

REPORT TO THE EXECUTIVE



DATE	17th February 2020
PORTFOLIO	Resources & Performance Management
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Revenue Budget 2020/21

PURPOSE

1. To consider the estimates of revenue income and expenditure for 2020/21 and to make recommendations to full Council about next year's Revenue Budget.

RECOMMENDATION

2. The Executive is recommended to adopt the following resolution:

That Full Council be recommended to:

- i) Endorse the approach that has been adopted in developing budget proposals that reflect the Council's Strategic Objectives for 2020/21;
- ii) Approve the proposals contained in this report;
- iii) Set a Council Tax Requirement of £7,159,947 for the financial year 2020/21;
- iv) Set a Net Budget Requirement of £15,692,967 for 2020/21;
- v) Receive and consider the statutory report issued by the Head of Finance and Property under the Local Government Act, 2003;
- vi) Authorise the Chief Operating Officer/Heads of Service to progress action plans to deliver the 2020/21 budget;
- vii) Approve a Council Tax (Band D) figure of £306.19 for this Council for the year commencing 1st April 2020 and adopt the statutory resolution to set the full Council Tax for the year. This is equivalent to a 1.99% Council tax increase.

REASONS FOR RECOMMENDATION

3. To fulfil the Council's statutory obligation to calculate its Council Tax requirement as set out in Section 31A of the Local Government Act 1992 (as amended by section 74 of the Localism Act 2011).
4. To set a balanced budget for the financial year 2020/21 that ensures the viability of the Council and aligns resources to the Council's strategic priorities.

SUMMARY OF KEY POINTS

BACKGROUND

5. This report summarises the key issues that elected Members will need to consider when finalising the Revenue Budget 2020/21. Under the constitution it is the Executive's duty to present detailed recommendations for Full Council to consider. The following appendices are related to the report.

Appendix 1	General Fund Revenue Summary 2020/21
Appendix 2	Growth
Appendix 3	Further Savings/Additional Funding Requirements
Appendix 4	Equality Impact Assessment

6. The schedule of proposed fees & charges, which forms an integral part of the budget process, was approved at the meeting of Full Council on 18th December 2019.
7. The proposals contained within this report have been developed as a result of discussions and presentations at various Member and officer forums.
8. The Local Government Act 2003 sets out the requirements for sound financial management. Section 25 is particularly relevant when the budget and Council Tax for the coming year are being set. It requires the Chief Financial Officer to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. This report is contained elsewhere on your agenda.
9. This budget has been developed following the principles set out in the Council's Medium-Term Financial Strategy. The strategy emphasises the need to focus on the use of the Council's resources towards achieving the Council's stated objectives.
10. The Council has adopted an approach to producing the budget based upon the relative priority of all the services. However, at the heart of the Council's financial planning is a savings plan aligned to strategic intent.
11. In view of the tight financial constraints within which the Council has operated in recent years, there is little scope for growth in service provision. Appendix 2 shows further limited growth proposals.

SUMMARY OF THE REVENUE BUDGET POSITION 2020/21

12. The proposed net revenue budget for 2020/21 is as set out in the table below:

SUMMARY OF THE REVENUE BUDGET POSITION 2020/21		
Net Revenue Budget - original 2019/20		15,815
Spending pressures reported September 2019	365	
Savings approved September 2019	(178)	187
Proposed Growth - Appendix 2		184
Savings on the re-tender of insurance services		(75)
Increase to MRP payable based upon capital schemes		85
Additional PWLB interest payable based upon planned future borrowing		156
Further spending pressures (Corporate Items) 2020/21		26
Income pressures		133
Removal of non salary savings target		250
Movements in Earmarked Reserves		(133)
Further Savings Proposed - Appendix 3		(162)
Parish Precepts		166
Reduction in Pension Payments		(1,071)
Increase to Pension service rate from 15.4% to 17.6%		132
Net Budget Requirement		15,693
<u>Government Settlement Funding Assessment</u>		
Revenue Support Grant		1,640
Business Rates Baseline		4,265
New Homes Bonus		694
Council Tax Yield		7,160
Council Tax - Parish Precepts		166
<u>Business Rates in addition to Baseline Funding</u>		
Additional Business Rates above baseline	1,219	
Renewable Energy	248	1,467
Collection Fund Surplus- Burnley Share		301
		15,693

