11. Decisions we have already made include:

- (a) reducing senior management numbers (including the post of Chief Executive) by 45, saving over £5m per year;
- (b) investing in environmentally efficient street-lights, saving over £1m per year;
- (c) closure of the Council's 8 elderly persons' homes, saving over £3m per year;
- (d) saving £1.5m per year from parks and open spaces, including a reduction in maintenance frequency and sale of some sites;
- (e) a 50% reduction in the youth budget;
- (f) remodelling children's early help, closing or transferring 11 buildings, saving £3.5m per year;
- (g) reduction in opening hours of libraries, relocation of libraries with the least use, and cessation of the library minibuss service;
- (h) a rolling programme of closures and transfers of community centres;
- (i) increases in car parking and leisure centre charges; and
- (j) introduction of bus lane enforcement.

4.6 Since 2010/11, some 2,000 staff have been made redundant, largely as a consequence of spending cuts.

4.7 The overall impact of changes between 2010/11 and 2020/21 (the decade of austerity), and then subsequently, can be seen from the tables below:

<i>Budgeted Spending in cash terms</i>	<b>2010/11</b> £m	<b>2020/21</b> £m	<b>2024/25</b> £m
Spending on children's and adults' social care	128.5	197.2	295.8
Spending on other services	192.3	108.7	157.0
Centrally held budgets	37.2	10.1	11.2
<b>TOTAL</b>	<b>358.0</b>	<b>316.0</b>	<b>464.0</b>

<i>Budgeted Spending in real terms*</i>	<b>2010/11</b> £m	<b>2020/21</b> £m	<b>2024/25</b> £m
Spending on other services	282.7	132.3	157.0
<b>Cumulative Cuts since 2020/21</b>		<b>53.2%</b>	<b>44.5%</b>

\*Prices updated using CPIH indices

4.8 Whilst spending on other services has increased since 2020/21, in no small part due to pressures on the homelessness service, it is important to recognize that

this additional spending has had to be funded from our own reserves. Minimal reserves were used in 2010/11 or 2020/21. **Without the £61m reserves budgeted for use in 24/25, funding available for other services would have fallen to £96m, a real terms cut of two thirds since 2010/11.**

4.9 We have reached a stage where any further cuts are bound to be painful and leave discretionary services stretched to the limit. This is what we are now compelled to contemplate.

5. **Financial Strategy for 2025/26 to 2027/28**

5.1 As noted above, the medium-term financial outlook is the most severe we have ever known.

5.2 The budget approved by the Council in February contained the following projections of income and expenditure:

	2024/25 £m	2025/26 £m	2026/27 £m
Expenditure	429.0	462.3	490.7
Minus income	(368.0)	(371.9)	(378.8)
<b>Budget gap</b>	<b>61.0</b>	<b>90.4</b>	<b>111.9</b>

5.3 The previous Government did not publish any spending plans for periods beyond 2024/25, so the figures for 2025/26 and 2026/27 were necessarily based on assumptions. The new Government published its budget on 30<sup>th</sup> October, which contained an aggregate spending total for local government in 2025/26 and total figures for all public spending in 2026/27 and 2027/28. Our local figures for 2025/26 will not be available until shortly before Christmas. The new government is expecting to publish more detailed 3 year plans in spring, but the indications are that there will be modest additional support for deprived local authorities in 2025/26, and continuation of spending restraint in 2026/27 and beyond. It is unlikely that we will see the substantial additional support we require from the Government in the next 3 years. Indeed, the Government itself has stated (28/11/24): *“Our fiscal inheritance means that there will be tough choices on all sides to get us back on the path to recovery, and it will take time. There is no magic wand. It will be a long, hard slog to work with councils to rebuild from the ground up, to deliver the services taxpayers need and deserve.”*

5.4 Past budgets have been supported by our “managed reserves strategy” under which we planned permanent reductions and used reserves to buy time, avoiding crisis cuts. More recently, the amount of reserves required to balance the budget has grown significantly so that £61m was required to balance 2024/25 when we set the budget in February.

5.5 Like many authorities, we face the real prospect of not being able to balance our budget in future years, necessitating a formal report under section 114 of the

Local Government Finance Act 1988. If such a report is issued, we run the risk of Government intervention with the running of the Council being effectively determined in Whitehall.

5.6 The size of the problem is so severe that bridging the gap in one year is an impossibility. The proposed strategy is therefore as follows:

(a) **Strand One** - Releasing one off monies of £110m to buy time:

- All the Council's earmarked reserves have been reviewed, and it is recommended to release £20.3m on the basis that maintaining the Council's solvency takes precedence over most of the reasons for which money has previously been set aside.
- (As described in the capital programme report elsewhere on your agenda) it is proposed to release a £90m revenue reserve held to support capital (the "capital fund"). This, however, will leave a gap in the funding for previously approved capital schemes, requiring borrowing to fill it.

(b) **Strand Two** – Reductions of £13m in the approved capital programme, as described in the capital programme report, which will reduce the borrowing required. The additional borrowing will nonetheless increase the size of the annual budget gap by an estimated £5m per year from 2026/27 (in effect, we would be borrowing money to provide short term support to the revenue budget, which can only be considered because the situation is so dire);

(c) **Strand Three** - Embark on an ambitious programme to sell property, with the aim of securing an additional £60m of one-off monies. The receipts cannot be used to support the revenue budget without permission from the Secretary of State (such permissions are being used by the Government as a tool to deal with immediate budget challenges). Current projections suggest that we will need to seek consent before 2027/28. This is further discussed at para. 14 below. **The Government will expect a credible savings plan before a permission will be granted;**

(d) **Strand Four** – Continue taking steps to constrain growth in those statutory services that are under demand led pressure (i.e. adult and children's social care services, and homelessness). As a consequence of work already done, the budget for social care services in 2025/26 is forecast to be over £20m less than envisaged in February;

(e) **Strand Five** - Make ongoing savings to the revenue budget of £20m per year. Expected savings have been built into the budget ceilings for

each department. Further savings of £2.4m per year will be achieved if Council approves a proposed new council tax support scheme in January. These savings do not come close to balancing the budget on a recurrent basis. **The level to be achieved has been deliberately set at a low level to provide scope to respond to Government plans as they emerge.** Nevertheless, we still expect to have to make considerable additional savings after the three year plan has expired.

5.7 If successful, implementation of the strategy would result in revised budget projections of:

	2025/26 £m	2026/27 £m	2027/28 £m
Expenditure	429.5	459.0	495.8
Plus prudential borrowing costs:			
- to release the capital fund	3.0	5.0	5.0
- for the 2025/26 capital programme	1.4	2.5	2.6
Minus income	(387.2)	(400.1)	(413.5)
<b>Equals Recurring Budget Gap</b>	<b>46.7</b>	<b>66.4</b>	<b>89.9</b>

Revised projections of reserves are:

	2025/26 £m	2026/27 £m	2027/28 £m
<b>At the beginning of the year</b>	<b>53.5</b>	<b>123.1</b>	<b>56.7</b>
Plus earmarked reserves	20.3		
Plus capital fund	90.0		
Plus capital receipts (if permission granted)			60.0
Other	6.0		
Minus budget gap	(46.7)	(66.4)	(89.9)
<b>At the end of the year</b>	<b>123.1</b>	<b>56.7</b>	<b>26.8</b>

5.8 Detailed medium term forecasts are provided at Appendix 4. Members are asked to note that forecasts assume the Council will continue to set the maximum council tax permitted by the Government's referendum rules – currently assumed to be 3% from 2026/27.

