MEDIUM-TERM FINANCIAL STRATEGY

2020/24



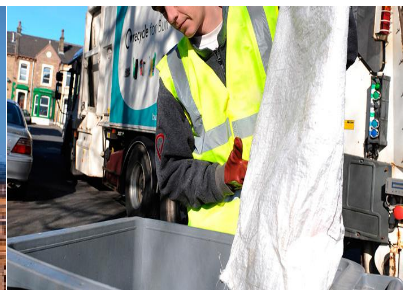


Table of Contents

INTRODUCTION

1. This strategy provides an overarching framework which sets out the context in which future decisions on resource allocation and budgeting will be taken. The primary purpose of this Strategy is to provide an indication of the future financial position of the Council and in turn inform the annual budget setting process. It quantifies the likely level of resources that are available to deliver the Council's services and achievement of its core strategic objectives as set out in the Strategic Plan.

2. The Council continues to face challenging reductions in funding and will do so for the foreseeable future. Increasingly the ability to achieve strategic objectives is coupled with the need to deliver cash savings and cost reductions. Consequently, it is imperative that resources are allocated following an assessment of strategic priorities and that annual budget decisions are aligned to those priorities.

3. This Strategy includes:

   - Financial context and a high level overview of funding changes likely to affect the strategy;
   - An impact assessment of the Revenue Budget 2019/20 on future years;
   - Gap analysis for 2020/21, 2021/22, 2022/23 and 2023/24 and underlying assumptions;
   - Balancing the medium term;
   - Risks;
   - Reserves Forecast;
   - Monitoring and Review.

4. This Strategy reflects the approach adopted in a number of other strategies and policies adopted by the Council, which should be read in conjunction with this document. These include the Revenue Budget 2019/20, the Statutory Report of the Chief Finance Officer and the Treasury Management Policy. In addition the Reserves Strategy is a key document and is included as an appendix to this document.

5. The medium-term financial planning process has been in place for a number of years and is now an established part of the budget setting process. It provides a forecast of the cost of continuing to provide existing levels of service and the resources that are likely to be available to the Council over the period. It sets out the potential budget gap to inform the Executive and Full Council and to determine the overall size of the efficiencies and cost reduction programme needed over the medium term.

FINANCIAL CONTEXT

6. The major aspects of the local government settlement for 2019/20 as they affect 2020/21, 2021/22, 2022/23 and 2023/24:

   - The Government's intention to phase out Revenue Support Grant by 2020

- The level of Council tax increase (excluding any social care) beyond which a referendum is required has been maintained at 3% for 2019/20

- The calculation of Core Spending Power

- Continuation of New Homes Bonus - from 2017/18 the Government introduced a baseline for housing growth, 0.4% of a Council's band D equivalent properties, which will be deducted from the grant calculation each year. The settlement confirms this also applies to 2019/20

- The Government is currently in the process of reviewing the components of the business rates retention system, both individually and in aggregate, and the role they can play in providing a strong incentive for local authorities to grow the business rates in their area while minimising complexity. This reform of the system fits with the Government's aim to introduce 75% business rate retention in 2020, in a way that is fiscally neutral.

- Confirmation of the Lancashire Pool being accepted as one of the Business Rates Pilots for 2019/20

CORE SPENDING POWER

7. In previous years, the government stated that Core Spending Power reductions between financial years was limited to a maximum reduction and additional grant was provided to those authorities to ensure that they did not experience losses greater than this maximum reduction. The calculation of Core Spending Power has changed over the years and is not limited to general government revenue grant and business rates but has also included council tax receipts, New Homes Bonus and other specific grants. This means that the headline percentage reduction quoted by the government also takes into account income from sources other than core general government revenue grant, and is not representative of only direct government funding.

8. The methodology of the Core Spending Power calculation for 2019/20 includes Revenue Support Grant, Business Rates baseline funding, Council Tax and New Homes Bonus. As with 2018/19, no maximum decrease in spending power has been set for 2018/19. Burnley's Core Spending Power will reduce by 0.5% in 2019/20 (3.5% in 2018/19). Given that no maximum decrease has been set there will also be no payment of ESG in 2019/20.

9. A comparison of Burnley Spending Power with other local authorities is shown in Table A. Burnley has consistently faced Spending Power reductions significantly above the national average, and in fact in 2019/20 will see a further 0.5% reduction; in comparison to 2018/19 whilst the England average will see a 2.8% increase.

