

REPORT TO THE EXECUTIVE



DATE	14th February 2022
PORTFOLIO	Resources & Performance Management
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Revenue Budget 2022/23

PURPOSE

1. To consider the estimates of revenue income and expenditure for 2022/23 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 2022/23;
- ii) Approve the proposals contained in this report;
- iii) Set a Council Tax Requirement of £7,480,375 for the financial year 2022/23;
- iv) Set a Net Budget Requirement of £15,231,941 for 2022/23;
- 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 2022/23 budget;
- vii) Approve a Council Tax (Band D) figure of £318.49 for this Council for the year commencing 1st April 2022 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 2022/23 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 2022/23. 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 2022/23
Appendix 2	Growth
Appendix 3	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 8th December 2021.
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 2022/23

12. The proposed net revenue budget for 2022/23 is as set out in the table below:

SUMMARY OF THE REVENUE BUDGET POSITION 2022/23		
Net Revenue Budget - original 2021/22		15,419
Savings approved at previous Council Meetings		(139)
Proposed Growth - Appendix 2		279
Additional Savings Identified - Appendix 3		(750)
Increased utilities expenditure		260
1.25% increase to National Insurance Rate		51
Pay Award 2021/22 (assuming 1.75% is agreed)		17
Contractual inflation		58
Salary inflation		210
Additional Fees & Charges income generation		(66)
Movements in Earmarked Reserves		(274)
Parish Precepts*		166
Net Budget Requirement		15,231
<u>Government Settlement Funding Assessment</u>		
Revenue Support Grant		1,700
Business Rates Baseline		4,265
New Homes Bonus		576
Council Tax Yield		7,481
Collection Fund Deficit - Council Tax		(10)
Collection Fund Deficit - NNDR		(1,251)
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
Business Rates Multiplier Inflation Cap		351
Lower Tier Services Grant		192
2022/23 Service Grant		294
		15,231

- * Please note that the Parish Precept figure is provisional. Any changes to this figure will not affect the Net Budget Requirement of the Council as the council acts as an agent in collecting the precept income and distributing it to Parish Councils.

13. **LOCAL GOVERNMENT PROVISIONAL SETTLEMENT**

The local government provisional settlement was announced in December 2021 and is likely to be confirmed February 2022. 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 5.9% in 2022/23 (2.6% increase in 2021/22). This compares to an England average of 6.9%.
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. The Council was a member of the 50% Lancashire Business Rate Pool in 2021/22 and will continue to be a member in 2022/23.
14. New Homes Bonus
In the 2017/18 finance settlement the Government reduced the funding period for NHB from six years to five years 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 2022/23.
16. As announced in the 2020/21 finance settlement, the New Homes Bonus allocation for 2020/21 was for one year only, rather than for a period of four years. This change in policy has remained unchanged for 2021/22 and 2022/23, with the 2021/22 and 2022/23 allocations being for one year only also. The Council has been allocated £576k for 2022/23.

BUDGET SAVINGS IDENTIFIED

17. Following the announcement of the provisional local government finance settlement for 2022/23 further budget savings have, as is usual, been identified. The additional savings required is £750k which has been met by removing the annual contribution to the Transformation Reserve. The Council previously contributed £750k each year to this reserve to provide sufficient levels of reserve to meet the upfront revenue costs of the Pioneer Place scheme.

It is expected the final finance settlement for 2022/23 will be announced by Government in February 2022.

GROWTH

18. 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.
19. Consequently, ten items of revenue budget growth are included within the proposals for 2022/23. The growth items are shown in Appendix 2 for information and have been included within the revenue budget for 2022/23. Details of each growth item can be seen below:
 - Maintaining a clean, safe, attractive, and environmentally friendly borough: To introduce a one-year budget of £140k to implement a range of initiatives to maintain

a clean, safe, attractive, and environmentally friendly borough. This will include community engagement, enforcement and cleansing in 'hotspot' areas.

- Climate Change – the Council is well all aware of the requirements on all stakeholders to ensure that they contribute towards combating the climate crisis. A new post is to be created at a cost of £51k to help progress the Councils contribution towards combating the climate crisis.
- Lancashire County Deal – Contribution from the Council to support the Policy Working Group to develop and negotiate a County Deal. Such support is likely to include, project management, legal, finance and policy support. A growth item of £23k is requested for this purpose.
- Legal Services Agency Costs – the agency budget for Legal Services was previously offered as a budget saving, however due to difficulties in recruiting permanent members of staff the Council is increasingly having to rely on agency employees. A budget growth of £20k is requested.
- Principal Legal Officer – it is proposed to increase the working hours of the vacant Principal Legal Officer from 29 hours per week to 36.25 hours at a cost of £10k to assist with recruitment and also workload demands.
- Green Spaces Tractor Hire – the Council currently hires 3 x tractors per annum, however the current budget is not sufficient to cover the hire costs. Growth of £9k requested.
- Civica Hosting and Licensing Fees – additional fees £7k due to the purchase of additional modules to ensure compliance.
- Green Spaces Development Budget: to introduce a one- off budget of £7k for various Green Spaces development schemes.
- Public Convenience Cleaning Contract – increase to annual contract costs of £6K due to an increase in the number of public conveniences included within the contract and also additional costs relating to PPE required as a result of Covid-19.
- Bowling Green Maintenance Material Costs – increase to the general material costs by £5k for 2022/23. This is required to continue to maintain the Council's bowling greens.