5.9 Clearly, as expenditure will continue to exceed income, further action will be needed to balance the budget in 2028/29 unless the Government has provided substantial additional resources by that time. Government grant income in 2024/25 was £74.5m. To eliminate the budget gap in 2027/28, all other things being equal, government grant income would need to increase to £180m on current assumptions compared to our forecast of £90m.



## 6. 2025/26 Budget Overview

6.1 The table below summarises the proposed budget for 2025/26 (projections for a full three-year period are included in the medium-term strategy at Appendix 4):

	<b>2025/26 £m</b>
<b>Expenditure:</b>	
Net service budget (before savings)	447.5
Less savings and cost constraint (see para. 10.4)	(50.9)
<b>Net service budget</b>	<b>396.6</b>
Provisions for pay inflation (including 24/25)	14.0
Provisions for other inflation	0.4
Corporate budgets (including capital finance)	7.9
Demographic contingency	2.0
Homelessness provision	11.0
General contingency for risk	2.0
<b>Expenditure total</b>	<b>433.9</b>
<b>Income:</b>	
Council tax	165.9
Business rates (including top-up grant)	141.4
Revenue Support Grant	36.2
Social Care Grant	41.7
Other grants	2.0
<b>Income total</b>	<b>387.2</b>
<b>Recurring budget gap</b>	<b>46.7</b>

## 7. Construction of the 2025/26 Budget and Council Tax

7.1 By law, the Council's role in budget setting is to determine:

- (a) The level of council tax;
- (b) The limits on the amount the City Mayor is entitled to spend on any service ("budget ceilings") - proposed budget ceilings are shown at Appendix 1;

7.2 In line with Finance Procedure Rules, the Council must also approve the scheme of virement that controls subsequent changes to these ceilings. The proposed scheme is shown at Appendix 2.

- 7.3 The budget is based on a proposed Band D tax for 2025/26 of £2,020.85, an increase of just under 5% compared to 2024/25. This is the maximum which will be permitted without a referendum. It is noted that some taxpayers will experience a different increase as a result of changes to the council tax support scheme (if approved).
- 7.4 The tax levied by the City Council constitutes only part of the tax Leicester citizens have to pay (albeit the major part – 84% in 2024/25). Separate taxes are raised by the Police and Crime Commissioner and the Combined Fire Authority. These are added to the Council's tax, to constitute the total tax charged.
- 7.5 The actual amounts people will be paying, however, depend upon the valuation band their property is in and their entitlement to any discounts, exemptions or benefit. Almost 80% of properties in the city are in band A or band B, so the tax will be lower than the Band D figure quoted above. The Council also has schemes for mitigating hardship.
- 7.6 The Police and Crime Commissioner and Combined Fire Authority will set their precepts in February 2025. The formal resolution will set out the precepts issued for 2025/26, together with the total tax payable in the city.

## 8. **Departmental Budget Ceilings**

- 8.1 Budget ceilings have been prepared for each service, calculated as follows:
- (a) The starting point is last year's budget, subject to any changes made since then which are permitted by the constitution (e.g. virement);
  - (b) An allowance is made for non-pay inflation on a restricted number of budgets. Our general rule is that no allowance is made, and departments are expected to manage with the same cash sum that they had in the previous year. Exceptions are made for the budgets for independent sector adult social care (2%) and foster care (2%) but as these areas of service are receiving growth funding, an inflation allowance is merely academic (we pay from one pot rather than another). Budgets for the waste PFI contract have been increased by RPI, in line with contract terms.
  - (c) Unavoidable growth has been built into the budget. This has been mitigated by action that has already been taken to control costs in demand-led areas, as detailed in paragraph 9 below.
  - (d) Savings being sought, totaling £10.7m in 2025/26, are deducted from budget ceilings. (The expected figure rises to £20.4m by 2027/28).
- 8.2 The proposed budget ceilings are set out in Appendix 1.

- 8.3 In recent years, the pay award for local government staff has not been agreed until part way through the financial year. A central provision is held to fund the 2025/26 pay award, forecast at 3%. Additionally, a further £2m has been set aside in a central provision for demographic changes, which will only be released if needed.
- 8.4 For this draft budget, the provision to fund the 2024/25 pay award agreed in October is still held centrally whilst the impact is being calculated – it will be allocated to budget lines before the final budget is set in February. No adjustment has yet been made for changes to National Insurance Contributions announced at the Autumn Budget statement and due to commence in April 2025: additional funding has been promised by government to meet NI costs relating to our own staff but not those of providers (see paragraph 12 below).
- 8.5 The role of the Council is to determine the financial envelopes within which services are delivered. Delivering the services within budget is a function of the City Mayor.

## **9. Constraining Growth in Service Demand (Strand 4 of the Budget Strategy)**

- 9.1 As can be seen from the background section, one of the chief reasons for our budget gap is growth in the costs of statutory services, particularly social care (and, more recently, homelessness), which have outstripped growth in our income.
- 9.2 The budget for **adult social care** approved in February provided for substantial growth, both in 2024/25 and 2025/26. This can be seen from the following table:

	<b>2024/25</b>	<b>2025/26</b>
	£m	£m
Underlying budget	155.9	155.9
Growth	17.5	34.4
<b>TOTAL</b>	<b>173.4</b>	<b>190.3</b>

- 9.3 Growth in the cost of adult social care arises from growth in the numbers of people needing support (who can be older or working age people), together with cost increases arising from increased packages of support to those already receiving care. The budget also included an additional “demographic contingency” of £8m per year to cater for volatility of demand – not exclusively for adult care.
- 9.4 The department has embarked on a comprehensive savings delivery programme, coupled with enhanced operational control mechanisms. Underlying the programme are measures aimed at creating a new culture, with more focus on supporting independent living and less reliance on expensive care packages. The department sought to secure savings of £30m per year by 2025/26, but has succeeded in making savings estimated at £48m. Some of

these savings were anticipated when the 2024/25 budget was set; some will reduce the budget further.

9.5 The savings delivery programme includes 4 workstreams:

(a) **Reducing growth in the costs of care** (minimising “double handed” care; reducing reliance on taxis; reducing residential costs to the levels of comparator authorities; finding alternatives to existing low level care packages; increased technology enabled care; new approaches to falls management; reviewing the use of direct payments; and a dedicated team to review the quality and cost of high-cost packages);

(b) **Reducing new entrants, and management of demand** (developing the preventative care offer; enhancing digital support; and reviewing our information and guidance);

(c) **Improving efficiency** (increasing the number of occupational therapy assessments; reducing duplication and overlaps in provision of care; and increasing capacity to manage overdue reviews of clients’ needs);

(d) **Partnership working** (addressing imbalances between LCC & NHS contributions to packages of care; retendering the model of delivery of the Approved Mental Health Practitioner service; more effectively supporting transitions from childhood to adulthood; and advertising the passenger transport fleet to generate income).

9.6 Tightening operational control mechanisms include:

(a) **Better management of the commissioning cycle** from initial needs analysis through to market management, procurement and ultimately contract management;

(b) new tools and mechanisms for **improving social work practice**, in order to prioritise alternatives to care packages and to ensure consistency of approach.

9.7 Whilst it is difficult to say which changes have resulted in the majority of savings (which would involve asking the counterfactual question of what would have happened if they hadn’t been made) it is believed that tightening operational control mechanisms has been the most significant contributor.

9.8 An external review was commissioned from Catherine Underwood, former strategic director of people at Nottingham City Council. The review provides assurance that Adult Social Care are optimising opportunities for cost reductions.

- 9.9 The department has made savings over and above those expected last February of:

	£m
2024/25	17.1
2025/26	22.5

- 9.10 The budget provides for cost increases expected as a consequence of the Autumn budget, particularly the increase in providers' NI costs. The Government has now been very clear that they will not reimburse any additional NI costs other than those of our direct employees.

