

REPORT TO THE EXECUTIVE



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PORTFOLIO	Resources and Performance Management
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Revenue Budgets 2020/2023 – Latest Position and Savings Proposals

PURPOSE

1. To update The Executive on the latest position regarding balancing the Council’s 2020/23 revenue budgets.
2. To outline proposed savings for recommendation to Full Council.

RECOMMENDATION

3. The Executive are asked to recommend to Full Council approval to -
 - a) savings approved at previous Full Council meetings totalling £277k (see Section 8 below) to assist in balancing the 2020/21 and 2021/22 revenue budgets - see Appendix 1
 - b) further proposed savings totalling £242k to assist in balancing the 2020/21 and 2021/22 revenue budgets - see Appendix 1

REASONS FOR RECOMMENDATION

4. To progress the preparation of the Council’s 2020/21 revenue budgets.

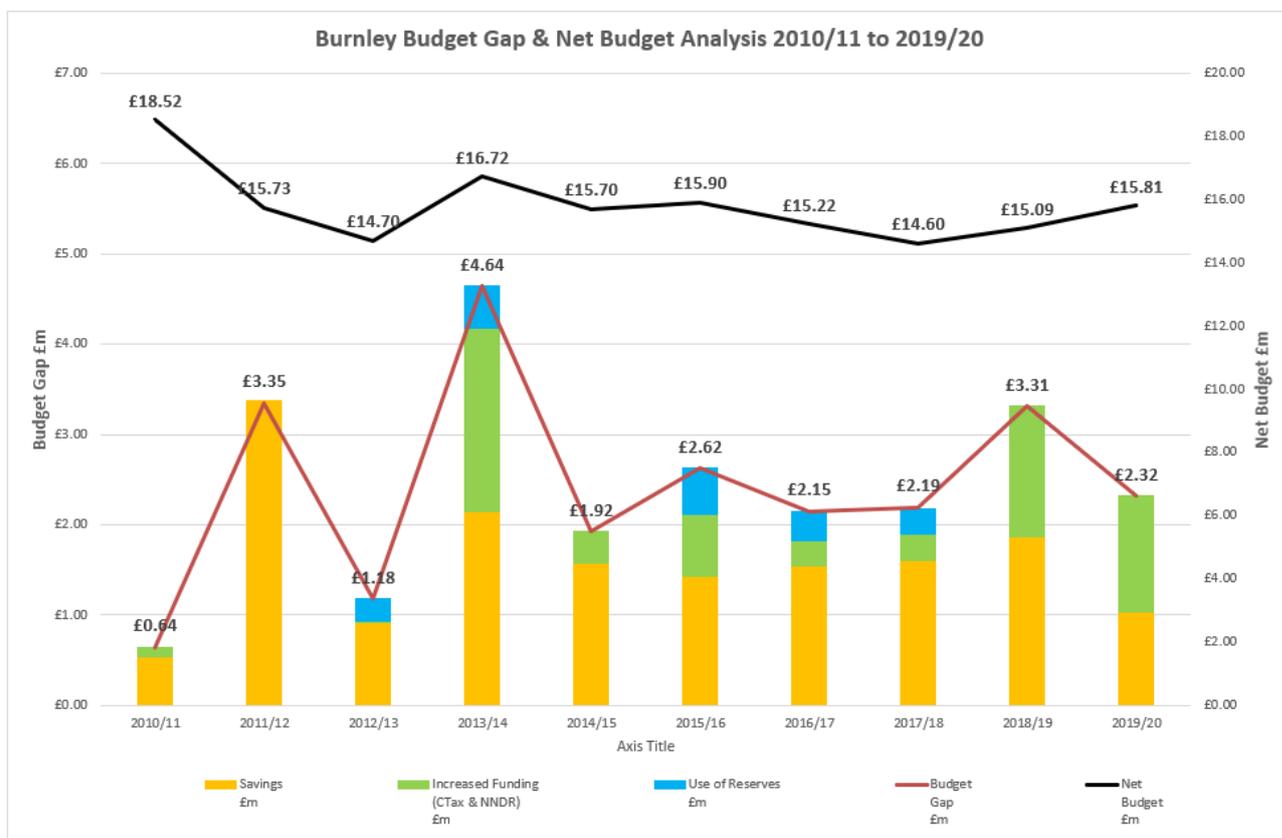
SUMMARY OF KEY POINTS

5. **Background**
 The Council’s Medium-Term Financial Strategy (MTFS) is regularly assessed and updated to provide an indication of budget pressures over the next three financial years.