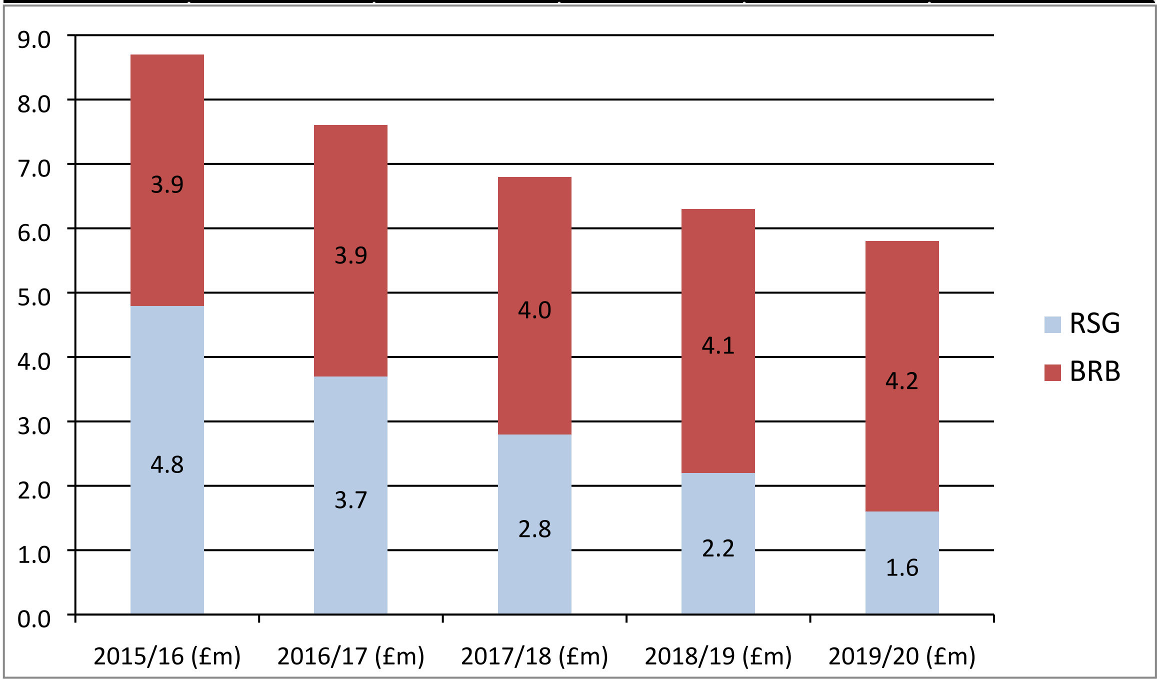
TABLE A SPENDING POWER REDUCTION / (INCREASE)			
Year	**Burnley (%)**	**England Average (%)**	**Ratio**
2015/16	6.4	1.8	3.6 times
2016/17	4.4	2.8	1.6 times
2017/18	4.3	1.1	3.9 times
2018/19	3.5	(1.5)	N/A*
2019/20	0.5	(2.8)	N/A*

**n/a in 2018/19 and 2019/20 as England average is an increase when compared to a decrease for Burnley*

10. However, whilst the headline Core Spending Power reduction for Burnley is 0.5% for 2019/20, there is a much greater 27.6% cash reduction in Government Revenue Support Grant funding, which for Burnley in 2019/20 is rolled into the Business Rates funding mechanism due to be being part of the 75% retention pilot. The former Revenue Support Grant (RSG) element of the settlement for 2019/20 will be £1.614m (£614k less than in 2018/19). The direction of travel nationally is for local government to be funded from local revenues only in the longer term (as shown in Table B):

TABLE B

BURNLEY'S SETTLEMENT FUNDING ANALYSIS



11. Whilst this would be a concern nationally, the reduction will impact Burnley greater as it is more heavily dependent on government funding than other

Councils which have greater buoyancy in the council tax base. This can be shown in Table C below:

TABLE C % SPENDING POWER FINANCED THROUGH REVENUE SUPPORT GRANT & EFFICIENCY SUPPORT GRANT		
Year	**Burnley (%)**	**England Average (%)**
2015/16	30	18
2016/17	25	16
2017/18	20	9
2018/19	16	3
2019/20	12	3

12. The Government's current intention is that the 2019-20 settlement will confirm the final year of the multi-year settlement that has provided certainty for 4 years. The 2019 Spending Review will confirm overall local government resourcing from 2020-21, and the Government is working towards significant reform in the local government finance system in 2020-21. This means that there will be a greater demand on Council tax payers and businesses locally over the coming years if this loss of RSG funding is to be mitigated. The Council will continue to work towards the release of further efficiency savings but the change in Government funding will mean an increased reliance on local tax revenues whilst at the same time placing additional pressure in providing Council services. These future levels of funding will not be known until the spending review and redesign of local government funding completes, scheduled to be late 2019. However, it should be noted that as RSG will not be paid as a grant in 2019/20 and will in effect be part of Burnley's business rates baseline for 2019/20 there is a small element of risk attached to this if collection falls short of expectation. However, this is considered a minor risk given the expected collection of Business Rates forecast in 2019/20.