- 9.11 The table below shows the ASC budget for 2025/26 as it is now, compared with the expectation when we set the budget for 2024/25:

	Estimate in Feb. 2024 (£m)	Now (£m)	Change (£m)
ASC budget	190.3	177.6	
Contingency (also available for children's care)	8.0	2.0	
<b>TOTAL</b>	<b>198.3</b>	<b>179.6</b>	<b>18.7</b>

- 9.12 The budget for **Education and Children's Services** approved in February also provided for cost growth, both in 2024/25 and 2025/26. This can be seen from the following table:

	2024/25 £m	2025/26 £m
Underlying budget (including SEN transport)	98.1	98.1
Growth	17.5	21.1
<b>TOTAL</b>	<b>115.6</b>	<b>119.2</b>

- 9.13 The budget reflected growth in the cost of children's care placements in 2023/24 and assumed further cost growth in 2024/25 and beyond. The majority of the increase reflects growth in the number of extremely high-cost individual residential placements rather than an increase in numbers per se. This can be seen in the average cost of a placement:

- (a) In the 4 years from 2019/20 to 2022/23, average costs for new entrants reduced from £44,000 to £40,000.
- (b) In 2023/24, average new entrant costs rose to £78,000 per annum.

- 9.14 The total budget assumed completion of work to deliver early help differently (including the outcome of a children's centres consultation, a youth services

resource review, and mental health post reductions). This work is on course to save £2m per year.

9.15 Action continues to take place to reduce placement costs:

- (a) Work is taking place to develop a **placement strategy**. There is no indication that the Council is an outlier in the number of children in the care system, or in the weekly cost – rather, high cost is an indicator of a broken market with a small number of large providers making profits significantly higher than would be the case if the market was working well. Work will take place to secure sufficiency of supply which will seek alternatives to the current suppliers. Work will also take place to address a perceived shortfall in contributions to placement costs received from the NHS;
- (b) Work is taking place to reduce our reliance on **agency social workers** by developing multi-disciplinary teams (where staff who are not registered can play a greater role); implementing plans to grow our own social workers; and improving what we can offer to social workers joining the council (improving conditions and professional development opportunities).

9.16 The department has made savings in the costs of children’s care (compared to last year’s of expectations) of:

	£m
2025/26	2.4
2026/27	1.4

9.17 The delivery of savings in social care will be monitored through a suite of management information dashboards, which can also be shared with the scrutiny function. We are already seeing results in 2024/25 with reductions in average placement costs.

9.18 Work has also taken place to reduce pressure on budgets for **transport** of children with education, health and care plans, including proposals to change the policy for post 16 children (subject to consultation) and to encourage the use of personal transport plans. Demand for transport is already falling for post 16 children, but costs and demand continues to rise for other children. A pressure of £0.8m is built in to the 2025/26 budget, rising to £1.8m by 2027/28.

9.19 A further increase to the budget of £1m per year has been made in respect of other pressures – legacy costs from the city catering service and cost pressures in the disabled children’s service.

9.20 As a consequence of the above measures, the demographic contingency has been reduced to £2m per year. This does carry some risk in the event of an unexpected rise in demand.

9.21 The budget for **homelessness** is under severe pressure due to increased numbers of households presenting as homeless. This national issue arises from a shortage in the availability of affordable housing, compounded by housing benefit not having kept pace with rising rents, and the impact of the previous Government accelerating asylum decisions. The Council has invested in new housing in order to provide better (and cheaper) alternatives to hotel accommodation; nonetheless we are currently estimating that growth of £11m will be required in the 2025/26 budget. Nonetheless, activity to date is estimated to have avoided £45m of additional cost by 2027/28.

10. **Savings Programme (Strand Five of the Strategy)**

10.1 The strategy will require achievement of savings totalling £23m by 2027/28:

	2025/26 £m	2026/27 £m	Full Year £m
Departmental savings	10.7	18.8	20.4
Council Tax Support Scheme*	2.2	2.2	2.4
<b>TOTAL SAVINGS</b>	<b>12.9</b>	<b>21.0</b>	<b>22.8</b>

\*The proposal to save £2.4m per year from the current council tax support scheme was the subject of a public consultation which closed on 10<sup>th</sup> November. This will lead to a full Council report in January. Its effect, if we go ahead as proposed, would be to increase our total council tax income.

10.2 The departmental savings can be achieved from efficiency savings and income generation which directors can action under delegated authority (indeed it is believed a significant proportion can be found in this way); or following an Executive decision on conclusion of a service review. Service reviews may require a public consultation in some cases.

10.3 The budget ceilings at Appendix 1 include the reductions implied by these savings. The savings required are summarised in the table below:

	2025/26 £m	2026/27 £m	Full Year £m
Estates & Building Services	2.3	2.8	2.8
Housing	0.7	1.0	1.0
Neighbourhoods & Environmental Services	3.0	6.7	7.2
Planning, Development and Transportation	1.9	3.9	4.0
Tourism, Culture & Inward Investment	1.5	1.9	2.3
Corporate Services	0.9	1.6	2.0

Financial Services	0.4	0.9	1.1
<b>TOTAL</b>	<b>10.7</b>	<b>18.8</b>	<b>20.4</b>

10.4 It is worth noting the scale of savings activity which has taken place since the budget was set in February. This can be seen in the table below:

	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Savings in provisions for cost growth in Adult Social Care	22.5	22.5	22.5
Reductions in amount required for unbudgeted growth in social Care	6.0	6.0	6.0
Reduction in provisions for cost growth in children's placements	2.4	1.4	1.4
Cost reduction measures in homelessness services	6.0	27.0	45.0
Savings approved prior to this report	1.1	1.1	1.2
Savings proposed in council tax support	2.2	2.2	2.4
Savings proposed in this report	10.7	18.8	20.4
<b>TOTAL</b>	<b>50.9</b>	<b>79.0</b>	<b>98.9</b>

## 11. Corporately held Budgets and Provisions

- 11.1 In addition to the services' budget ceilings, some budgets are held corporately. These are described below.
- 11.2 A provision has been set aside for **pay awards**. The 2024/25 pay award has now been agreed, and this provision will be distributed to service departments before the final budget is set in February.
- 11.3 The budget for **capital financing** represents the cost of interest and debt repayment on past years' capital spending, less interest received on balances held by the council. The net budget has improved recently due to increasing interest rates leading to better returns on balances (while the majority of our borrowing is on fixed rates and is not affected by interest rate variations in the short term). As we spend our reserves, however, interest on balances will fall and we will need to borrow money. Decisions to borrow money to fund capital expenditure (elsewhere on your agenda) have led to an increase in the budget (£5m in a full year through refinancing the 2024/25 programme to release the capital fund; £2.6m to fund the 2025/26 capital programme).
- 11.4 **Miscellaneous central budgets** include external audit fees, pension costs of some former staff, levy payments to the Environment Agency, bank charges, general insurance costs, money set aside to assist council taxpayers suffering



hardship and other sums it is not appropriate to include in service budgets. £0.25m has been added to the budget for discretionary council tax relief in 2025/26 and 2026/27, to help mitigate the impact on those whose support will decrease. Miscellaneous central budgets are partially offset by the effect of recharges from the general fund into other statutory accounts of the Council.

- 11.5 A contingency has been set aside for **demographic pressures**, which will be allocated only if necessary.

## 12. Resources

12.1 The majority of the council's core funding comes from business rates; government grant funding; and council tax. Service-specific sources of funding, such as fees & charges and specific grants, are credited to the relevant budget ceilings, and are part of departmental budgets.