Recap on Budget decisions taken September 2019

13. Members at Executive and Full Council in September 2019 approved budget savings of £178k for 2020/21, in addition to savings of £256k which had been approved at previous council meetings. This was following receipt of the initial budget report that outlined a savings requirement of £934k. The information presented to Members at that time is shown below:

Position Approved September 2019:

Position Approved for September 2019:		
Net Spending Increases/(Decreases)		
Pay awards and increments		150
General Inflation		328
Pension costs		60
Revenue Support Reserve		100
Strategic Partnership - Additional Income		(279)
Borrowing Costs & MRP		100
Other net continuation budget changes		0
Fees and Charges Increases		(63)
Removal of Savings Target		250
		646
<u>Net Funding (Increases)/Decreases</u>		
Revenue Support Grant	0	
Business Rates	0	
New Homes Bonus	162	
Council Tax - indicative 1.99% increase	(188)	(26)
<u>Savings and Funding Increases</u>		
Net Savings		(433)
Budget Gap Remaining September 2019		187

LOCAL GOVERNMENT PROVISIONAL SETTLEMENT

14. The local government provisional settlement was announced in December 2019 and is likely to be confirmed in February 2020. Any settlement figures included within this report are based upon the provisional settlement figures.
15. Spending Power
The calculation of Spending Power only includes Revenue Support Grant, Business Rates, New Homes Bonus and Council Tax. The Council's Spending Power will increase by 3.5% in 2020/21 (1.5% reduction in 2019/20). This compares to an England average of 6.3%.
16. Settlement Funding Assessment (SFA)
SFA is set by the Government and comprises Revenue Support Grant (RSG - the general grant funding to local authorities) and the Baseline Funding Level for business rates income. As Burnley was part of the 75% Lancashire Business Rates Pilot pool in 2019/20, RSG was incorporated into Business Rates Baseline funding for 2019/20 rather than received as a separate grant. It was announced in September 2019 that the 75%

Lancashire Business Rates Pilot pool was for a period of 12 months only and would cease at the end of the 2019/20 financial year. An application was made by the Pilot to Government requesting the re-establishment of the previous 50% Lancashire Business Rate Pool. This application was successful and as a result Revenue Support Grant (RSG) will be received as a separate grant in 2020/21 rather than being incorporated into Business Rates Baseline funding.

14. New Homes Bonus

In the 2017/18 finance settlement the Government reduced the funding period for NHB from six years to five years in 2017/18 and then to four years in 2018/19 onwards for existing and new awards commencing in 2017/18 which will accelerate the rate at which this grant reduces.

15. In addition, from 2017/18 the Government set a baseline for housing growth of 0.4% of a Council's existing tax base below which no NHB grant is payable. The baseline has remained at 0.4% for 2020/21.
16. Furthermore, the New Homes Bonus allocation for 2020/21 is for one year only, rather than for a period of four years.

FURTHER BUDGET PRESSURES AND SAVINGS IDENTIFIED

17. Further budget pressures and savings have, as is usual, been identified since the September Council meeting and the announcement of the provisional local government finance settlement for 2020/21 in December 2019. It is expected the final finance settlement for 2020/21 will be announced by government in February 2020. Appendix 3 shows the residual budget gap as at September 2019 and the identified additional pressures and savings to balance the 2020/21 budget based on the provisional settlement.
18. The Council has recently re-tendered for insurance services for a period of 3 years with the option to extend for 1 year plus 1 year. This has delivered annual savings of approximately £75k. For 2020/21 this saving has been ringfenced for the community skip trial and climate change initiatives (please see para 20 for more details).