BUSINESS RATES PILOTS 75% RETENTION

13. The Ministry of Housing, Communities and Local Government (MHCLG) published its pilot prospectus for 2019/20 on the 24 July 2018 to seek applications to test a new scheme of business rates retention based on a 75% retention model. The main points of the 2019/20 pilots are:

- The 2019/20 pilots will be at 75% Business Rates Retention i.e. lower than the 100% pilots of 2017/18 and 2018/19;
- The 'no detriment' clause applied to the 2017/18 and 2018/19 pilots will not apply to pilots set up for 2019/20. This meant that any pool operating under the 2017/18 and 2018/19 pilots would not be any worse off than they would have been under the existing 50% BRR scheme;
- There will be a mandatory safety net set at 95% to reflect the additional risk locally that 75% retention introduces. This will apply pilot wide and not to individual authorities, therefore any authority with a shortfall against their

business rate baseline will be absorbed within the pool. As with the previous pilots, no levy will be paid;
- Revenue Support Grant will be rolled into the existing baseline need;

14. The proposed application from Lancashire consisted of all current pool members, plus Blackpool, Blackburn and Preston. This left Lancaster as the only authority not to participate as they have quantified the risks to them as too great, given the vulnerability of their business rates position due to the two power stations. The application was ultimately successful and will come into force for 2019/20

15. In 2018/19 Burnley are part of a Lancashire pooling arrangement which allows constituent members to come together and be treated as a single member of a business rate pool to combine their funding calculations under the business rate scheme, effectively adding their numbers together for all elements of the funding calculation, such as the tariff and top-ups. The benefit to be gained is that collectively, it produces a lower percentage levy calculation. Each authority continues to retain the growth in its business rates income that it would have retained as an individual authority outside of the pool. However, as part of a pool the Council would no longer be required to pay any levy to Central Government.

16. The Lancashire application set out what the tier splits would be for each member. Based on the existing 50% scheme there would potentially be 25% extra growth to be shared out between districts, Lancashire County Council and Fire & Rescue.

17. Prior to 2013/14, business rates were collected by local government and paid into a national pool and redistributed to local government as part of formula funding. This meant, for councils such as Burnley any variation in business rates collected (i.e., any increase in business rates or any reduction in business rates collected locally) did not affect the Council's financial performance as the Council's contribution from the national pool was fixed as part of the local government settlement.

18. Burnley has had some success in growing its business rate base over the last four years and an increase in business rates above the baseline figure has been factored into the 2019/20 revenue budget. Additional income of £2.2m is included within the 2019/20 budget. However, there is still a great deal of uncertainty over this funding due to the extent of business rate appeals and demands to invest in economic growth. As a consequence, no further increase in business rates has been factored into this financial forecast.

NEW HOMES BONUS

19. The national funding formula has been incentivised to encourage councils to build additional homes. As such councils are rewarded as part of the New Homes Bonus (NHB) to build homes or bring back into use existing stock. In addition, an enhanced rate is paid for social housing. The 2017/18 budget settlement changed the formula for the NHB calculations. NHB is originally paid for 6 years but was

reduced to 5 years in 2017/18 and will further reduce to 4 years from 2018/19 onwards. This will be applied retrospectively to existing NHB allocations.

20. As mentioned earlier, the Government introduced a baseline for housing growth of 0.4% from 2017/18, up to which, the Council will receive no new allocation. The baseline for 2019/20 has remained at 0.4%. This means that the first 122 properties. The Government will review the baseline level for subsequent budget settlements. Consequently, the known reductions referred to above have been included within the MTFS but any increase in NHB has not been factored into the financial forecast for future years.

COUNCIL TAX INCREASES

21. For 2018/19 and 2019/20 guidance issued by central Government requires a referendum where proposed Council tax increases are 3% or more than 3%. This has increased from the 2% allowed in 2017/18.

22. The Council recognises the impact that council tax has on local residents and will always take their ability to pay into consideration when setting council tax levels. The Council should adopt an approach where local sources of funding are maximised as far as is reasonably practicable to do so. However, a 1.99% council tax increase has been factored into the medium-term financial forecast for each year for financial planning purposes only. Clearly, any decisions on setting future council tax levels will be considered each year at Budget Council.

23. The financial impact each year of not increasing council tax at all is an additional pressure of around £135k, assuming a 1.99% rise is foregone.

AN IMPACT ASSESSMENT OF THE REVENUE BUDGET 2019/20 ON FUTURE YEARS

24. The Medium-Term Financial Strategy for 2020-24 is dependent on the delivery of a number of assumptions within the annual budget for 2019/20. This strategy assumes that:

    - the Council will approve an annual budget that delivers savings and increased funding totalling £1.02m without having to use reserves to support the delivery of the 2019/20 Revenue Budget;
    - the Council receives the estimated business rates assumed in the calculation of the baseline funding level and any additional business rates included as funding within the approved net revenue budget; and
    - the assumed costs of delivering the Council’s services both directly and indirectly is in line with planning assumptions.

25. These assumptions are a realistic assessment of the underlying financial position as shown in the Medium-Term Financial Strategy. The annual budget will be approved in February 2019.