12.2 At the time of writing this report, we have only limited information about government funding expected in 2025/26, and this draft budget is necessarily based on an estimate. The provisional settlement, which will give us figures for the major funding streams, is expected shortly before Christmas.

12.3 Resource estimates in this draft budget are based on assumptions from the government's Autumn Statement. Key assumptions include:

- Additional funding will be received to meet the cost of changes to National Insurance Contribution in respect of our own staff;
- Additional Social Care grant funding of £5m per year is received;
- Other funding streams remain largely unchanged.

### Business rates and core grant funding

12.4 Local government retains 50% of business rates collected locally, with the balance being paid to central government. In recognition of the fact that different authorities' ability to raise rates do not correspond to needs, there are additional elements of the business rates retention scheme: a top-up to local business rates, paid to authorities with lower taxbases, and Revenue Support Grant (RSG).

12.5 Government decisions in recent years have reduced the amount of rates collected from businesses, by limiting annual increases in the multiplier used to calculate rates and by introducing reliefs for various classes of business. The government's practice is to compensate authorities for lost income due to changes to the scheme. So many changes have been made in recent years that by 2023/24 compensation made up around a third of the "rates" income received by the Council. The complexity of these changes, and the fact that a single ratepayer may be affected by several overlapping changes, makes it difficult to accurately estimate rates income; the estimates in this draft report are the best

we can make at present. In practice, we believe that the system of business rates is becoming unsustainable in its current form.

- 12.6 The figures in the budget assume no significant growth or decline in “rates” from the current position, apart from inflationary increases. The largest element of uncertainty in the forecasts relates to the impact of appeals by businesses against the ratable values determined by the Valuation Office.

### Council tax

- 12.7 Council tax income is estimated at £166m in 2025/26, based on an assumed tax increase of just below 5% (the maximum we believe will be allowed to set without a referendum). The 5% limit will include a “social care levy” of 2%, designed to help social care authorities mitigate the growing costs of social care. Since our tax base is relatively low for the size of population, the levy raises just £3m per year.
- 12.8 The estimated council tax base has remained largely flat since last year’s budget; this appears to be the result of slower housebuilding numbers, and a growing number of exempt properties (mostly student accommodation).
- 12.9 The budget includes the impact of extended council tax premiums on long-term empty and second homes, as set out in Appendix 6. This report seeks approval for a change to second homes premia such that unfurnished empty properties will be subject to the premium as soon as they become empty, rather than after a month’s grace period (this brings them into line with furnished properties, and – to the extent that it doesn’t have the hoped for impact of speeding up the turnaround of properties – should raise an estimated £0.6m per year). A change is also sought in respect of charges for empty, furnished properties (“second homes”) to reflect guidance received from the Government in November 2024.
- 12.10 If the Council makes a decision to change the council tax support scheme in January, the amount of support awarded will reduce. This is reflected in an estimated additional £2.4m of council tax income.

### Other grants

- 12.11 The majority of grant funding is treated as income to the relevant service departments and is not shown separately in the table at paragraph 6. The most substantial grant held corporately is the **Social Care Grant**, which has been provided each year since 2016/17 to reflect national cost and demographic pressures. It has been increased several times since 2016 and is now a significant amount. In 2024/25, our share of this funding was £36.7m; a further increase is expected, but has not yet been announced for the 2025/26 financial year.
- 12.12 The majority of other funding streams in previous budgets, including the New Homes Bonus and Services Grant, have been sharply cut in recent years. There

is no clarity on the future of these funding streams, and no income has been assumed for 2025/26.

#### Other corporate income

12.13 From 2025/26, a new funding stream relating to Extended Producer Responsibility (EPR) for waste packaging is expected. At the time of writing, no information was available other than a national estimate of income amounting to £1bn. No information was available on additional costs likely to be incurred. An estimate of £2m per year (net income) has been included in this draft budget. More information has been received from Defra on 30<sup>th</sup> November, which we are still assessing. Regardless of the position, we expect waste costs to increase by up to £3m per year when there is a new contract in May 2028.

#### Collection Fund surplus / deficit

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

12.15 The Council has an estimated **council tax collection fund deficit** of £0.6m, after allowing for shares to be paid by the police and fire authorities. This largely relates to numbers of exempt properties being higher than expected when the budget was set.

12.16 The Council has an estimated **business rates collection fund surplus** of £0.8m. Because of changes to reliefs in recent years that were funded by government grants, the actual collection fund position is distorted and various technical accounting adjustments (that will balance out over the years) are required.

### 13. **Earmarked Reserves (Strand One of the Financial Strategy)**

13.1 Earmarked reserves have been set aside for specific purposes by departments. These have been reviewed, with the aim of maximising resources for the budget strategy by diverting reserves where there is no immediate need for the money, or a commitment to a third party. Appendix 5 shows the outcome of the review, which will increase resources for the strategy by £20.3m. This report includes a recommendation to put these changes into place.

### 14. **One-Off Resources (Strands One and Three of the Financial Strategy)**

14.1 Since 2013, the Council has employed a managed reserves strategy, contributing money to reserves when savings are realised and drawing down reserves when needed. This policy bought time to more fully consider how to make the cuts which have been necessary in nearly every budget year.

14.2 In the last few years, the amount of reserves required to balance the budget has grown significantly so that £61m was required to balance 2024/25 when we set

the budget (although ongoing work to control costs and identify savings has since reduced this figure).

- 14.3 The forecast amount available at 1<sup>st</sup> April 2025 is £53.5m. The review of earmarked reserves is contributing a further £20.3m, and the capital programme report for 2025/26 (elsewhere on your agenda) proposes to release a further £90m (**strand one**).
- 14.4 It is intended to further increase our one off money by selling property (**strand three**). Monies received from property sales are capital receipts, and can normally only be used for capital expenditure, or to repay debt. They cannot be used to support the revenue budget. However, the Secretary of State has power to give directions such that capital receipts can be used to support the revenue budget. The Government is using directions as a tool to deal with the most pressing budget problems in local government, and informal discussions have taken place with civil servants – we will not be seeking a direction just yet, but this does not prevent us from selling property now (we will be able to use the receipts once we have the direction).
- 14.5 **The Secretary of State will not give a direction unless we have a credible savings programme.** We may be advised that further savings are required, over and above those anticipated in the current plan.
- 14.6 A sales programme has been identified, focussed on assets with a ready market, with low public impact, low strategic importance and which currently secure low returns. We are seeking to achieve £60m (net of costs of sale).
- 14.7 The total use of one off money to support the budget strategy is shown at paragraph 5 above, and at Appendix 4.
- 14.8 The Secretary of State has issued a general permission to all authorities enabling them to capitalise revenue expenditure which generates savings (this is quite separate from the £60m). A condition of using it is the submission of a strategy, a draft of which is included at Appendix 7 for your approval. This is not factored into our financial strategy, and would not increase our overall resources, but is another tool we could use to increase our options.
- 14.9 The Council has long held a £15m minimum working balance of reserves. This remains available as a “last resort” to fund future budget shortfalls.
15. **Budget and Equalities (Surinder Singh, Equalities Officer)**
- 15.1 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.