GROWTH PROPOSALS

19. Given the continuing and sustained budget pressures being faced, there is very little scope for continuing growth unless the Council's priorities demand new spending in key areas. A balanced approach needs to be taken to ensure priority issues are achieved.
20. Consequently, six items of revenue budget growth are included within the proposals for 2020/21. The growth items are shown in Appendix 2 for information and have been included within the revenue budget for 2020/21. Details of each growth item can be seen below:
- Repairs & Maintenance Budget Increase – increase to the general repairs & maintenance budget by £25k for 2020/21, with additional £10k increases in 2021/22 and 2022/23. This is required to continue to maintain the Council's large and diverse estate of buildings to keep them in good repair and to be able to carry out further preventative repairs and maintenance where needed

- Restructure within Planning Department – to increase the capacity within the Planning Team at a cost of £29k. This is necessary to enable the Council to support development within the borough.
- Local Development Scheme – please see the report elsewhere on the Agenda
- Community Skip Reintroduction Trial - there is an appetite for the reintroduction of community skips. However, any roll out must (inter alia) take into account the Council's commitment to effectively recycle, LCC's requirements as disposal authority and the stringent requirements of the Council's insurers. The Executive has set aside £25k in the revenue budget for the pilot and requests that the Scrutiny Committee puts forward the parameters of the pilot scheme for consideration by the Executive to ensure that there is cross-party input on the proposal. Consideration shall be given to a permanent scheme following a review of the trial.
- Climate Change Initiatives – The Council is well all aware of the requirements on all stakeholders to ensure that they contribute towards combating the climate crisis. As well as the existing initiatives that the Council has introduced or will be introducing as part of this budget, a further £50k has been set aside towards any in-year proposals that the Executive receive from the Climate Change Working Group which the Executive consider sound.
- Glyphosate Alternatives Trial – please see the report elsewhere on the Agenda.

GREEN INITIATIVES

21. Along with many Councils within the region, this Council has recently declared a climate change emergency and has formed a Climate Change Working Group to help reduce the Councils carbon footprint. Additionally, £50k has been set aside as a growth item for 2020/21 to help fund any climate change initiatives identified by the Climate Change Working Group (see para 20).
22. Although the declaration of a climate change emergency is a recent development, this Council has had in place long established initiatives to help mitigate the impact on the environment. An overview of these schemes is detailed below:
 - Woodland Creation & Management – over the last 25 years the Council's Forest of Burnley project has planted more than 1 million woodland trees, creating over 500 hectares of new woodland which has doubled the area of woodland in the borough and is absorbing an average of 2,000 tonnes of CO2 per year. The Council is continuing to support tree planting in the borough such as the recent 'Big Plant' at which more than 80 local volunteers planted 1,200 trees in Brun Valley Forest Park.
 - Meadow Management - as part of the Council's 'Rethinking Parks' programme, 76 hectares of formerly frequently mown amenity grassland is now being managed as urban wildflower meadows. This has saved 17 tonnes of CO2 emissions per year and has created valuable new habitat for wildlife. It also eases the pressure on the Council's resources and helps save money. Altogether, 40% of Burnley's open space is now being managed as low intensity, semi-natural greenspace in the form of woodlands and meadow.
 - Perennial Planting - the Council is reducing areas of annual bedding plant displays in parks and replacing them with sustainable, wildlife friendly flowering perennials. This saves on the CO2 emissions produced by growing bedding plants in heated green houses and also through transporting bedding plants from growers to Burnley. It also reduces costs and enhances biodiversity.

- Electric Park - the Council is working towards Thompson Park being the first “electric park” in Burnley, with all the park-based machinery such as mowers, strimmer’s, hedge cutters, and utility vehicles being electrically operated.
- Electric Vehicles - 7 diesel vans have recently been sold and replaced by 5 electric vans, with plans to replace a further 3 diesel vans. This will save an estimated 20.2 tonnes of CO2 per year. Electric bikes are also being used by Green Spaces office-based staff, which saves time, improves their health and well-being and saves 1 tonne of CO2 per year.
- Recycling Rounds - 4 weekly recycling collections have recently been introduced for 22,000 properties across the borough. This has significantly reduced mileage incurred and an estimated 310 tonnes of CO2 per year.
- Reducing energy consumption within Council buildings – a Solar Panel system is in place at the Parker Lane office and LED upgrades are ongoing at the Town Hall, St. Peters Centre, The Mechanics and Parker Lane Offices. Inverters have been installed at the boroughs Leisure Centres to reduce electricity consumption along with some general house-keeping measures, for example, reducing heating temperatures and fitting occupancy sensors for lighting.