Members will recall that a report on the MTFS was considered and approved by the Executive in July 2016. This report was approved as the Council’s financial plan – “Creating a Sustainable Future” - and was intended to develop a long term financially balanced framework for the Council. It is also the Council’s four-year efficiency plan which fulfils the Government’s requirements for securing a four-year

Revenue Support Grant settlement. 2019/20 is the final year of the four-year efficiency plan.

Since 2010 the Government has reduced settlement funding for Local Government, with the Council's settlement funding reducing 60% (£10m) from 2010 to 2020. During this period of austerity, to balance the budget the Council has delivered savings of £16.05m, as shown below:



6. MTFS Position as at February 2019

The 2020/24 strategy was approved at the meeting of Full Council on 11 February 2019 and indicated that the cumulative budget gap for 2020/21, 2021/22 and 2022/23 was estimated to be £3.48m, equivalent to 22.00% of the 2019/20 net revenue budget of £15.82m (£15.97m including parish precepts).

The Councils MTFS for 2020/24 reported in February 2019 was based upon the assumptions known at that date. The estimated budget gap at that point in time is shown in the table below:

Table 1: MTFS position before saving proposals as at February 2019

MTFS	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Continuation estimate	0.33	0.78	0.51	1.62
Funding	0.61	0.59	0.66	1.86
Budget Gap	0.94	1.37	1.17	3.48

The assumptions underpinning the figures above are as follows:

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

7. Revised MTFS Position as at September 2019

The MTFS is a fluid document which is regularly reviewed and assessed. The latest review has resulted in a change to the estimated budget gap as previously reported in February 2019, with the cumulative budget gap now £3.71m, equal to 23.45% of the 2019/20 revenue budget.

The Council is currently in the final year of the four-year settlement, which covered the period 2016/20. The Government had proposed to revise the methodology for allocating funding to Councils from 2020/21, including changes to the current business rates system and a Fair Funding Review, on the basis of a multi-year Spending Review. However, these have now been delayed by a year for implementation in 2021/22.

In August 2019 the Government announced that the multi-year Spending Review was to be replaced with a shorter one-year Spending Round for 2020/21 only. In September 2019, the government announced the result of the one-year Spending Round. Whilst we await from Government details of what this means for Burnley's allocation for 2020/21, it is positive that additional money is being allocated to the local government sector as a whole in 2020/21. However, there remains significant uncertainty beyond next year. Therefore, based on this information and due to the late stages of the current financial year, it has been assumed in the MTFS that the same level of funding received in 2019/20 will be rolled forward into 2020/21.

Whilst at present this appears to be the most likely outcome, a further update will be reported in February 2020 once the Council formally receives its funding allocation, as part of the Provisional Local Government Settlement in December 2019.

It should be noted that even if funding remains unchanged from one year to the next, continuation estimates continue to increase due to spending pressures, for example inflation, salary cost increases etc., as shown in Tables 2 and 3.

The latest estimate of the budget gap for the period 2020/23 can be seen below:

Table 2: MTFS position before saving proposals as at September 2019

MTFS	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Continuation estimate	0.65	0.76	0.61	2.02
Funding	(0.03)	0.87	0.85	1.69
Budget Gap	0.62	1.63	1.46	3.71

The assumptions underpinning the figures in Table 2 are as follows:

- i) Council tax will increase by 1.99% each year;
- ii) An increase to the council tax base of 0.25%;
- iii) No changes have been assumed regarding changes in Council Tax Support numbers.
- iv) No increase has been factored in for inflationary changes in business rates or additional new homes bonus;
- v) An assumed 0% decrease in the Settlement Funding Assessment for 2020/21 with a decrease of 4% in the core spending power for 2021/22 and 2022/23 and a phasing out of business rates growth due to a reset of the Business Rates Retention baseline over 3 years from 2021/22;
- vi) We are currently members of the Lancashire Business Rates Pilot which is a 75% retention scheme. It is unclear at this stage whether the Government will extend the scheme to 2020/21 onwards, however it has been assumed that we will continue to be members and benefit from the scheme;
- vii) Pay award has been assumed at 2% per annum;
- viii) Fees and charges at 2% per annum;
- ix) Contractual and general inflationary increases of 3%;

8. **Savings Proposals**

The Council's financial plan considers the national and regional context and the need to re-balance the economy. However, at the heart of the Council's financial planning is a savings plan aligned to strategic intent. In considering opportunities for future savings, the Council has ensured that they are aligned to each of the themes contained within its strategic intent.

