

REPORT TO THE EXECUTIVE



DATE	22 September 2021
PORTFOLIO	Resources and Performance Management
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Revenue Budgets 2022/2025 – Latest Position and Savings Proposals

PURPOSE

1. To update The Executive on the latest position regarding balancing the Council's 2022/25 revenue budgets.
2. To outline proposed savings for recommendation to Full Council.

RECOMMENDATION

3. The Executive are asked to recommend to Full Council the proposed savings totalling £139k to assist in balancing the 2022/23 revenue budget - see Appendix 1.

REASONS FOR RECOMMENDATION

4. To progress the preparation of the Council's 2022/23 revenue budgets.

SUMMARY OF KEY POINTS

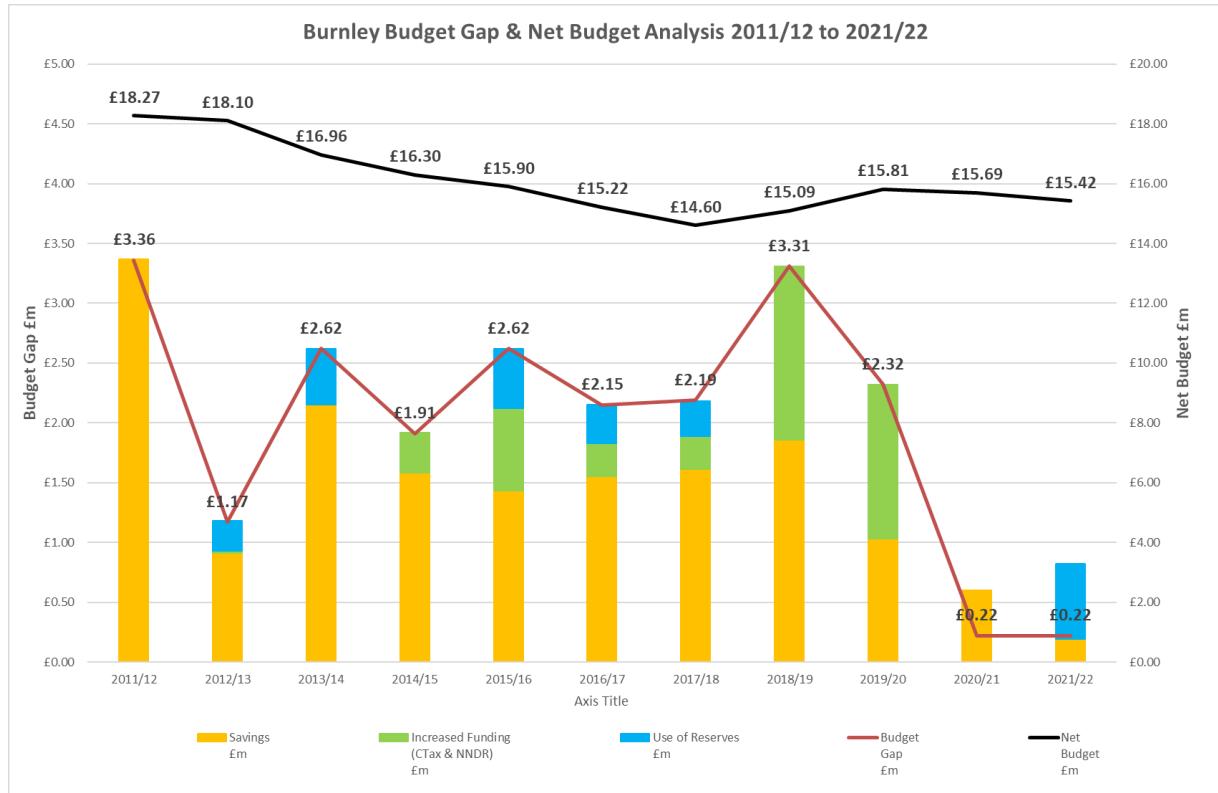
5. **Background**

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 the latest MTFS was considered and approved by Full Council in February 2021. The MTFS is a key component of the Council's strategic planning process, aligning resources to service priorities and providing early identification of requirements for efficiency and cost improvement programmes. The MTFS provides an overarching framework for, and context to, the preparation of the annual budget. It provides an indicative headline position of the overall financial

health of the Council, providing early sight of issues for full consideration by the Council and Executive.

Since 2010 the Government has reduced settlement funding for Local Government, with the Council's settlement funding reducing 60% (£10m) from 2010 to 2022. During this period of austerity, to balance the budget the Council has delivered savings of £16.82m, as shown below:



6. MTFS Position as at February 2021

The 2022/26 strategy was approved at the meeting of Full Council on 24 February 2021 and indicated that the cumulative budget gap for 2022/23, 2023/24 and 2024/25 was estimated to be £2.93m, equivalent to 19.2% of the 2021/22 net revenue budget of £15.25m (£15.42m including parish precepts).