23. The Council will continue to explore options for further improvements with a recent example being the planned installation of Voltage Power Optimisation across all the council run sites. This is estimated to reduce energy costs by £12,500 per year and reduce CO2 emissions by 55 tonnes a year. The initial capital outlay of £69,000 will be repaid within 5.5 years, will reduce pressure on revenue budgets and contribute to reducing the carbon footprint of our business operations.

COUNCIL TAX

24. The proposals in this paper assume that the Council’s Band D council tax will increase by 1.99% from the 2019/20 level of £300.22 to £306.19. This level of charge will yield an estimated total income of £7,159,947.
25. Guidance has been received from central government on the criteria for council tax increases that would trigger a local referendum. This guidance indicates that “if an authority’s relevant basic amount of council tax is excessive a referendum must be held in relation to that amount”. For 2020/21, the relevant basic amount of council tax of a shire district Council is excessive if the authority’s relevant basic amount of council tax for 2020/21 is 2%, or more than 2%, greater than its relevant basic amount of council tax for 2019/20.
26. The financial impact each year of not increasing Council Tax at all is an additional pressure of around £140k, assuming a 1.99% rise is foregone.

COUNCIL TAX PREMIUM

27. Under government proposals that came into force for 2012/13, designed to get long term empty properties back into use, the Council chose to apply a 50% empty homes premium to properties empty and unfurnished for over two years. This meant that the owner would need to pay 150% of the annual Council Tax charge. Updated Government proposals give the freedom to Councils to extend this to 100% from 2019/20, meaning the owner would need to pay 200%.

28. Government have also given further discretion to Councils from 2020/21 (200% premium for properties empty for 5 – 10 years) and 2021/22 (300% premium for properties empty for 10 years plus). As of June 2019, there were 409 properties which were attracting the 100% premium, which was introduced in April 2019. The April 2020 change would mean that of those dwellings, 180 properties would attract a 200% charge. The April 2021 change would increase the charge for 46 properties to 300%. Based on these figures, the combined financial impact would be an additional £289k in debt, of which approximately £46k would be due to Burnley. There is, however, a marked decrease in collection rates of council tax with Premiums, which significantly reduces the percentage collected. However, the utilisation of the premium is intended to bring empty homes back into use rather than generate revenue.
29. A report was received by Full Council in September 2019 recommending that the Council adopts these premiums. A motion was proposed at that time that any additional revenue generated through these premiums be ring fenced against any revenue pressure that the proposal could create, and that a statutory consultation of the Local Council Tax Support Scheme be undertaken, to consider reducing the minimum payment for working age claimants from 17.5% to 15% over a 2 year period (1.5% in 2020/21 and 1% in 2021/22). A separate report on the consultation is presented to Members elsewhere on the agenda.