Appendix 1 shows details of proposed total net savings of £242k, split £178k for 2020/21 and £64k for 2021/22. The savings for 2020/21 include £36k of proposed reductions in posts, all of which are currently vacant.

In addition, £277k of savings were approved at previous Full Council meetings.

Total savings identified for 2020/21 and 2021/22 will therefore be £519k.

All the proposals have been assessed in relation to equalities legislation, and it has been established that there is no disproportionate impact on people with protected characteristics. See Appendix 2 for details.

9. **Latest 2020/23 Revenue Budget Position**

It can be seen in the table 2 at paragraph 7 above that there is an overall savings requirement of £3.71m over the period 2020/23.

The savings recommended for approval in Appendix 1 total £242k which, together with the £277k of savings already approved, leaves a balance of savings required over the period 2020/23 at this stage of £3.19m, as shown in table 3 below.

The budget gap of £3.19m is based on a 4% reduction of Core Spending Power in the years 2021/22 & 2022/23, however table 3 also demonstrates how the budget gap could change should the government agree to either a 2% (£2.58m) or 6% (£3.61m) reduction of Core Spending Power.

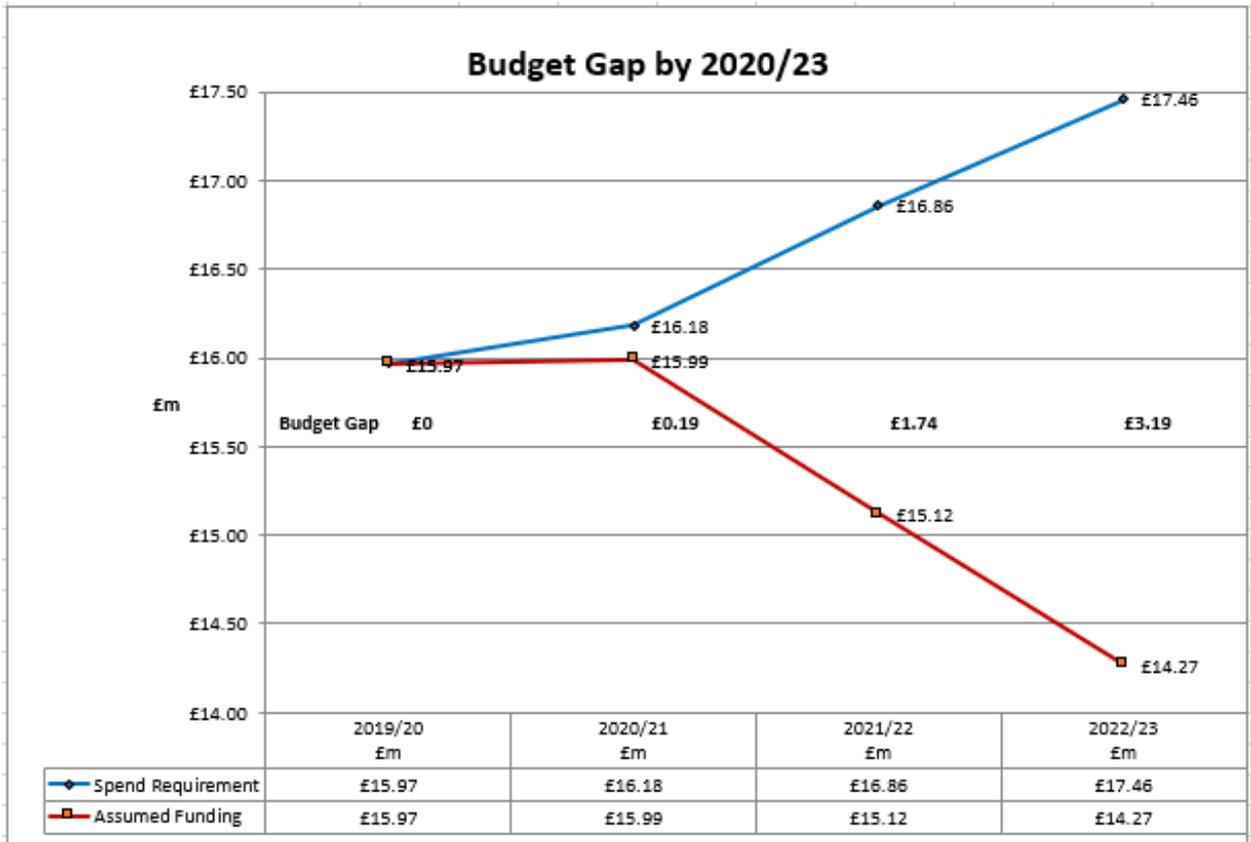
Table 3: MTFS position after savings proposals as at September 2019