POTENTIAL GAP FOR 2020/21, 2021/22, 2022/23 and 2023/24

26. The overall funding gap for 2020/24, using planning assumptions, is summarised below:

	Reduction from 2018/19 Provisional Settlement (average 4% reduction of Core Spending Power) (£m)	%
Anticipated funding reduction	0.7	
Pay and Prices/other	0.2	
Potential Gap 2020/21	**0.9**	**6.3**
Anticipated funding reduction	0.7	
Pay and Prices/other	0.6	
Potential Gap 2021/22	**1.3**	**9.1**
Anticipated funding reduction	0.8	
Pay and Prices/other	0.4	
Potential Gap 2022/23	**1.2**	**8.0**
Anticipated funding reduction	0.7	
Pay and Prices/other	0.4	
Potential Gap 2023/24	**1.1**	**7.4**
Cumulative Potential Gap 2020/24	**4.5**	**30.8**

27. Underlying assumptions included within the forecast are:
    - Council tax will increase by 1.99% each year;
    - No increase has been factored in for non-inflationary changes in council tax base; business rates or additional new homes bonus
    - Pay award assumed at 2% per annum, fees and charges income at 2% per annum; and
    - Transitionary funding to replace the loss of Revenue Support Grant (RSG)
    - No assumptions built into forecast regarding changes to Council Tax Support claimant numbers.

28. The above scenario assumes a continuation of reduction of government funding causing a reduction in Core Spending Power at a pace similar than that which has been seen over this decade, as part of austerity measures, that is circa 4% year-on-year (with Core Spending Power defined as RSG/Transitional Support, Business Rates, Council Tax and New Homes Bonus). However, as 2019 will see the conclusion of the spending review and redesign of the funding

mechanism for local government, below are 2 further scenarios showing Core Spending Power reductions at 2% and at 0%. These reflect the uncertainty that local government has with regards to funding. -:

	Reduction from 2018/19 Provisional Settlement (average 2% reduction of Core Spending Power) (£m)	%
Anticipated funding reduction	0.4	
Pay and Prices/other	0.2	
Potential Gap 2020/21	**0.6**	**4.3**
Anticipated funding reduction	0.4	
Pay and Prices/other	0.6	
Potential Gap 2021/22	**1.0**	**7.2**
Anticipated funding reduction	0.4	
Pay and Prices/other	0.4	
Potential Gap 2022/23	**0.8**	**5.4**
Anticipated funding reduction	0.4	
Pay and Prices/other	0.4	
Potential Gap 2023/24	**0.8**	**5.7**
Cumulative Potential Gap 2020/24	**3.2**	**22.6**

	Reduction from 2018/19 Provisional Settlement (average 0% reduction of Core Spending Power) (£m)	%
Anticipated funding reduction	0.1	
Pay and Prices/other	0.2	
Potential Gap 2020/21	**0.3**	**2.3**
Anticipated funding reduction	0.1	
Pay and Prices/other	0.6	
Potential Gap 2021/22	**0.7**	**5.1**
Anticipated funding reduction	0.1	
Pay and Prices/other	0.4	
Potential Gap 2022/23	**0.5**	**3.5**
Anticipated funding reduction	0.1	
Pay and Prices/other	0.4	
Potential Gap 2023/24	**0.5**	**3.8**
Cumulative Potential Gap 2020/24	**2.0**	**14.7**

29. Until there are indicative allocations of funding for 2020/21 and beyond, the ability to forecast funding elements is severely restricted and it is incumbent on the Government to provide certainty to this sector without delay. It is necessary to show various scenarios of funding changes due to this therefore the above scenarios present a range of funding changes, which are summarised below-:

	4% reduction of Core Spending Power (£m)	2% reduction of Core Spending Power (£m)	0% reduction of Core Spending Power (£m)
Potential Gap 2020/21	**0.9**	**0.6**	**0.3**
Potential Gap 2021/22	**1.3**	**1.0**	**0.7**
Potential Gap 2022/23	**1.2**	**0.8**	**0.5**
Potential Gap 2023/24	**1.1**	**0.8**	**0.5**
Cumulative Potential Gap 2020/24	**4.5**	**3.2**	**2.0**

BALANCING OVER THE MEDIUM TERM

30. The Council operates in a generally challenging environment. Given the planned significant reductions in the Council's funding from Government over the medium term there will need to be a continuing fundamental review of the core purpose of the Council. This will demand strategic and corporate leadership and it is essential that there is seen to be strategic ownership of such a review given the scope of changes which will result from this.

31. The overall size of the challenge that the Council faces is significant and the formulation of a balanced budget over the longer term requires the delivery of savings through strategic prioritisation, service transformation and continuous improvement. The Council continues to make and face key decisions affecting the way it delivers core Council services.

32. The Council will consider fully its strategic intent as encapsulated in the Strategic Plan and will seek not only to reduce costs and deliver the necessary savings but seize opportunities to use those cost saving programmes as leverage for wider strategic benefits.