COUNCIL TAX

20. The proposals in this paper assume that the Council's Band D council tax will increase by 1.99% from the 2021/22 level of £312.28 to £318.49. This level of charge will yield an estimated total income of £7,480,375.
21. 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 2022/23, 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 2022/23 is 2%, or more than 2%, greater than its relevant basic amount of council tax for 2021/22.
22. The financial impact each year of not increasing Council Tax at all is an additional pressure of around £145k, assuming a 1.99% rise is foregone. Over the five-year Medium Term Financial Strategy period this would result in loss of income of £725k. The increase is required to protect the services provided by the Council, to fund economic and community

recovery initiatives required as a result of Covid-19 and the impact of ongoing financial pressures resulting from the pandemic faced by the Council.

BUSINESS RATES

23. The expected amount of business rates to assist in funding the Council's spending next year is included as part of the Government's 2022/23 funding provisional settlement. The business rates multiplier has been frozen for 2022/23 which means that the three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff/Top Up amounts) remain at 2021/22 levels, which is £4.265m (please see paragraph 29 for further details). It is also expected that the Council will receive Business Rates in excess of the announced figure – an extra £1.219m, as can be seen in the table at paragraph 12.
24. 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 2022/23 and future years. This is the same amount that was received in 2021/22.
25. For 2022/23 Burnley remains a member of the Lancashire Business Rates Pool which was formed in 2020/21 and 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.
26. 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 2023 and will be based on property values as at 1st April 2021. However, details at this stage of how funding will affect Burnley is not yet known.

COLLECTION FUND DEFICIT

27. 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 a surplus deficit figure of £627k of which this Council's share is £95k. This is 15.1% as a proportion of the overall total. However due to a prior year deficit, the total charge for 22/23 is £10k deficit. This takes into account the second year of the three-year spreading of the Covid-19 deficit from 2020/21, which will be met from monies set aside in the Collection Fund Deficit Reserve (approved at Full Council July 2021).

28. **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 an overall deficit figure of £2.615m of which this Council's share is £1.045m. However due to a prior year deficit the total deficit charge for 22/23 is £1.251m. This takes into account the second year of the three-year spreading of the Covid-19 deficit from 2020/21, which will be met from monies set aside in the Collection Fund Deficit Reserve (approved at Full Council July 2021).

BUSINESS RATES UNDER-INDEXING MULTIPLIER GRANT

- 29. As mentioned in paragraph 23, the business rates multiplier has been frozen for 2022/23 remaining at 49.9p which means that the three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff/Top Up amounts) remain at 2021/2 levels (£4.265m). To compensate, the under-indexing multiplier grant has been increased, in order that local authorities do not lose what would have been the increase to the business rate multiplier. The grant awarded to Burnley is £351k.

LOWER TIER SERVICES GRANT

- 30. A new un-ringfenced lower tier services grant of £111m was announced as part of the Spending Review to ensure that no authority has a total Core Spending Power less than in 2021/22. This was announced as a one off grant for 2021/22 year, however due to the delay in the spending Review the grant has been rolled forward to 2022/23. Burnley is to receive £192k. The grant has been allocated using shares of lower tier funding within the 2013/14 Settlement Funding Assessment levels (£91m) along with a funding floor (£21m) to ensure no authority has a total Core Spending Power less than in 2021/22.

2022/23 SERVICES GRANT

- 31. An un-ringfenced grant of £822m to provide funding to all tiers of local government in recognition of the vital services delivered at every level of local government, including funding for local government costs for the increase in employer National Insurance

Contributions has been introduced for 2022/23. Burnley's allocation is £294k. The grant has been allocated using shares of lower tier funding within the 2013/14 Settlement Funding Assessment levels (91) along with a funding floor (£21m) to ensure no authority has a total Core Spending Power less than in 2021/22.

COMMERCIAL STRATEGY & FEES AND CHARGES

32. 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 2022/23 in this area.
33. During the budget process, it has been assumed that income budgets would increase in 2022/23 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. The increase will take effect from 1st April 2022. The tariff of fees and charges mainly effective from 1st April 2022 was approved by Full Council on 8th December 2021. The estimated additional increase in income in 2022/23 as a consequence of the approved increases is £32k.