The Council's MTFS for 2022/26 reported in February 2021 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 2021

MTFS	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Continuation estimate	0.6	0.6	0.5	1.7
Funding	0.1	0.5	0.6	1.2
Budget Gap	0.7	1.1	1.1	2.9

The assumptions underpinning the figures above are as follows:

- i) Council tax will increase by 1.99% each year;

- ii) No changes have been assumed regarding changes in Council Tax Support numbers;
- iii) No increase has been factored in for inflationary changes in business rates or additional new homes bonus;
- iv) An assumed decrease of 2% in the core spending power for 2022/23 to 2024/25;
- v) We are currently members of the Lancashire Business Rates Pool which is a 50% retention scheme. It is unclear at this stage whether the Government will extend the scheme to 2022/23 onwards, however it has been assumed that we will continue to be members and benefit from the scheme;
- vi) Pay award has been assumed at 2.5% per annum;
- vii) Fees and charges at 2% per annum;
- viii) Contractual and general inflationary increases of 3%;

7. Revised MTFS Position as at September 2021

The MTFS is a fluid document which is regularly reviewed and assessed. The latest review has resulted in a number of small changes but with no overall change to the estimated budget gap as previously reported in February 2021. The cumulative budget gap is estimated to be £2.87m, equal to 18.8% of the 2021/22 revenue budget.

Prior to 2021/22, 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. This was amended for 2021/22 following the impact of Covid-19 pandemic on local authority finances, with the Government announcing that for 2021/22 no local authority will have a core spending power less than in 2020/21. 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, however this has been delayed until 2022/23 but more likely won't happen until 2023/24.

During 2021/22, the Government have stated that they intended to announce a multi-year finance settlement that would provide local authorities with some certainty of funding over the medium-term. However, due to the late stages of the current financial year it has been assumed that there will be a one-year finance settlement in 2022/23 with a 2% reduction in funding. Whilst at present this appears to be the most likely outcome, this assumption is uncertain, and a further update will be reported in February 2022.

The latest estimate of the budget gap for the period 2022/25 can be seen below:

Table 2: MTFS position before saving proposals as at September 2021

MTFS	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Continuation estimate	0.6	0.6	0.5	1.7
Funding	0.1	0.5	0.6	1.2
Budget Gap	0.7	1.1	1.1	2.9

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

- i) Council tax will increase by 1.99% each year;
- ii) No changes have been assumed regarding changes in Council Tax Support numbers.
- iii) No increase has been factored in for inflationary changes in business rates or additional new homes bonus;
- iv) An assumed decrease of 2% in the core spending power for 2022/23 to 2024/25;
- v) We are currently members of the Lancashire Business Rates Pool which is a 50% retention scheme. It is unclear at this stage whether the Government will extend the scheme to 2022/23 onwards, however it has been assumed that we will continue to be members and benefit from the scheme;
- vi) Pay award has been assumed at 2.5% per annum;
- vii) Fees and charges at 2% per annum;
- viii) 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 £139k for 2022/23. The savings for 2022/23 include £14k of proposed reductions in posts, relating to a flexible retirement. Pension strain costs of £55k will be met from savings within the 2021/22 financial year or from the Transformation Reserve if there are insufficient savings generated during the year.

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 2022/25 Revenue Budget Position**

It can be seen in the table 2 at paragraph 7 above that there is an overall savings requirement of £2.87m over the period 2022/25.

The savings recommended for approval in Appendix 1 total £139k which leaves a balance of savings required over the period 2022/25 at this stage of £2.73m, as shown in table 3 below.

The budget gap of £2.73m is based on a 2% reduction of Core Spending Power in each year, however table 3 also demonstrates how the budget gap could change should the government agree to either a 0% (£2.05m) or 4% (£3.64m) reduction of Core Spending Power.