33. The structure of the Council should be adapted to reflect the challenging operating environment. Furthermore, these structural changes will require that there is also sufficient flexibility to meet all challenges which may arise. Significant service reconfiguration will therefore continue to take place and further progress will be made to update the way the Council is structured. A review of internal business processes will continue so as to promote automation and to reduce back office workloads. This will change the way we work in line with the organisational development strategy and through the promotion of self-service wherever possible.

34. The Council has a strong track record of delivering efficiency savings over recent years and this work will need to continue for the foreseeable future. The outcome will be a Council which is more streamlined and focussed on key strategic objectives, delivered through transformed services working in partnership.

35. Given the challenges ahead, the Council will continue to use the commercial strategy which sets a framework for developing a commercial approach by everyone within and representing the Council. By doing this we will seek to maximise income from our activities and services whilst still having regard to the ability to pay. We will also minimise the costs involved in service provision through this approach by promoting better procurement and continuing to gain value from contracts with partner organisations and so aim to reduce the future funding gap.

36. Finally, as reported to Full Council in December 2018 this Authority intends to commission two significant capital projects, namely the Pioneer Place development and the Sandygate Square Student Accommodation scheme. Both these developments will require significant financial support from the Council, as well taking on significant commercial risk over the lifetime of these projects (50 years and 30 years, respectively). These schemes will also require significant use of reserves and will also see unprecedented amounts of borrowing – circa £32m.

These present threats to the financial viability of the Council. However, in partial mitigation, various strategies have been put in place.

37. These include contractual affordability conditions for the Pioneer Place scheme to become unconditional, a strategy to build up reserves over the next 10 years to provide a buffer for budget pressures, specific reserves for the schemes to renew the assets and capture any over-performing income and recognition of limited capacity to take on other significant capital schemes.

38. It should be noted however that before the Pioneer Place construction commences the scheme requires:
    i. a pre-let to be completed for the new supermarket on Manchester Road;
    ii. a pre-let to be completed for the new cinema on Pioneer Place; and
    iii. pre-lets to be completed for 75% of the remaining units on Pioneer Place including Unit 2 adjacent the cinema, with the said pre-lets achieving a minimum of 75% of the estimated full rent payable.

RISKS

39. The significant risk areas are:

RISK		MITIGATION	ASSESSMENT
(i)	Ability to maintain a balanced budget over the medium-term	Consideration of core purpose of the Council. Development of a multi-year planned and systematic programme of efficiency and cost reduction measures; Ensure effective programme management to ensure timely delivery. Maintain an effective reserves strategy. Undertake close monitoring of Pioneer Place/Sandygate Square schemes.	HIGH
(ii)	Funding uncertainty with regard to the proposed changes in NHB funding, changes in Business Rates funding and the fair funding review for local government.	Horizon scanning national developments and proactive contribution to help shape the funding framework. Lobby for additional resources with government and also through the LGA. Seek to maximise local funding sources.	HIGH
(iii)	Business rate volatility including appeals	No projected increase factored into MTFS, reserves available as buffer in short term. Active consideration of all appeals to minimise impact on revenues.	HIGH

RISK		MITIGATION	ASSESSMENT
(iv)	Partnership performance – achievement of planned savings and delivery of these savings on time	Continued development of enhanced contract management skills and procedures. Project management discipline. Consolidation of good working relationships with contract partners.	MEDIUM
(v)	Reserves - potential impact on reserves position, if they are required to support the delivery of a balanced budget over the medium-term.	Include policy on use of reserves within Medium-Term Financial Strategy (attached). Programme of action to increase reserve levels over the next 10 years.	HIGH
(vi)	Potential claw-back or loss of any external or grant funding.	Compliance to external and grant funding conditions, careful programme monitoring of capital projects.	MEDIUM
(vii)	Prices - the Strategy only allows for budget increases in specific areas, e.g. business rates and contractual requirements. The forecast for CPI and RPI is for bigger increases.	Review at each update of the Strategy	LOW
(viii)	Pay – 2% in Strategy but pressure for higher settlements may develop in the future	Review at each update of the Strategy	LOW
(ix)	Income and fees and charges.	Ensure that the Council's commercial strategy is used to maximise income opportunities. An allowance has been built into the Medium-Term Financial Strategy for an increase in line with the Council's commercial strategy. This will be reviewed as part of the annual fees and charges review.	LOW

RISK		MITIGATION	ASSESSMENT
(x)	Treasury Management.	Approved Treasury Management Policy, with regular monitoring with support from external advisors.	LOW
(xi)	Brexit – Uncertainty of the outcome on the UK economy and corresponding impacts on interest rates, the local economy and further spending pressures	Continuation of resilience with regards to diversifying sources of income, driving further efficiencies, monitoring the outcome of Brexit negotiations and updating the MTFS as necessary	MEDIUM

RESERVES & BALANCES

40. The overall forecast position on reserves is shown in the table below. This includes all strategic earmarked and general reserves. The forecast below includes approved commitments and anticipated spend and income into the reserves. The Reserves Strategy can be found in detail at Appendix 1.