BUSINESS RATES

30. The expected amount of business rates to assist in funding the Council's spending next year is included as part of the Government's 2020/21 funding provisional settlement. The figure announced is £4.265m. The table at paragraph 12 above shows that it is expected that the Council will receive Business Rates in excess of the announced figure – an extra £1.219m.
31. The indicative figure from the Government for business rates relates to the system of business rates retention involving a distribution of rates collected to the Council, the County Council, the Combined Fire Authority and Central Government. Some elements of business rates are however fully credited to this Council. One element of business rates which falls within this category is sustainable energy. A sum of £248k is estimated to be receivable next year in respect of sustainable energy business rates which are a significant factor in balancing the revenue budget in 2020/21 and future years. This is an increase of £9k to the figure received in 2019/20.
32. Any excess Business Rates are subject to a Government levy which substantially reduces the amount due to the Council. The levy calculation is adjusted for any section 31 grants, received by the Council arising from the reliefs announced by the Government during the Spring and Autumn Budgets, and for any local discretionary reliefs granted under section 47 powers. During 2019/20 the Council was a member of the Lancashire Business Rates Pool as part of its 75% retention Pilot scheme for 2019/20 only. As a consequence of this and of currently being part of a pool, the levy that the Council would previously have had to pay to Central Government was retained locally. The 75% pilot scheme is due to end 31st March 2020. Members of the pool have lobbied central government requesting that the pilot scheme be allowed to continue during the 2020/21, however the request was declined. Therefore for 2020/21 Burnley reverts to a similar Lancashire 50% pooling arrangement than in 2018/19 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. The Lancashire application sets out what the tier splits would be for each member.

33. As part of the ongoing consultation around the new business rate retention proposals, the Government is proposing a reset, or partial reset, of the amount of Business Rates each Council expects to receive. A reset would mean that any previous growth in business rate income above the expected amount, achieved under the existing system, would be lost. This would mean an additional pressure on Council's that had used any excess Business Rates income when balancing their annual budgets. It is expected that the new system of accounting for Business Rates will come into effect in 2021. However, details at this stage of how funding will affect Burnley Council is not yet known.

COLLECTION FUND SURPLUS

34. Council Tax Element

A surplus or deficit can arise for two reasons, namely:

- i) The Council's share of a variation in the amount of Council tax that is actually due and charged for the year in question compared with the figure assessed when the Council tax base for the year is calculated.
- ii) The Council's share of a variation in the amount that needs to be provided for taxes that the Council is unable to recover in each financial year.

This year's calculation has produced an overall surplus figure of £267k of which this Council's share is £42k which is 15.7% as a proportion of the overall total.

35. NNDR Element

A surplus or deficit can arise for three reasons, namely:

- i) NNDR base is larger or smaller than originally anticipated (reasons include properties coming on and off the valuation list (e.g. as a result of redevelopments), appeals by businesses to rating valuations.
- ii) In year collection rates are higher or lower than expected,
- iii) Arrears collection rates are higher or lower than expected

This year's calculation has produced a surplus figure for this Council of £259k.

COMMERCIAL STRATEGY & FEES AND CHARGES

36. The Council has developed and approved a commercial strategy. This is intended to promote a more commercial approach to the Council's business and finances and reflects the changed environment in which the Council now operates with the establishment of major contracts for service delivery including the strategic partnership with Liberata. Part of this commercial approach is linked to maximising where possible the income which the Council receives from fees and charges. Further work will be undertaken in 2020/21 in this area.

37. During the budget process, it has been assumed that income budgets would increase in 2020/21 reflecting a corresponding increase, where practicable, in fees and charges levied. Heads of Service were therefore asked to review their fees and charges in the context of an assumed minimum overall increase of 2% in income generated except in areas where it was considered that no increase should take place. It was decided that the increase should take effect from 1st January 2020 as has been the case previously. The tariff of fees and charges mainly effective from 1st January 2020 was approved by Full Council on 18th December 2019. The estimated additional increase in income in 2020/21 as a consequence of the approved increases is £36k and forms part of the overall savings approved in September 2019 to balance the budget.