MTFS	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Continuation estimate	0.65	0.76	0.61	2.02
Funding	(0.03)	0.87	0.85	1.69
Savings	(0.43)	(0.09)	0.00	(0.52)
Budget Gap	0.19	1.54	1.46	3.19
2021/23 Funding Scenarios				
Funding - 2% reduction in core spending power		(0.27)	(0.25)	(0.52)
Budget Gap	0.19	1.27	1.21	2.67
Funding - 6% reduction in core spending power		0.27	0.24	0.51
Budget Gap	0.19	1.81	1.70	3.70

Budget gaps of £0.19m for 2020/21, £1.54m for 2021/22 and £1.46m for 2022/23 remain.

Proposals to meet the 2020/21 balance of savings required will be taken to Full Council for approval in February 2020.

The chart below shows the estimated budget gap between the councils spend requirement and assumed funding over the period 2020/23:



Risks and Sensitivity

10. A sensitivity analysis of some of the assumptions made in Section 7 can be seen below:

Assumption	Sensitivity Analysis	2020/21 Financial Impact
Council tax will increase by 1.99% each year	+/- 1%	+/- £70k
An increase to the council tax base of 0.25%	+/- 0.25%	+/- £17k
Pay award has been assumed at 2% per annum (Burnley BC, Liberata, Burnley Leisure & Urbaser)	+ 1%	+ £116k
Contractual and general inflationary increases of 3%	+ 1%	+ £92k

- a) Funding changes – It is uncertain at this stage how changes to Local Government funding will impact on the Council’s funding in future years. The Government announced in August 2019 that the Spending Review will be delayed to 2021/22 with a one-year spending round to be carried out for 2020/21. Details of this one-year Spending Round were announced in September 2019. However, allocation of funding to this Council won’t be known until the publication of the Government’s Provisional Settlement in December 2019. Therefore, as described in para 7, funding levels as per 2019/20 have been assumed for 2020/21.

- b) The Government is in the process of revising the methodology for allocating funding to Councils from 2021/22 onwards, this includes changes to the current business rates system together with a Fair Funding Review.
- c) Salary costs - 2019/20 is the final year of the current 2 year pay agreement. An annual pay increase of 2% has been factored into the budget assumptions underpinning the MTFs, however the trade unions have submitted an NJC Pay Claim of a 11% increase to the living wage (SCP 1) to £10/hour and a 10% increase on all other scales for 2020/21. To put this into context a 1% increase to current pay scales equates to £116k, this relates to Burnley BC, Burnley Leisure, Urbaser and Liberata.
- d) Capital projects – any projects under consideration require funding. If there is a shortfall in capital finance for these projects, then pursuing them and using borrowing will significantly increase the revenue budget. The revenue implications will be considered as part of the monitoring of the Capital Programme.
- e) Two major capital schemes – Sandygate Square and the proposed Pioneer Place developments – these two schemes represent significant long-term costs for the Council and will require a significant amount of borrowing over 30 to 50 years, with payback very dependent on the successful income levels of both schemes. This carries significant financial risk for the authority and is an important element of the financial horizon of this Council.
- f) Budget preparation – The preparation of the 2020/21 continuation budget is currently being undertaken. Issues may arise from the exercise that could have an impact on the 2020/21 budget and future years.
- g) Public demand on commercial risks – An element of the savings proposals has arisen in response to the change in the Council’s commercial risk appetite. Fees and charges are a significant element of the Council’s funding and can be subject to fluctuations between years due to competition, weather and the performance of the economy. This will be closely monitored during the year to ensure that targets are being achieved.
- h) Interest rates – Interest rates have been at a historical low for the last few years. Due to the uncertainty of Brexit it is unclear what the future projections are regarding future movements in the base rate. Any increases would have implications on the Council’s revenue budget in future years where there is a requirement to finance future capital schemes from borrowing.
- i) Brexit – Uncertainty around the outcome of Brexit and the impact on the UK economy. Especially around interest rates, the local economy and further spending pressures which may have an impact on the 2020/21 budget.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

11. As shown in the body of the report and appendices.

POLICY IMPLICATIONS

12. The revenue budget determines the extent to which the Council's strategic objectives can be pursued and achieved.

DETAILS OF CONSULTATION

13. Scrutiny Committee.

BACKGROUND PAPERS

14. None

FURTHER INFORMATION

PLEASE CONTACT:

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ALSO:

Amy Johnson – Principal Accountant