	Strategic Earmarked Reserves £'000	General Reserve £'000	Revenue Support Reserve £'000	Total £'000
Balance as at 01/04/18	5,049	1,379	-	6,428
Approved use to Q3 2018/19	(1,627)	-	54	(1,573)
Balance available after approvals	3,422	1,379	54	4,855
Future commitments and risks	(3,081)	-	1,904	(1,177)
Balance remaining	341	1,379	1,958	3,678

41. The reserves position does not include any requirement to support the budget gap on an on-going basis.

42. General reserves are held to provide short term emergency funds for exceptional circumstances and to cover risks that could impact the Council as a going concern. The current level of the Council's General Reserve is set at £1.379m, and includes an assessment of volatility within the business rates retention. The General Reserve has been reviewed as part of the re-assessment of the MTFS and it is proposed that it should remain at £1.379m.

43. Earmarked reserves are held for specific purposes either as a strategic reserve to give flexibility in the use of corporate resources or as specific ring fenced reserves for operational needs.

44. The Revenue Support Reserve is essential to provide resilience for the Council in light of reduced funding. As the authority adjusts to meet the pressures of reductions in Government funding, as well as awaiting the outcome of central government's funding review, which will govern local government funding from 2020/21 onwards, it has become increasingly challenging to produce savings annually as the authority contracts in resource and size. Savings proposals will carry more risk of successful implementation, whether they are income or expenditure-related. The Revenue Support Reserve will be required to provide temporary mitigation for some of these risks. However, the purpose of the reserve is also to temporarily provide for unanticipated reductions in income, provide for unexpected revenue spend and to support shortfalls in major capital projects beyond their business cases and after their allocated reserves are exhausted. The above forecast assumes a 10-year programme to build-up this reserve from the General Fund.

45. Any resources that are released by savings on the approved budget will be transferred into an earmarked reserve, although it is expected that given the increased pressures on the annual revenue budget the ability for the Council to build up reserves will become increasingly difficult in future years. The purposes, for which reserves are held, are included within Appendix 1.

46. It is Council policy that earmarked reserves should not be used to pay for continuing expenditure. Earmarked reserves should be used for the specific purpose for which they were set aside. This includes funding one-off or non-recurring items, invest to save initiatives or to provide short term and time limited support to manage the transition from the withdrawal of funding.

47. The Council's reserves are not set at excessive levels and furthermore, it is prudent to protect and enhance earmarked reserves where there are opportunities to do so to provide one-off protection particularly given the uncertainty of the current financial climate and longer term risks associated with the local government funding arrangements. It can be seen in the table above however that it is anticipated that a substantial part of the Council's strategic earmarked reserves will be at, or below, their recommended minimum level by the end of the MTFS period. The adequacy of strategic earmarked reserves will continue to be monitored to meet future demands.

MONITORING & REVIEW

48. The Council operates delegated financial management. Following approval of the annual budget, budgets are delegated to service units where each Head of Service has delegated responsibility to ensure that they monitor and maintain budgetary control, achieve efficiency plans built into the budget and follow financial procedure rules. Each Head of Service is charged with ensuring their lead Member is fully briefed on financial issues. Corrective action plans are required in the event of any underperformance against budget to ensure the budget remains on track by the end of the financial year. Conversely, any service underspend at the end of the financial year will be used to contribute towards corporate priorities - general carry forward of underspends by services is not permitted. Any requests for specific service commitments to be rolled into the following financial year will be considered on an exception basis.

49. The Council is committed to achieving value for money in all aspects of its operations. To achieve this, reviews are regularly undertaken to determine whether cost improvements can be made, and to ensure that resources are prioritised and are aligned to strategic intent.

50. Any new proposals for on-going revenue growth must be backed up by a clear business case that demonstrates delivery of efficiencies aligned to strategic objectives. Criteria will be used to determine the relative priority of all capital projects.

51. The Council will operate a commercial strategy which will be reviewed periodically.

52. The Council will carry out three cycles of budget monitoring during each financial year together with a combined revenue and capital final outturn report, each of which will be reported formally to the Executive. These will also be reported to the Scrutiny Committee. Approval of any adjustments to capital or revenue budget control totals will then be sought from Full Council.

53. The financial modelling projections contained within this Medium-Term Financial Strategy are a dynamic model, which will be updated, revised and reported following receipt of business intelligence, changes to underlying assumptions and as the position becomes clearer.

APPENDIX 1: RESERVES STRATEGY

BACKGROUND

1. The Council continues to face significant financial challenges. The era of austerity is set to continue for the foreseeable future which will undoubtedly result in further substantial reductions in funding from the government. The Council however remains committed to its ambitions of delivering its place shaping strategic priorities. This means that the Council is not only prioritising resources for key service objectives but is also continuing to adjust to a reduced cost base to ensure financial sustainability over the medium term.