PENSIONS

38. Burnley Borough Council is a member of the Lancashire County Pension Fund on behalf of former, current and future employees. Both employees and the employer make payments to the fund on a payroll basis, for employees who are in the scheme. The Council additionally makes annual payments to contribute towards the deficit the fund has (with regards to the Burnley element of the fund), when comparing the money paid out to scheme members versus money coming into the fund, which is evaluated on a per authority basis.
39. Every 3 years the Pension Fund revalues the assets and liabilities of the fund on a per-authority basis so that contribution and deficit payment rates are updated to ensure the fund is sustainable for each local authority.
40. Provisional results have been revealed from the 2019 Actuarial Valuation exercise. It is important to note that these results remain provisional until finalised results are given to authorities in March 2020, which will ascertain the payments required from the Council for the financial years 2020/21 to 2023/24. As the budget setting process for this Council is in February 2020, assumptions are made based on the provisional results.
41. The 2022 revaluation will determine payments for the 3 years after this period and so on.
42. As a result of the 2019 preliminary valuation results, from 2020/21 the Council's Future Service Contribution Rate (employers pension contribution rate) will be increasing from 15.4% to 17.6%. The financial impact of this will be £132k, annually. This is set by the fund at a rate that is being sufficient to meet the cost of new benefits being accrued by active members in the future.
43. Deficit is the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions as described above). The amount of deficit is described by a cash value with a target length of time over which the current deficit is intended to be paid off (deficit recovery period). A shorter period will give rise to a higher annual contribution, and vice versa.
44. For the 2019 valuation, the assessed deficit payment for the Council has significantly decreased which will mean a reduction in the annual pensions budget of £1.071m, due to the positive performance of the fund and changes in some actuarial assumptions.
45. This reduction will be used to cover the increased Service Contribution Rate, as set out above, as well as fund some of the cost pressures identified in the revenue budget

(£319k). Increased contributions relating to the Liberata and Burnley Leisure schemes (see below) will also be funded from this reduction.

46. However, there is also a need to manage the inherent risks that Burnley face in the pension fund.
47. Investment returns can be volatile and any reduction in performance of the fund in the next three years will result in a reduction in valuation of the Council's assets in the Pension Fund, thereby potentially requiring a greater contribution in service rate and deficit payments from the next valuation in 2022, which would have to be funded by the Council for the 3 years from 2023/24 onwards. Changes in assumptions made by the actuaries from each valuation period can also have an effect on the scheme, both positive and negative, depending on the type of change.
48. Burnley is particularly sensitive to volatility of returns due to the value of its assets and liabilities in the fund in comparison to the value of Burnley's current contributors to the fund (current payroll), which is 25 times smaller than its liabilities.
49. This makes the Council vulnerable to relatively minor changes as it has a limited contribution base compared to its assets.
50. For example, if the pension fund's assets underperformed by 5% at the 2019 actuarial valuation, this reduction in the value of Burnley's share of assets in the fund would have required an additional £600k of annual revenue funding from the current provisional 2019 valuation. Although this could vary depending on a number of factors. This is illustrated in the table below:-

2019 provisional actuarial valuation sensitivity analysis		
	Base as per 2019 valuation	Assets underperform by 5%
Assets (£m)	146.2	138.9
Liabilities (£m)	150.7	150.7
Surplus / (Deficit) (£m)	(4.5)	(11.8)
Pay (£m)	6.0	6.0
Recovery period (yrs.)	16	16
"Maturity" (liabilities/pay)	25	25
Deficit Contributions (£m)	0.29	0.74
As a % of payroll	5%	12%
Increase	n/a	7%