COVID-19 PANDEMIC

34. The impact of the Covid-19 pandemic on the 2022/23 budget and future years is unknown. The ongoing financial support given to local businesses is helping to support the local economy, however it is unclear what the impact will be once these support packages end. A Covid-19 reserve was set up in 2020/21 using financial support received from Central Government in 2020/21. Members approved in the Revenue Outturn Report at Full Council in July 2021 to transfer £1.6m into this reserve. The reserve has been called upon in 2021/22 to fund related additional expenditure or loss of income and to provide funding for recovery initiatives. New Burdens funding has been received during 2021/22 of £173k, it is proposed to transfer into this reserve. It is forecast that there will be a balance of £1.4m available at the end of 2021/22 for use in 2022/23 and future years.

STRATEGIC EARMARKED RESERVES AND GENERAL FUND RESERVE

35. 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.
36. The table below shows the anticipated use of strategic reserves for 2022/23 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 01/04/21	3,531	1,379	564	5,474
Approved use to Q3 2021/22	1	0	157	158
Balance available after approvals as at Q3	3,532	1,379	721	5,632
Future commitments and risk	(2,726)	0	1,167	(1,559)
Balance remaining as at 31/03/27	806	1,379	1,888	4,073

37. 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

38. 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.
39. During 2021/22 the Council commissioned two significant capital projects, namely Pioneer Place and the acquisition of Charter Walk. Pioneer Place was initially reported to Full Council in December 2018, with revised schemes approved by Full Council in November 2020 and October 2021. The Development Agreement went unconditional in December 2021 and work is due to commence on site 24 January 2022. The acquisition of Charter Walk was approved by Full Council in July 2021 and the sale was completed in October 2021. The revenue costs for both of these schemes have been incorporated into the MTFS. Both of 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). The schemes will require significant use of reserves and will also see very significant amounts of borrowing – circa £36m for both schemes. These present threats to the financial viability of the Council. However, in partial mitigation, various strategies have been put in place. These include 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. Any surplus generated by Charter Walk will be transferred into the Charter Walk Reserve to be used to meet future regeneration of the town centre. It is estimated that the surplus in 2021/22 will be around £0.5m.

40. Any additional capital 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.
41. 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 2022/23 revenue budget is unduly onerous and the levels of reserves forecast will be sufficient in accordance with the medium-term financial strategy (MTFS).
42. The Government is in the process of revising the methodology for allocating funding to Councils from 2023/24 onwards. This includes changes to the current business rates system together with a Fair Funding Review.
43. It is uncertain at this stage how changes to Local Government funding will impact on the Council's funding in future years.
44. 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 2022/23.
45. Pay inflation has been increased by 2.5% in 2022/23 and future years. However, if pay negotiations take place the actual increase may differ to that estimated +/-1% fluctuation in the pay award will equate to +/- £84k. 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.
46. The Bank of England increased the base rate from 0.1% and then 0.25% in December 2021 however even after this increase the rates remain at a historically low level. The Council's Treasury Management Advisors (Link Asset Services) forecast a 0.5% increase to the base rate during the 2022/23 financial year over two tranches. This will impact on the Council's revenue budget in these years as investment interest income to be received should increase.
47. Significant savings have been achieved by operating the Council's leisure services as a charitable company since its incorporation. Work has been undertaken in partnership with the Trust during this period to enable the Leisure Trust to become more self-sufficient. The Covid-19 pandemic has had a significant financial impact on the Leisure Trust during the 2021/22 financial year. The Trust has worked hard to find the savings and funding required

to balance the budget in 2021/22. However, the future financial impact remains uncertain and the Council will continue to work with the Leisure Trust to help to minimise this risk. To help ensure that risk is minimised there will continue to be regular monitoring of activity and financial performance in 2022/23 and beyond.

48. 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.
49. Uncertainty around the impact of Brexit and whether the UK invokes article 16 around the trading arrangements in Northern Ireland which has the potential to result in a no-deal Brexit. Also, the impact of the Covid-19 pandemic on the UK economy, especially around interest rates, the local economy, income generation and further spending pressures which may have an impact on future years budgets. Compensation for lost sales, fees and charges income for quarter 1 of 2021/22 has been claimed £237k, however no compensation is available under the scheme. In addition, we have provided for an additional provision for bad debts to compensate for non-payment of debts. In mitigation, the Council has created the Covid Reserve which can be utilised to assist in any further reductions in income or increases in expenditure.
50. In summary, after taking consideration of the issues in this report and the risks referred to above, the 2022/23 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.
51. 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

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

POLICY IMPLICATIONS

53. The revenue budget determines the extent to which the Council's strategic objectives can be pursued and achieved.
54. Community Impact Assessment and Equality Impact Assessments have been completed and are included as Appendix 3.

DETAILS OF CONSULTATION

55. None.

BACKGROUND PAPERS

56. None.

FURTHER INFORMATION

PLEASE CONTACT:

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and Property**

ALSO:

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