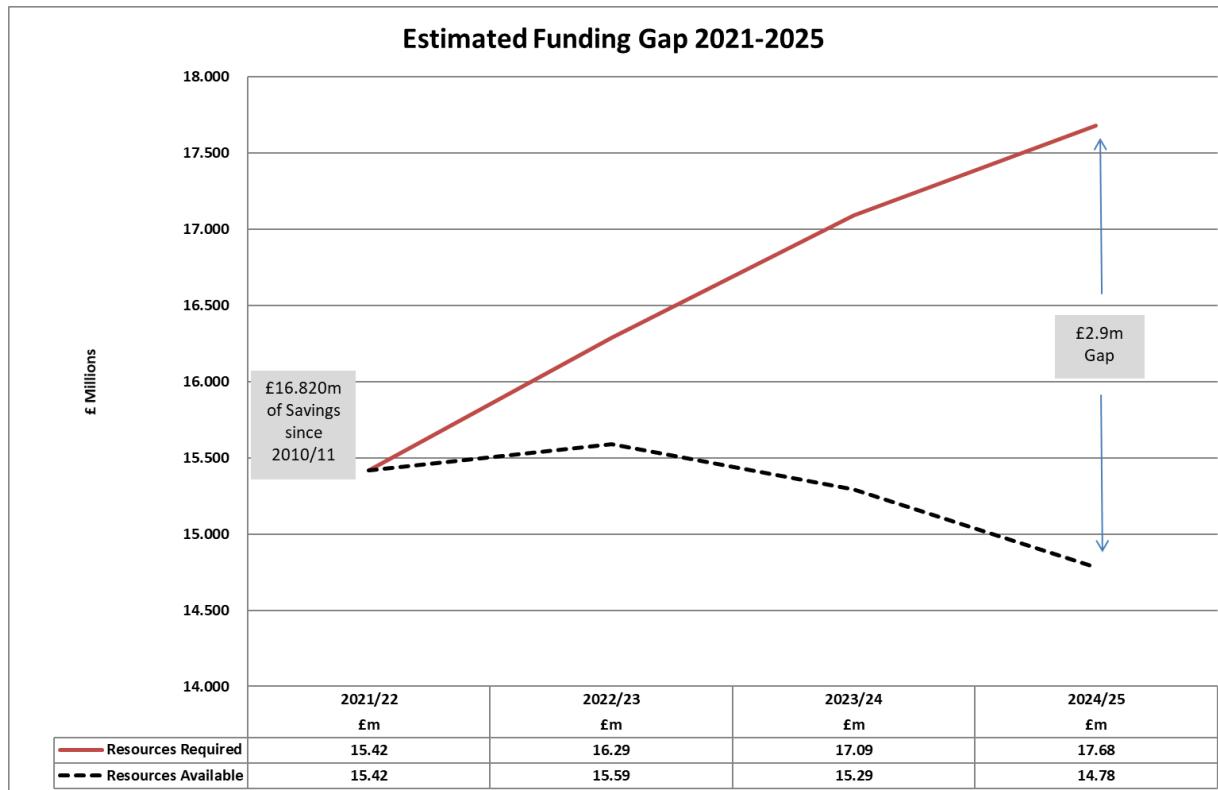
Table 3: MTFS position after savings proposals as at September 2021

MTFS	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Continuation estimate	0.6	0.6	0.5	1.7
Funding	0.1	0.4	0.6	1.1
Savings	(0.1)	0	0	(0.1)
Budget Gap	0.6	1.0	1.1	2.7
2022/25 Funding Scenarios				
Funding - 0% reduction in core spending power	(0.1)	(0.2)	(0.3)	(0.6)
Budget Gap	0.5	0.8	0.8	2.1
Funding - 4% reduction in core spending power	0.4	0.3	0.2	0.9
Budget Gap	1.0	1.3	1.3	3.6

Budget gaps of £0.6m for 2022/23, £1.0m for 2023/24 and £1.1m for 2024/25 remain.

Proposals to meet the 2022/23 balance of savings required will be taken to Full Council for approval in February 2022.

The chart below shows the estimated budget gap between the councils spend requirement and assumed funding over the period 2021/25:



Risks and Sensitivity

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

Assumption	Sensitivity Analysis	2022/23 Financial Impact
Council tax will increase by 1.99% each year	+/- 1%	+/- £73k
An increase to the council tax base of 0.25%	+/- 0.25%	+/- £19k
Pay award has been assumed at 2.5% per annum (Burnley BC, Liberata, Burnley Leisure & Urbaser)	+ 1%	+ £85k
Contractual and general inflationary increases of 3%	+ 1%	+ £62k

- 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 has consulted on revisions to the methodology for allocating funding to Councils and was due to be implemented from 2020/21 onwards, this includes changes to the current business rates system together with a Fair Funding Review. However, the

Government has recently announced that the spending review will be further delayed until 2022/23 but is more likely to be 2023/24.

- b) Salary costs – the National Employers have made an improved final pay offer to the unions representing the main local government NJC workforce of 1.75% on all NJC pay points 2 and above in 2021/22. This offer has yet to be agreed by the unions. An annual pay increase of 2.5% has been factored into the budget assumptions underpinning the MTFS for 2022/23 and future years. To give an indication of the financial impact of any change, a 1% increase to current pay scales equates to £116k. Any increase in the pay award relates to Burnley BC together with the Burnley Leisure, Urbaser and Liberata contracts.
- c) 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 increase the impact on the revenue budget. The revenue implications will be considered as part of the monitoring of the Capital Programme.
- d) Major capital schemes –these schemes represent significant long-term costs for the Council and will require a significant amount of borrowing over 30 to 50 years, with payback 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. Detailed financial models and due diligence have been undertaken for both of these schemes and have been regularly reviewed and updated, and will continue to do so throughout the life of these schemes.
- e) Budget preparation – The preparation of the 2022/23 continuation budget is currently being undertaken. Issues may arise from the exercise that could have an impact on the 2022/23 budget and future years.
- f) 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.
- g) Interest rates – Interest rates have been at a historical low for the last few years. Due to the uncertainty of inflation due to the impacts of the Covid-19 pandemic and 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.
- h) Covid-19 – Uncertainty around the financial implications of the Covid-19 pandemic on the impact on the UK economy. Especially around interest rates, the level of fees, sales and charges, the local economy and further spending pressures which may have an impact on the 2022/23 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. None

BACKGROUND PAPERS

14. None

FURTHER INFORMATION

PLEASE CONTACT:

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ALSO:

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