- 15.2 In accordance with section 149 of the Equality Act 2010, the Council must “have due regard”, when making decisions, to the need to meet the following aims of our Public Sector Equality Duty :-
- (a) eliminate unlawful discrimination;
  - (b) advance equality of opportunity between those who share a protected characteristic and those who do not;
  - (c) foster good relations between those who share a protected characteristic and those who do not.
- 15.3 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.
- 15.4 When making decisions, the Council (or decision maker, such as the City Mayor) must be clear about any equalities implications of the course of action proposed. In doing so, it must consider the likely impact on those likely to be affected by the recommendation; their protected characteristics; and (where negative impacts are anticipated) mitigating actions that can be taken to reduce or remove that negative impact.
- 15.5 The budget does not propose any service changes which will have an impact on residents. Where appropriate, an individual equalities impact assessment for any service changes will be undertaken when these decisions are developed.
- 15.6 The budget does recommend a proposed council tax increase for the city’s residents. The City Council’s proposed tax for 2025/26 is £2,020.85, an increase of just below 5% compared to 2024/25. As the recommended increase could have an impact on those required to pay it, an assessment has been carried out to inform decision makers of the potential equalities implications. This includes the potential impacts of alternative options.
- 15.7 A number of risks to the budget are addressed within this report (section 16 below). If these risks are not mitigated effectively, there could be a disproportionate impact on people with particular protected characteristics and therefore ongoing consideration of the risks and any potential disproportionate equalities impacts, as well as mitigations to address disproportionate impacts for those with particular protected characteristics, is required.

## 16. **Risk Assessment and Estimates**

- 16.1 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.

- 16.2 Assessing the robustness of estimates requires a judgement to be made, which is now hard given the volatility of some elements of the budget. The most significant individual risks are described below.
- 16.3 Like most (probably all) upper tier authorities, we run the risk of further demand and cost increase in adults' social care and children's placements. Furthermore, the cost of SEN transport is met from the General Fund and has been under pressure due to increasing numbers of children with education, health and care plans; and prices charged by taxi providers.
- 16.4 In addition to the above, we have a cumulative overspend of £9.7m on the schools' "high needs" block, which we have not had to write off against general fund reserves due to a special dispensation given by the Government. It is expected to increase to £26m this year. This is a common national issue. The dispensation is time limited, and currently due to expire on 31<sup>st</sup> March 2026. If this happens, we will have an immediate "hit" on the reserves required for this strategy, though the deadline has previously been extended and the risk of it being allowed to expire does not appear to be high.
- 16.5 Like many housing authorities, we run the risk of further cost pressures from homelessness. These costs are vulnerable to Government decisions about affordable rents which can be supported from the local housing allowance, national decisions about asylum policy, and continued increases in market rents.
- 16.6 We are also exposed to any further inflationary cost pressures, which may result from world events.
- 16.7 Finally, we are at risk if we fail to deliver the savings in this strategy – a key task over the coming months will be to progress these to the point of decision, and then ensure we have robust delivery and monitoring plans. As stated in paragraph 1, even if implemented the plan is only sufficient to balance the budget as far as 2027/28 (on current estimates). Unless the Government finds significant additional money by then, we will face major cuts in subsequent years: at present, we do not have a plan which is sustainable in the long term. If income in excess of our forecasts is received as a consequence of the local government finance settlement, it is not going to fundamentally change our plans. We have a substantial recurrent budget gap, forecast to be £46.7m in 24/25 rising to £90m by 27/28. We are not going to come close to bridging this.
- 16.8 The Overview Select Committee will clearly play an important role in monitoring the plan. At each stage of monitoring during the year (at periods 3, 6, 9 and the outturn) savings decisions made in the previous quarter will be reported and an update on progress provided. Any areas of concern will be brought to the committee's attention. Individual service scrutiny commissions may wish to receive the same information for their own portfolios.

- 16.9 It is also worth noting that, because of the key role of one-off monies in this strategy, there is a multiplicative effect of any risks which crystallise into annual cost pressures. For instance, an additional £5m per year of unavoidable cost will, all other things being equal, use £15m of reserves by the end of 2027/28.
- 16.10 Subject to the above comments, I believe the estimates made in preparing the budget are sufficiently robust to allow the budget to be approved.
- 16.11 The risks are mitigated in 2025/26 by the substantial level of our reserves, once the capital fund has transferred. This means that for this one year I would regard our reserves as adequate: there is limited risk of being unable to balance the budget in 2025/26 even if reserves are used in substitution for any savings which cannot be made, including those where consultation has provided reasons to pursue alternative courses of action. However, this would make it even more difficult to balance future years of the strategy, and would bring forward the point at which we would have to make further deep cuts. It is noted that there is also a £2m contingency in the 2025/26 budget and an additional contingency for demographic pressures.
- 16.12 If a departmental savings project fails, we would expect alternative savings to be found from within the overall departmental budget. Under the scheme of virement, the City Mayor is able to increase the relevant budget if this is not perceived to be acceptable at the time.

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

### **17.1 Financial Implications**

This report is exclusively concerned with financial issues.

### **17.2 Legal Implications (Kamal Adatia, City Barrister & Head of Standards)**

17.2.1 The budget preparations have been in accordance with the Council's Budget and Policy Framework Procedure Rules – Council's Constitution – Part 4C. The decision with regard to the setting of the Council's budget is a function under the constitution which is the responsibility of the full Council.

17.2.2 At the budget-setting stage, Council is estimating, not determining, what will happen as a means to the end of setting the budget and therefore the council tax. Setting a budget is not the same as deciding what expenditure will be incurred. The Local Government Finance Act, 1992, requires an authority, through the full Council, to calculate the aggregate of various estimated amounts, in order to find the shortfall to which its council tax base has to be applied. The Council can allocate greater or fewer funds than are requested by the Mayor in his proposed budget.

17.2.3 As well as detailing the recommended council tax increase for 2025/26, 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.

17.2.4 Section 65 of the Local Government Finance Act, 1992, places upon local authorities a duty to consult representatives of non-domestic ratepayers before setting a budget. There are no specific statutory requirements to consult residents.

17.2.5 The discharge of the 'function' of setting a budget triggers the duty in s.149 of the Equality Act, 2010, for the Council to have "due regard" to its public sector equality duties. These are set out in paragraph 15. There are considered to be no specific proposals within this year's budget that could result in new changes of provision that could affect different groups of people sharing protected characteristics. Where savings are anticipated, equality assessments will be prepared as necessary. Directors and the City Mayor have freedom to vary or abort proposals under the scheme of virement where there are unacceptable equality consequences. As a consequence, there are no service-specific 'impact assessments' that accompany the budget. There is no requirement in law to undertake equality impact assessments as the only means to discharge the s.149 duty to have "due regard". The discharge of the duty is not achieved by pointing to one document looking at a snapshot in time, and the report evidences that the Council treats the duty as a live and enduring one. Indeed, case law is clear that undertaking an EIA on an 'envelope-setting' budget is of limited value, and that it is at the point in time when policies are developed which reconfigure services to live within the budgetary constraint when impact is best assessed. However, an analysis of equality impacts has been prepared in respect of the proposed increase in council tax, and this is set out in Appendix 3.

17.2.6 Judicial review is the mechanism by which the lawfulness of Council budget-setting exercises are most likely to be challenged. There is no sensible way to provide an assurance that a process of budget setting has been undertaken in a manner which is immune from challenge. Nevertheless the approach taken with regard to due process and equality impacts is regarded by the City Barrister to be robust in law.

### 17.3 **Climate Change Implications**

*To follow*



**Budget Ceilings**

*[to follow]*

DRAFT

### **Scheme of Virement**

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

#### Budget Ceilings

2. Directors are authorised to vire sums within budget ceilings without limit, providing such virement does not give rise to a change of Council policy.
3. Directors are authorised to vire money between any two budget ceilings within their departmental budgets, provided such virement does not give rise to a change of Council policy. The maximum amount by which any budget ceiling can be increased or reduced during the course of a year is £500,000. This money can be vired on a one-off or permanent basis.
4. Directors are responsible, in consultation with the appropriate Assistant Mayor if necessary, for determining whether a proposed virement would give rise to a change of Council policy.
5. Movement of money between budget ceilings is not virement to the extent that it reflects changes in management responsibility for the delivery of services.
6. The City Mayor is authorised to increase or reduce any budget ceiling. The maximum amount by which any budget ceiling can be increased during the course of a year is £5m. Increases or reductions can be carried out on a one-off or permanent basis.
7. The Director of Finance may vire money between budget ceilings where such movements represent changes in accounting policy, or other changes which do not affect the amounts available for service provision. The Director of Finance may vire money between budget ceilings to reflect where the savings (currently shown as summary figures in Appendix One) actually fall.
8. Nothing above requires the City Mayor or any director to spend up to the budget ceiling for any service. At the end of the year, underspends on any budget ceiling shall be applied:

- (a) Firstly, to offset any overspends in the same department;
- (b) Secondly, to the corporate reserve for future budget pressures.