51. This shows that if there was an underperformance of the fund over the next valuation cycle, there would be a considerable change in deficit payments required at the next valuation, circa £0.45m annually, and would be potentially greater if assets underperformed by more than 5%. It should be noted this is an illustrative example to show the relationship between the different elements of the fund profile.
52. Therefore, in partial mitigation, additional voluntary payments will be made to the fund, with a view to increase the Council's assets in the fund and correspondingly enhancing returns. The overpayments will be funded from the reduction in deficit payments over the next 3 years, with the amount to be pre-paid assessed annually for the next 3 years.
53. These overpayments will be funded from a newly established pensions reserve, where a forecast balance of £476k will be placed into it annually over the next three years, funded from the reduction in assessed deficit payments. Any residual balance as at the end of this three-year period will contribute to some smoothing of any future increases in payment rates, assessed as part of the 2022 valuation exercise. For example, if there is an adverse funding valuation in 2022, the pensions reserve balance that is left will serve as a contribution to some of the increase in 2023/24 to allow the Council to plan to fund the increases for the subsequent years.
54. This balanced approach gives flexibility to increase the Council's assets in the fund and mitigate some of the risk around volatility of performance as well as treating the Council's structural exposure. The Council has a responsibility for sustainable pensions for its members.
55. Through assessing levels of overpayments over the next three years annually, the approach also allows the Council to be mindful of the funding environment it operates within. Therefore, if there is an adverse funding settlement as part of the Fair Funding review of local government funding or other significant financial challenges that present themselves, this approach gives flexibility for the Council to maintain financial resilience to meet its challenges.
56. It should be noted that it is likely that any significant volatility of the fund's performance would have a material impact on the Council's finances, even with the actions taken as per above.
57. The Council intends to prepay the 3-year deficit payment up front and the service contribution rate payments annually up-front, as it has done over the previous 3 years, which is forecast to provide an annual saving of £23k over and above what would be paid if paid annually as per this valuation, which is net of lost interest income.
58. Further uncertainty exists around public sector pension schemes nationally after the Government announced in 2019 that they accepted a judgement that applies to all of the main public service pension schemes, known as 'The McCloud Judgement'. This judgement was based around transitional protections afforded to older members of schemes which were ruled unlawfully age discriminatory. It will be several years before the impacts of this ruling will be known, with regards to increased liabilities for pension funds. However, current actuarial valuations have included some assumptions around this, although the true financial impact won't be known for some time.

59. Performance of the fund is monitored annually and any further action that is required will be reported back, along with financial implications.

Liberata and Burnley Leisure

60. Liberata are members of the fund also, on behalf of those employees that TUPE'd over at the start of the Strategic Partnership in 2016. Contractually, the Council is liable for changes in their liabilities with regard to contribution rates for those employees. The change at this valuation is provisionally assessed at a maximum increase of £79k annually over the next cycle. This will be built into uplifts of contractual payments.
61. Burnley Leisure are also fund members. However, they have seen a provisional increase in payments of £65k from 2020/21. The Council will cover the cost of the increase in rates in accordance with the Agreement. The maximum liability would be £65k annually for the next 3 years.

Provisional valuations to be finalised

62. It should be emphasised that at this stage all figures and valuations are provisional. The Pension Fund will finalise valuations and rates at some point in March 2020, after which the final financial implications will be known.

STRATEGIC EARMARKED RESERVES AND GENERAL FUND RESERVE

63. It is important that, when considering the Revenue Budget, due consideration is given to the levels of strategic earmarked reserves that are available and held for future liabilities. The General Fund reserve is held to provide a working balance to help cushion the impact of unexpected emergencies and uneven cash flow.
64. The table below shows the anticipated use of strategic reserves for 2019/20 and later years. The overall forecast position on reserves is shown in the table below. This includes all strategic earmarked and general reserves. The forecast below includes current approved and future commitments, future anticipated spend and future anticipated income into the reserves. This table excludes any reserves held for specific operational reasons:

	Strategic Earmarked Reserves £'000	General Fund Reserve £'000	Revenue Support Reserve £'000	Total £'000
Balance as at 01/04/19	3,537	1,379	304	5,220
Approved use to Q3 2019/20	576	0	100	676
Balance available after approvals as at Q3	4,113	1,379	404	5,896
Future commitments and risk	(3,604)	0	1,001	(2,603)
Balance remaining as at 31/03/25	509	1,379	1,405	3,293

65. 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, 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. There is a 10-year programme to build-up this reserve from the General Fund. However, for clarity only 5 years of this programme is shown in the above table to align with the timeframe of this MTFS.