2. Within this context, reserves play a vital role in offering transitional support to act as a buffer and to ensure smooth service transition as the Council adapts to organisational changes and new ways of working; and to offer time limited opportunity for investment to aid strategic delivery.

3. It is imperative, therefore, that the Council has in place a strong and robust reserves strategy, that adequately reflects the future needs of the organisation, set at a level that mitigates against future risks and certainties and provides opportunity for investment within the confines of overall affordability and availability of resource.

4. Given the current context of operations there are no planned arrangements for replenishing reserves drawn down, although a minimum level of reserve (general reserve) has been assessed for the Council to remain a going concern. As part of the finalisation of the year end position, opportunities will be taken, if possible, to replenish reserves in the light of risk appraisal.

5. This reserves strategy sets out the protocol for use of reserves and re-assesses the adequacy of reserves.

LEGISLATIVE/REGULATORY FRAMEWORK

6. The requirement for financial reserves is acknowledged in statute. Sections 32 & 43 of the Local Government Finance Act 1992 require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure, when calculating the budget requirement.

7. There are no statutory minimum levels imposed and it is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum or maximum level of reserves required, either as an absolute amount or a percentage of the budget.

8. The adequacy of the level of reserves is therefore a matter of local judgement bearing in mind the level of risk the council faces together with the requirement to provide any non-recurring or one off support for strategic priorities.

9. The management of reserves within the current difficult financial environment is not universally agreed. There is a conflict between the expectation of

Government that Councils should utilise their reserves over the medium term and the views of professional and regulatory bodies who suggest that reserves should be increasing over the same period.

ROLE OF THE CHIEF FINANCIAL OFFICER

10. Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer (in Burnley's case this is the Head of Finance and Property) to advise the local authority about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

11. This requirement is also reinforced by Section 114 of the Local Government Finance Act 1988, which requires the Chief Financial Officer to report to all the authority's councillors, if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

PURPOSE OF RESERVES & BALANCES

12. Reserves can be classed as general reserves or earmarked reserves and represent funds that are not part of the normal recurring budget of the Council but are distinct "pots" of finite funds.

13. General reserves are set aside to provide a short term cushion for the impact of uneven cash flow, to provide an emergency fund for exceptional unmitigated circumstances and to ensure that the Council remains a going concern. The current level of the Council's general reserves is set at £1.379m. This includes an assessment of volatility within the business rates retention scheme. This figure is judged as a prudent level of balance to be set aside to ensure the Council remains financially liquid as a going concern. This fund is held as a fund of "last resort" when all other reserves or budgets have been completely depleted for unknown "Treasurer's risk".

14. Earmarked reserves are held to mitigate against potential specific risks that the Council faces; cushion against uncertainty; provide for anticipated liabilities and provide short term investment for strategic priorities or support the operational delivery of specific services. These reserves are held for either strategic purposes to give flexibility in the use of corporate resources or are held as specific ring-fenced reserves for operational needs.

15. Given the increased pressures on the annual revenue budget the ability for the Council to build up reserves will become increasingly difficult in future years. Clear protocols therefore should be in place for the use of each earmarked reserve that set out:

    - The reason for/purpose of the reserve;
    - How and when the reserve can be used;
    - An assessment of the adequacy of the reserve in light of risk factors;
    - Procedures for the reserve's management and control; and

- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

RISK FACTORS

16. The table below identifies the key risks that are mitigated and managed through this reserves strategy:

Risk	Reserve
Short term liquidity and cash flow.	General (Treasurer's Risk)
Unforeseen emergencies.	General
Strategic service transformation and ability to ensure services remain fit for purpose and deliver value for money.	Transformation
Achievement of high priority strategic objectives that require pump priming or inward investment.	Growth
Financial risks inherent in major developments and projects that are aligned to strategic priorities.	Growth
Provide interim support for emerging risks that were unknown at budget setting and are an unavoidable commitment through regulatory or legislative reform that are outside the direct control of the council	Transformation Revenue Support
Fluctuations, loss and uncertainty in funding or income levels coupled with the Council's ability to respond in a timely way, thereby providing a buffer to enable the Council to downsize.	Transformation
Variations in business rate yield due to the impact of appeals and other factors which can reduce funding availability	Business Rates Volatility
Ensure resources available to provide for future unavoidable and non-recurrent specific needs.	Transport & Plant Local Development Framework (Local Plan) Town Centre Master Plan Burnley Bondholders Cremator Relining
Transparency in accounting arrangements for self-financing initiatives.	Taxi Licensing Selective Licensing
Respond to changes in demand for services.	Transformation

REPORTING FRAMEWORK

17. The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Head of Finance and Property. The protocols covering all reserves are set out below for strategic and operational reserves respectively.