#### Corporate Budgets

9. The following authorities are granted in respect of corporate budgets:
  - (a) the Director of Finance may incur costs for which there is provision in miscellaneous corporate budgets, except that any policy decision requires the approval of the City Mayor;
  - (b) the Director of Finance may allocate the provision for pay awards and other inflation;

- (c) The City Mayor may determine how the demographic pressures contingency and homelessness provision can be applied.

Earmarked Reserves

10. Earmarked reserves may be created or dissolved by the City Mayor. In creating a reserve, the purpose of the reserve must be clear.
11. Directors may add sums to an earmarked reserve from a budget ceiling, if the purposes of the reserve are within the scope of the service budget.
12. Directors may spend earmarked reserves on the purpose for which they have been created.
13. When an earmarked reserve is dissolved, the City Mayor shall determine the use of any remaining balance.
14. The City Mayor may transfer any sum between earmarked reserves.

Other

15. The City Mayor may amend the flexible use of capital receipts policy, and submit revised policies to the Secretary of State.

## Equality Impact Assessment

### 1. **Purpose**

- 1.1 The Council has a legal obligation to set a balanced budget each year. There remains a difficult balance between funding services for those most in need, maintaining support for most vulnerable and the investment required to ensure the effective delivery of universal services. Council Tax is a vital funding stream for the Council to fund essential services. This appendix presents the draft equalities impact of a proposed 4.99% council tax increase.
- 1.2 The alternative option for comparison is a freeze on council tax at 2024/25 levels. It would of course be possible to set a council tax increase between these two levels, or indeed to *reduce* the Band D tax.

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

- 2.1 As at October 2024, there were 132,696 properties liable for Council Tax in the city (excluding those registered as exempt, such as student households).
- 2.2 It is assumed, for the purpose of this draft EIA, that changes to the Council Tax Support Scheme (CTSS) are approved in January. This has been the subject of a separate consultation and equality assessment.
- 2.3 Under the proposed new CTSS scheme, vulnerable households will be eligible for up to 100% support. Other households will be eligible for up to 75% support, limited to a Band B property.
- 2.4 Council tax support for pensioner households follows different rules. Low-income pensioners are eligible for up to 100% relief through the CTSS scheme.

### 3. **How are they affected?**

- 3.1 The table below sets out the financial impact of the proposed council tax increase on different properties, before any discounts or reliefs are applied. It shows the weekly increase in each band, and the minimum weekly increase for those in receipt of a reduction under the CTSS for working-age households who are not classed as vulnerable.
- 3.2 Due to the changes to the CTSS scheme (if approved), this does not show the differences between 2024/25 and proposed 2025/26 amounts payable. It compares the 2025/26 proposed amount payable with the alternative option of a council tax freeze, but assuming the CTSS changes are approved.

Band	No. of Properties	Weekly increase (£)	Minimum Weekly Increase under CTSS (£)
A-	378	1.03	0.26
A	78,159	1.23	0.31
B	26,685	1.44	0.36
C	15,353	1.64	0.56
D	6,552	1.85	0.77
E	3,384	2.26	1.18
F	1,537	2.67	1.59
G	606	3.08	2.00
H	42	3.69	2.61
<b>Total</b>	<b>132,696</b>		

- 3.3 In most cases, the change in council tax (around £1.44 per week for a band B property with no discounts; and just 36p per week if eligible for the maximum 75% reduction for non-vulnerable households under the CTSS) is a small proportion of disposable income, and a small contributor to any squeeze on household budgets. A council tax increase would be applicable to all properties - the increase would not target any one protected group, rather it would be an increase that is applied across the board. However, it is recognised that this may have a more significant impact among households with a low disposable income.
- 3.4 Households at all levels of income have seen their real-terms income decline in recent years due to cost-of-living increases, and wages that have failed to keep up with inflation; although inflation has fallen more recently. These pressures are not limited to any protected group; however, there is evidence that low-income families spend a greater proportion of their income on food and fuel (where price rises have been highest), and are therefore more affected by price increases.
- 3.5 A 1.7% uplift to most working-age benefits, in line with inflation, will come into effect from April 2025, while the State Pension and pension-age benefits will increase by 4.1%. The main exceptions are Local Housing Allowance rates which will be maintained at their 2024/25 levels. [NB council and housing association tenants are not affected by this as their rent support is calculated differently and their full rent can be compensated from benefits].
4. **Alternative options**
- 4.1 The realistic alternative to a 5% council tax increase would be a lower (or no) increase. A reduced tax increase would represent a permanent diminution of our income unless we hold a council tax referendum in a future year. In my view, such a referendum is unlikely to support a higher tax rise. It would also require more cuts to services in later years (on top of the substantial cost savings already required by the budget strategy).

4.2 The budget situation is already extremely difficult, and it seems inevitable that further cuts will have severe effects on front-line services. It is not possible to say precisely where these future cuts would fall; however, certain protected groups (e.g. older people; families with children; and people with disabilities) could face disproportionate impacts from reductions to services.

## 5. **Mitigating actions**

5.1 The Council has a range of mitigating actions for residents. These include: funding through the Household Support Fund (now extended until March 2026), Discretionary Housing Payments, direct support through Council Tax Discretionary Relief (which is proposed to increase by 50% from £500,000 to £750,000 from April 2025) and Community Support Grant awards; the council's work with voluntary and community sector organisations to provide food to local people where it is required – through the network of food banks in the city; through schemes which support people getting into work (and include cost reducing initiatives that address high transport costs such as providing recycled bicycles); and through support to social welfare advice services. The "BetterOff Leicester" online tool includes a calculator to help residents to ensure they are receiving all relevant benefits.

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

6.1 The table below describes how each protected characteristic is likely to be affected by the proposed council tax increase. The table sets out anticipated impacts, along with mitigating actions available to reduce negative impacts.

6.2 Some protected characteristics are not, as far as we can tell, disproportionately affected (as will be seen from the table) because there is no evidence to suggest they are affected differently from the population at large. They may, of course, be disadvantaged if they also have other protected characteristics that are likely to be affected, as indicated in the following analysis of impact based on protected characteristic.

## 7. **Armed Forces Covenant Duty**

7.1 The Covenant Duty is a legal obligation on certain public bodies to 'have due regard' to the principles of the Covenant and requires decisions about the development and delivery of certain services to be made with conscious consideration of the needs of the Armed Forces community.

7.2 We have considered the duty and have not identified any direct impacts on armed forces or their families; but will continue to monitor for specific proposals.