RISK ASSESSMENT

66. A risk assessment has been carried out on key areas of income and expenditure and ways of monitoring and mitigating the risk have been identified where possible.
67. As reported to Full Council in December 2018 this Authority commissioned two significant capital projects, namely the Pioneer Place development and the Sandygate Square Student Accommodation scheme. The Student Accommodation development is now underway and is expected to open in time for the 2020/21 academic year. This scheme has been incorporated into the MTFS. Both of these schemes represent significant long-term costs for the Council and will require a material amount of borrowing over 30 to 50 years, with payback dependent on the success of the schemes. This carries significant financial risk for the authority and is an important element of the financial horizon of this Council. As part of mitigation strategies for these schemes a revenue support reserve has been set up with ongoing budget commitment to build up a balance over 10 years to somewhat protect the Council from shortfalls in income relating to this scheme or generally to support and budgetary shortfalls. It should be noted however that before the Pioneer Place construction commences the scheme requires:
- 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.
68. Any additional capital project 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.
69. An important issue to consider is the extent to which the Council will be utilising earmarked reserves and non-recurring income when setting the budget. Initiatives that are to be funded from earmarked reserves do not have assumed ongoing funding and the Council must therefore plan in future years to discontinue these activities or approve growth if they are to continue. The latter course of action would add to the savings requirement. It is not considered that the extent of funding from earmarked reserves factored into the 2020/21 revenue budget is unduly onerous and the levels of reserves forecast will be sufficient in accordance with the medium-term financial strategy (MTFS).
70. 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.
71. 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 proposed for 2020/21 will be delayed to 2021/22 with a one-year spending round to be carried out for 2020/21.
72. Declining levels of income also continue to be a significant risk area and although substantial reductions in income receivable have been made to reflect current economic conditions there may be a further decrease in income levels supporting the revenue budget. This will be closely monitored as part of budget monitoring for 2020/21.
73. Pay inflation has been increased by 2.5% in 2020/21 and future years, however as pay negotiations are currently ongoing and not expected to be finalised prior to the start of the 2020/21 financial year, the actual increase may differ to that estimate. A +/-1% fluctuation in the pay award will equate to +/- £80k. There is little price inflation included within the estimates for non-salary budgets. However, general levels of inflation as measured in the retail prices index and the consumer prices index will increase in the future and this may lead to demands for higher pay and an increase in the prices of goods and services which the Council has to meet. The risk of any increase in inflation is considered likely in the existing climate and will be closely monitored.
74. Interest rates have been at a historical low for the last few years. Due to the uncertainty of Brexit and the wider economy it is unclear what the future projections are regarding future movements in the base rate. Additionally, On 9 October 2019 the Treasury and PWLB announced an increase in the borrowing rate of 1%. This authority had undertaken borrowing prior to this date from the PWLB. The impact of this as well as any increases to the Bank of England base rate would have implications on the Council's revenue budget in

future years where there is a requirement to finance future capital schemes from borrowing.

75. Significant savings have been achieved by operating the Council's leisure services as a charitable company but there are however risks in the operation of the Trust and the assumptions made in terms of the management fee paid by the Council to the Trust. To ensure that risk is minimised there will continue to be regular monitoring of activity and financial performance in 2020/21 and beyond.
76. The Council entered into a contract with Liberata as our external service provider for around a third of Council services from 1st January 2016. The financial planning assumptions provided for a significant saving on previous in-house provision. It will be necessary to ensure that these savings are being delivered whilst maintaining service quality and standards. Procedures have been drawn up to enable the partnership to operate effectively. Nevertheless, this is a significant savings area which is currently and will continue to be, actively managed.
77. 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 future years budgets.
78. In summary, after taking consideration of the issues in this report and the risks referred to above, the 2020/21 revenue budget may be approved. Also, the assumed level of Council Tax that should be set in order to achieve a balanced budget as set out above should be confirmed.
79. The final decision that Members of the Council take will need to reflect the statutory (Section 25) report of the Chief Finance Officer as to the robustness of the assumptions that have been made in compiling the budget.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

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

POLICY IMPLICATIONS

81. The revenue budget determines the extent to which the Council's strategic objectives can be pursued and achieved.
82. Community Impact Assessment and Equality Impact Assessments have been completed for the additional savings proposals that are contained within Appendix 3. The Assessments are included as Appendix 4.

DETAILS OF CONSULTATION

83. None.

BACKGROUND PAPERS

84. None.

FURTHER INFORMATION

PLEASE CONTACT:

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Property**

ALSO:

Amy Johnson – Principal Accountant