18. The Medium-Term Financial Strategy and the Council's annual Revenue Budget report include a statement showing movements in reserves. In addition, the Medium-Term Financial Strategy includes a forward forecast of future balances for the relevant period.

STRATEGIC RESERVES PROTOCOL

Reserve	Level of reserve	Purpose	How & When Used	Control Procedures	Timescale for review
Transformation	Recommended to have available balance of £1.5m uncommitted at 31/3/19	To support specific projects aimed at transforming services either to reduce the cost base; deliver value for money or ensure services remain fit for purpose	Used to mitigate the impact of any one off expenditure that arises from organisational and transformational change and to assist with organisational downsizing	Managed by the Head of Finance and Property (Chief Financial Officer)	The overall level will be reviewed twice-yearly as part of the final accounts and budget processes and any movements monitored as part of the budget monitoring process
Growth	This reserve will cease to exist once depleted	To assist the Council in achieving its strategic objectives through the provision of one-off investment as leverage	Used to pump prime projects that deliver demonstrable wider strategic benefits that enable the council to fulfil its place shaping role	Managed by the Chief Executive	

OPERATIONAL RESERVES PROTOCOL

Operational Reserve	Level of Reserve	Purpose	How & When Used	Procedures for Management & Control	Timescale for Review
Business Rates Volatility	Recommended to have no greater than £500k uncommitted by the end of any financial year	To safeguard against the inherent volatility within the business rates retention system particularly around the potential impact of appeals	Used to support the business rates funding figure included within the Council's net revenue budget in the event that actual business rates collected generate a figure below this estimated funding figure	Managed by the Head of Finance and Property (Chief Financial Officer)	Twice-yearly, as part of the final accounts and budget processes

<table>
<tr><th>Operational Reserve</th><th>Level of Reserve</th><th>Purpose</th><th>How & When Used</th><th>Procedures for Management & Control</th><th>Timescale for Review</th></tr>
<tr><td>Transport & Plant</td><td>Dependent on planned replacement strategy for transport and plant financed from within service revenue budgets</td><td>To manage the financing of the Council's transport & plant requirements</td><td>There is an annual payment into the reserve, which helps to equalise spending, as transport & plant replacements are due</td><td>Managed by the Head of Green Spaces and Amenities</td><td>Twice-yearly, as part of the final accounts and budget processes</td></tr>
<tr><td>Local Development Framework (Local Plan)</td><td>Anticipated spending requirements</td><td>To fund the necessary work needed for the Core Strategy and other development plans</td><td>Any cost of the preparation of the Local Development framework will be funded through drawdown on this reserve</td><td>Managed by the Strategic Head of Economy and Growth</td><td>Monitored as part of budget monitoring process</td></tr>
<tr><td>Taxi Licensing</td><td>Self-financing</td><td>To ensure the costs associated with licensing is ring-fenced and recovered by the taxi trade</td><td>To manage annual surpluses and deficits on the account</td><td>Managed by the Monitoring Officer</td><td rowspan="2">The overall level will be reviewed twice-yearly as part of the final accounts and budget processes and any movements monitored as part of the budget monitoring process</td></tr>
<tr><td>Selective Licensing</td><td>Self-financing</td><td>To ensure the costs associated with licensing are ring-fenced and recovered by landlords</td><td>To manage annual surpluses and deficits on the account</td><td>Managed by the Head of Housing and Development Control</td></tr>
</table>

Operational Reserve	Level of Reserve	Purpose	How & When Used	Procedures for Management & Control	Timescale for Review
Primary Engineer Reserve	Anticipated spending requirements	To support a training initiative in schools within Burnley	To fund delivery of the training on an annual basis	Managed by the Chief Executive	Monitored as part of budget monitoring process
Town Centre Master Plan	Anticipated spending requirements	To enable the Council to deliver a major Town Centre regeneration scheme	To assist in procuring the expertise to carry out an exercise to develop a vision and plan for the town centre	Managed by the Strategic Head of Economy & Growth	Monitored as part of budget monitoring process
Burnley Bondholders Reserve	Self-financing	To manage the excess sponsorship contributions for bondholder organisations	To fund Burnley brand and marketing initiatives in order to attract economic investment into the area	Managed by the Strategic Head of Economy and Growth	Monitored as part of budget monitoring process
Cremator Relining Reserve	Dependent on planned replacement strategy for cremator relining financed from within service revenue budgets	To manage the financing of the Council's cremator relining requirements	There is an annual payment into the reserve, which helps to equalise spending, as cremator relining are due	Managed by the Head of Green Spaces and Amenities	Monitored as part of budget monitoring process
Revenue Support Reserve	Anticipated spending requirements	To provide funding for unanticipated reductions in income and initiatives to offset budget reductions	To be used in response to income pressures identified during the budget monitoring process	Managed by the Head of Finance & Property (Chief Financial Officer)	Monitored as part of budget monitoring process