### Analysis of impact based on protected characteristic

Protected characteristic	Impact of proposal:	Risk of negative impact:	Mitigating actions:
<b>Age</b>	<p>Older people (pension age and older) are least affected by a potential increase in council tax and can access more generous (up to 100%) council tax relief. However, in the current financial climate, a lower council tax increase would require even greater cuts to services in due course. While it is not possible to say where these cuts would fall exactly, there are potential negative impacts for this group as older people are the primary service users of Adult Social Care.</p> <p>While employment rates remain high, earnings have not kept up with inflation in recent years so working families are likely to already be facing pressures on households' budgets. Younger people, and particularly children, were more likely to be in poverty before the current cost-of-living crisis and this is likely to have continued.</p>	Working age households and families with children – incomes squeezed through reducing real-terms wages.	Access to council discretionary funds for individual financial crises; access to council and partner support for food; and advice on managing household budgets.
<b>Disability</b>	<p>Disabled people are more likely to be in poverty. Many disabled people will be classed as vulnerable in the proposed new CTSS scheme and will therefore be protected from the impact of a council tax increase.</p> <p>However, in the current financial climate, a lower council tax increase would require even greater cuts to services in due course. While it is not possible to say where these cuts would fall exactly, there are potential negative impacts for this group as disabled people are more likely to be service users of Adult Social Care.</p>	Further erode quality of life being experienced by disabled people.	<p>The proposed new CTSS scheme has been designed to give additional support (up to 100%) to vulnerable households. It also allows support at the level of the band C tax, rather than band B as applies to non-vulnerable households.</p> <p>Access to council discretionary funds for individual financial crises; access to council and partner support for food; and advice on better managing budgets.</p>
<b>Gender Reassignment</b>	No disproportionate impact is attributable specifically to this characteristic.		

Protected characteristic	Impact of proposal:	Risk of negative impact:	Mitigating actions:
<b>Pregnancy &amp; Maternity</b>	No disproportionate impact is attributable specifically to this characteristic (although see below for childcare costs; and the impacts on lone parents).		
<b>Race</b>	Those with white backgrounds are disproportionately on low incomes (indices of multiple deprivation) and in receipt of social security benefits. Some ethnic minority people are also low income and on benefits.	Household income being further squeezed through low wages and reducing levels of benefit income.	Access to council discretionary funds for individual financial crises, access to council and partner support for food and advice on managing household budgets. Where required, interpretation and translation will be provided to remove barriers in accessing support.
<b>Religion or Belief</b>	No disproportionate impact is attributable specifically to this characteristic.		
<b>Sex</b>	Disproportionate impact on women who tend to manage household budgets and are responsible for childcare costs. Women are disproportionately lone parents, who are more likely to experience poverty.	Incomes squeezed through low wages and reducing levels of benefit income. Increased risk for women as they are more likely to be lone parents.	If in receipt of Universal Credit or tax credits, a significant proportion of childcare costs are met by these sources.  Access to council discretionary funds for individual financial crises, access to council and partner support for food and advice on managing household budgets.
<b>Sexual Orientation</b>	Gay men and Lesbian women are disproportionately more likely to be in poverty than heterosexual people and trans people even more likely to be in poverty and unemployed. This would mean they are more likely to be on benefits.	Household income being further squeezed through low wages and reducing levels of benefit income.	Access to council discretionary funds for individual financial crises, access to council and partner support for food and advice on managing household budgets.



**MEDIUM TERM PROJECTIONS**

**1. Summary Forecasts**

The table below shows our central forecasts of the position for the next three years, based on the information we have at the time of writing. As funding allocations for future years have not yet been announced, this is necessarily based on some broad assumptions. A local government finance policy statement was published on 28<sup>th</sup> November; this is still being analysed and the impacts have not been included in the figures below. It now appears likely that the settlement will be slightly more favourable than our central assumptions below; but a substantial budget gap will remain.

We will receive our local settlement for 2025/26 in December; the projections will be updated for the 2025/26 budget report to Council in February. The position for 2026/27 and 2027/28 is unlikely to become much clearer until the Government's spending review is published in spring. **The forecasts are volatile**, and the key risks are described at paragraph 2 below. In particular, because we are relying on one off money to see us through to 2027/28, a change in annual spending requirement will have a multiplicative effect (e.g. an increase in spending of £5m per year from 2024/25 will lose us £20m from reserves by the end of 2027/28, all other things being equal).

	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>2027/28 £m</b>
<b>Expenditure:</b>			
Net service budget (before savings)	447.5	493.7	540.8
Less savings and cost control (see para. 10.4)	-50.9	-79.0	-98.9
<b>Net service budget</b>	<b>396.6</b>	<b>414.7</b>	<b>441.9</b>
Provisions for pay inflation (including 24/25)	14.0	20.0	26.0
Provisions for other inflation	0.4	0.4	0.9
Corporate budgets (including capital finance)	3.5	5.8	6.9
Plus additional prudential borrowing	4.4	7.5	7.6
Demographic contingency	2.0	2.0	2.0
Homelessness provision	11.0	12.1	12.1
General contingency for risk	2.0	4.0	6.0
<b>Expenditure total</b>	<b>433.9</b>	<b>466.5</b>	<b>503.4</b>
<b>Income:</b>			
Council tax	165.9	172.3	178.5
Business rates (including top-up grant)	141.4	142.8	145.1
Revenue Support Grant	36.2	36.2	36.2
Social Care Grant	41.7	46.7	51.7
Other grants	2.0	2.0	2.0
<b>Income total</b>	<b>387.2</b>	<b>400.1</b>	<b>413.5</b>
<b>Recurring budget gap</b>	<b>(46.7)</b>	<b>(66.4)</b>	<b>(89.9)</b>

<b>Reserves:</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>2027/28 £m</b>
<b>Balance forecast on 1<sup>st</sup> April</b>	<b>53.5</b>	<b>123.1</b>	<b>56.7</b>
Capital Fund transfer	90.0		
Earmarked reserves review	20.3		
Required to balance budget	-46.7	-66.4	-89.9
Proceeds of asset sales			60.0
Other (Business Rates Pool)	6.0		
<b>Balance forecast on 31<sup>st</sup> March</b>	<b>123.1</b>	<b>56.7</b>	<b>26.7</b>

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## 2. Assumptions and Risks

The assumptions in the forecast, and the inherent risks, are explained below.

<b>Spending</b>	<b>Assumptions – central scenario</b>	<b>Risks</b>
Pay costs	We assume a pay award averaging 3% each year (in addition to the recently announced award for 2025/26), as general inflation is expected to continue reducing.	Inflation has fallen since its peak of 11.1% in October 2022. It stood at 2.3% in the year to October 2024. Underlying inflation is expected to fall further, although there remains a risk that global events will affect this significantly.
Non-pay inflation	It is assumed that departments will be able to continue absorbing this. The exceptions are independent sector care package costs, fostering allowances, and the waste management contract; an allowance is built in for these increases.	Increases in employers' national insurance will add to our pressures, both directly for our own employees and indirectly from our suppliers' prices. The Government intends to reimburse the former in 2025/26 but not the latter.  Although energy costs have reduced, a future spike in costs could further impact our budgets.
Adult social care costs	Demographic pressures and increasing need lead to cost pressures which are reflected in the forecasts. The effect of the mitigation measures is also reflected in the forecasts.	Adult Social Care remains the biggest area of Council expenditure, and is demand led. Small variations have a significant impact on the Council's overall budget. Underlying package costs (before any price increases) are expected to be below the amount assumed when we set the budget for 2024/25.
Other service cost pressures	Contingencies of £2m for demographic growth and £11m for homelessness have been built into the forecasts to provide some cushion against uncertainty. Aside from this, it is assumed that departments are able to find savings to manage cost pressures within their own areas.  A planning provision/ contingency of £2.0m has been included for 2025/26 rising to £4.0m by 2026/27 and £6m by 2027/28.	Costs relating to children who are looked after have been increasing nationally, and are a particular risk for future years.  Homelessness is also particularly volatile and a significant overspend is forecast in 2024/25.  Costs assume the delivery of proposed savings for which delivery plans will be vital. Some are subject to consultation, which may result in a different decision to that currently proposed.
Departmental savings	The budget strategy assumes new savings totalling £23m by 2027/28. See section 10 of the budget report for more details.	Risk that savings are not achieved or are delayed, leading to a greater call on reserves to balance the budget.

<b><u>Income</u></b>	<b>Assumptions – central scenario</b>	<b>Risks</b>
Council Tax	<p>Band D Council Tax will increase by 5.0% in 2025/26, then by 3.0% per year, in line with expected referendum limits.</p> <p>Council taxbase (the number of properties that pay tax) will increase by 500 Band D properties per year.</p>	<p>Further economic downturn leading to increased costs of council tax support to residents on a low income. Conversely, we may be permitted to set a higher tax in 2026/27 and 2027/28 – 5% was permitted in recent years for authorities with social care responsibilities. In future years with lower inflation however, it may not be tenable.</p>
Business rates	<p>No significant movements in the underlying baseline for business rates.</p> <p>Government changes to business rates (e.g. new reliefs) will continue to be met by additional government grant, in line with recent years.</p>	<p>We believe that the national business rates system in its current form is becoming unsustainable. The local government business rates retention system is being “patched up” considerably as a result. Long term stability seems unlikely.</p>
Government grant	<p>Government funding allocations continue to remain broadly flat, with little real-terms growth.</p> <p>In the Autumn Budget, the new government has committed to reviewing the distribution of funding “to ensure that it reflects an up-to-date assessment of need and local revenues”. We do not yet have details of what this might mean in practice and in practice expect damping of authorities’ gains and losses will be required. Our forecast implicitly assumes a broadly neutral effect of any funding distributional changes.</p> <p>We are also assuming that funding is received for the direct costs of National Insurance changes from April 2025, but not for indirect costs that will be passed on to us from suppliers.</p> <p>An additional £5m per year, each year, is assumed for social care. The Autumn Statement announced £600m of new funding nationally but gave no indication of how this will be distributed.</p> <p>Income (net of costs) from the Extended Producer Responsibility for packaging is estimated at £2m per year, until more details are available.</p>	<p>We do not yet have funding allocations for 2025/26 or beyond. The local government finance settlement (which will provide our own figures for 2025/26) will be announced in December and up to date figures will be included in the budget report to Council in February, together with revised assumptions for 2026/27 and 2027/28. Based on government announcements, the settlement may be better than our previous assumptions to a modest extent.</p> <p>The latest government figures imply that unprotected departments will suffer real terms cuts in budgets of 1.4% per year from 2025/26, according to analysis by the Institute for Fiscal Studies. This is smaller than in the previous government’s plans, but still significant.</p> <p>Local government may (as has frequently been the case in previous years) be treated less favourably than other unprotected departments.</p> <p>The income, and costs, associated with the new waste packaging scheme are highly unclear.</p>

**Earmarked Reserves**

1. As part of the overall budget strategy described at paragraph 5.6 of the main report, all earmarked reserves have been reviewed to release funds where possible. It is recommended that earmarked reserves are consolidated, leaving only the following General Fund reserves set aside for specific purposes:

Description of Reserve(s)	Forecast Balance after spending in 2024/25 (£m)	Notes
Departmental ring fenced resources	2.6	Where conditions attach to original grant funding and other contributions
Partnership funding	10.9	Originating from joint working arrangements (often with the health service). While these may be legally part of our reserve balances, there is a clear expectation that they remain within these projects. Diverting these to other purposes would risk our ongoing relationship with partners.
Insurance Fund	3.8	Meets costs of our self-insured insurance claims. Needs to be sufficient for this purpose and is periodically reviewed by actuaries.
Severance Fund	4.7	Meets staff redundancy and other termination costs
Workforce development	4.0	A new reserve, proposed for investment in the workforce, including trainees and apprentices. Despite the budget crisis (or because of it) it is important that we maintain funds for this.
Service transformation fund	7.0	Likely to play a more prominent role in achieving savings through service modernisation. The review has identified additional funds of £1.8m in view of the scale of change required.
Building Schools for the Future	6.4	To manage lifecycle maintenance costs of the schools redeveloped under the BSF programme.

Welfare reserve	1.3	Supports welfare reform and provides welfare support more generally.
Cost of technology	7.2	Required for ongoing investment in ICT systems and development work including the implementation of a new finance system detailed in the capital programme report elsewhere on the agenda.
Elections fund	1.4	Funds future local elections
Waste reprourement strategy	8.7	To prepare for a new contract, to take effect from May 2028
<b>TOTAL</b>	<b>58.0</b>	

2. The proposals above have identified £20.3m for the budget strategy, in addition we have added £1.8m to the service transformation fund and created a new £4m workforce planning reserve. This will enable departments to access one-off monies to support transformation work, budget savings and support investment in our workforce. A lot of this would have previously been funded from departmental reserves that have now been released to support the corporate budget strategy.
3. Members are reminded that we have a significant negative earmarked reserve. As with most authorities, we spend more than our income on the high needs schools' block. There is a special government dispensation for all authorities to maintain a negative balance, and not write it off to the general fund. Currently, the balance at the end of the year is expected to be minus £26m. The dispensation is expected to come to an end in March 2026. It is difficult to see how the Government would allow this to happen, but it remains a risk.
4. As a result of the review the following reserves will be available to support the budget strategy:

	Forecast (£m)	
Former Managed Reserve	73.8	
Release from capital programme	90.0	See capital programme report.

**Council Tax Premiums**

*[to follow – see para. 12.9]*

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**Flexible Use of Capital Receipts policy**

1. The law states that capital receipts can only be used for capital expenditure, or to repay debt. They cannot be used to support revenue expenditure. However, the Secretary of State does have the power to issue directions allowing capital receipts to be used for revenue expenditure. There are two areas where this is used:
  - (a) To support Councils who cannot balance their budgets. These are issued specifically to the authority concerned (with conditions);
  - (b) To support transformation projects. This is a permission issued to authorities generally – the last such permission covered the period to 2024/25, and we anticipate a similar permission for 2025/26.
2. This report seeks to provide the Council with the authority to use the general permission.
3. If the permission is couched in similar terms to previous years' directions, it will enable us to use receipts to fund expenditure "that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners." Severance costs can also be capitalised.
4. We do not expect to receive the precise terms of the new direction until the 2025/26 local government finance settlement is received in December.
5. Use of the permission requires a plan to be approved prior to the start of the year and sent to the Secretary of State. Once submitted, it can be updated at any time.
6. This policy is not an integral part of our budget strategy, and has been prepared solely to give us another tool to manage the budget during 2025/26. We may, for instance, use it to capitalise some revenue costs in 2025/26 and 2026/27 which would reduce the £60m we would otherwise have to seek permission from Government for to balance the 2027/28 budget. It does not give us any new resources.

**The Plan**

7. This is the first flexible use of receipts plan submitted by the Council. Consequently, no revenue expenditure has been capitalised using capital receipts prior to 2025/26.



8. Use of the flexibility will have no impact on the Council's prudential indicators, as the receipts to be used have not been factored into any other plan in 2025/26. Use of the flexibility will not affect the Council's authorised borrowing limit or operational boundary in the Treasury Strategy (also on today's agenda).
9. Should funds not be available in the severance fund or the transformation fund, we will consider using capital receipts for the following:
  - (a) Development of a corporate operating model, as recommended by a finance challenge review carried out by the LGA - up to £4m;
  - (b) Severance costs arising from delivery of the savings described in the budget report (see above) – up to £4m.
10. The scheme of virement (Appendix 2) delegates authority to the City Mayor to make amendments during the year and submit a revised plan to the Secretary of State.