

REPORT TO THE EXECUTIVE



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PORTFOLIO	Resources and Performance Management
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Revenue Budgets 2023/2026 – Latest Position and Savings Proposals

PURPOSE

1. To update The Executive on the latest position regarding balancing the Council’s 2023/26 revenue budgets.
2. To outline proposed savings for recommendation to Full Council.

RECOMMENDATION

3. The Executive are asked to note -
 - a) savings approved at previous Full Council meetings totalling £23k (see Section 7 below) to assist in balancing the 2024/25 revenue budget - see Appendix 1
 - b) further proposed savings totalling £198k to assist in balancing the 2023/26 revenue budgets - see Appendix 1

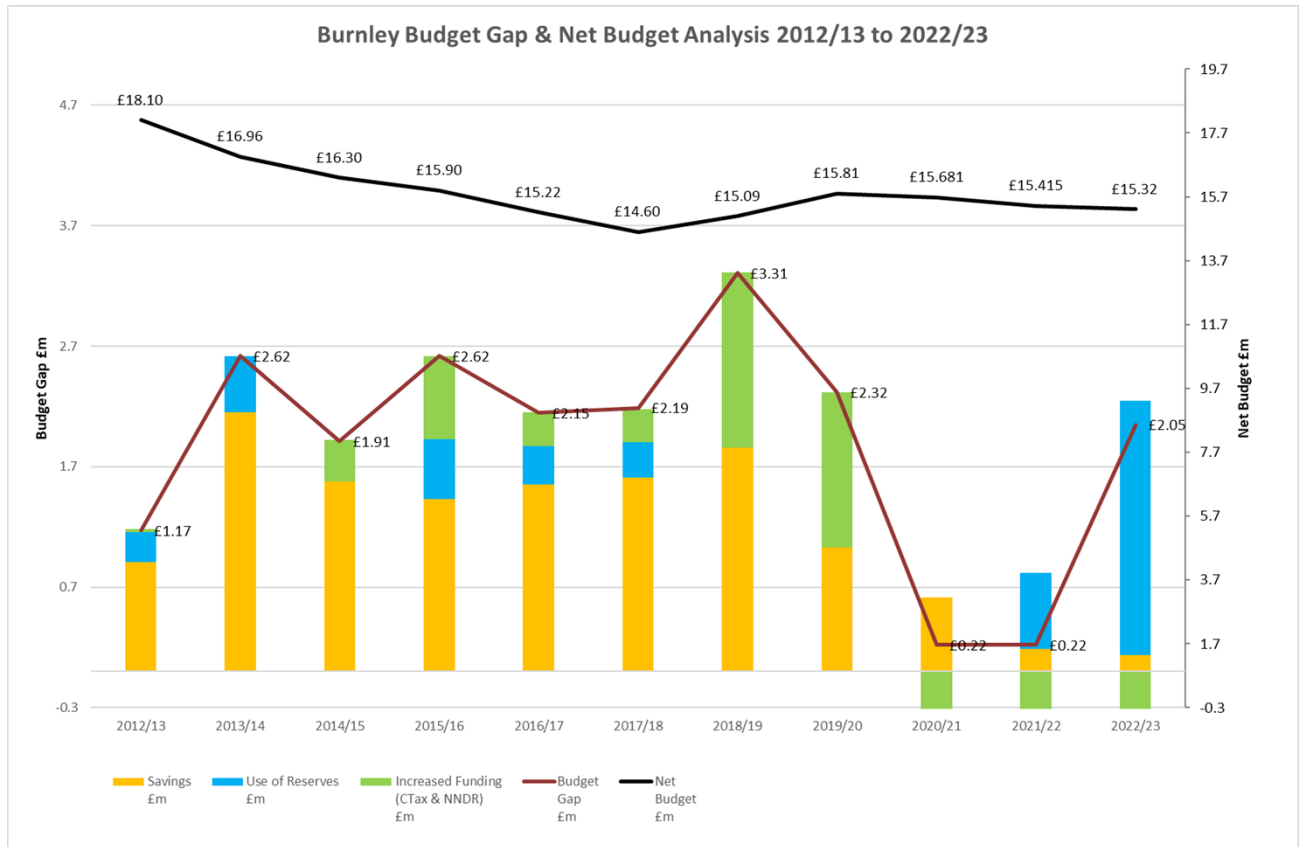
REASONS FOR RECOMMENDATION

4. To progress the preparation of the Council’s 2023/24 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.

Since 2010 the Government has reduced settlement funding for Local Government, with the Council's settlement funding reducing 57% (£9.4m) from 2010 to 2023. During this period of austerity, to balance the budget the Council has delivered savings of £24.78m, as shown below:



6. **MTFS Position as at February 2022**

The 2023/26 strategy was approved at the meeting of Full Council on 23 February 2022 and indicated that the cumulative budget gap for 2023/24, 2024/25 and 2025/26 was estimated to be £2.5m, equivalent to 15.4% of the 2021/22 net revenue budget of £16.151m (£15.97m including parish precepts).

The Council's MTFS for 2023/26 reported in February 2022 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 2022

MTFS	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Continuation estimate	0.4	0.6	0.6	1.6
Funding	0.3	0.3	0.3	0.9
Budget Gap	0.7	0.9	0.9	2.5

The assumptions underpinning the figures above are as follows:

- i) Council tax will increase by 1.99% each year
- ii) No increase has been factored in for non-inflationary changes in Council Tax base; business rates or additional New Homes Bonus.
- iii) Average 2% reduction in core spending power
- iv) Transitional funding to replace the loss of Revenue Support Grant (RSG) and New Homes Bonus (NHB)
- v) Pay award assumed at 2.5% per annum and fees and charges income at 2% per annum

7. **Revised MTFS Position as at September 2022**

The MTFS is a fluid document which is regularly reviewed and assessed. The latest review has resulted in a reduction to the estimated budget gap of £0.2m, with the cumulative budget gap now estimated at £2.3m, equal to 15.2% of the 2022/23 revenue budget of £15.153m (£15.322m including parish precepts).

The current high levels of inflation and the proposed pay award for 2022/23 will result in additional spending pressures for the Council as well as potential reductions in fees and charges income as the cost-of-living crisis impacts on residents of the borough. It is however anticipated that additional Central Government funding will be provided to Local Authorities (rather than previous forecast average 2% reduction in core spending power) to help mitigate the impact of the current high levels of inflation and the proposed pay award for 2022/23.

A multi-year spending review was proposed for the 2021/22 – 2023/24 financial years, however in October 2020 the Government announced that this spending review was to be delayed a further year until 2022/23 and replaced with a shorter one-year spending review for 2021/22 only. The multi-year spending review has since been delayed further to 2023/24 and therefore the council received ‘one year’ settlements for the 2021/22 and 2022/23 financial years. The Government has indicated that the 2023/24 settlement will be a two-year settlement, for the 2023/24 - 2024/25 financial years.

Under the spending review the Government had proposed to revise the methodology for allocating funding to Councils, including changes to the current business rates system and a Fair Funding Review, however no further details or indicative allocations have been received.

The latest estimate of the budget gap for the period 2023/26 can be seen below:

Table 2: MTFS position before saving proposals as at September 2022

MTFS	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Continuation estimate	2.0	0.9	0.8	3.7
Funding	(0.7)	(0.4)	(0.3)	(1.4)
Budget Gap	1.3	0.5	0.5	2.3

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 or to scheme contribution levels;
- iv) No increase has been factored in for inflationary changes in business rates or additional New Homes Bonus;
- v) An assumed average 4% increase in core spending power for 2023/24, decreasing to 2% in 2024/25 and 0% in 2025/26;
- vi) We are currently members of the Lancashire Business Rates Pool which is a 50% retention scheme. It has been assumed that we will continue to be members and benefit from the scheme as we retain an element of business rates growth. It is understood at this moment that all constituent members of the Pool have confirmed membership for 2023/24;
- vii) Pay award has been assumed at 5% per annum in 2023/24 and 3% in 2024/25 and 2025/26;
- viii) An increase to all fees and charges at 5% in 2023/24, dropping to 2% in 2024/25 and 2025/26;
- ix) Contractual and general inflationary increases of 10% in 2023/24, dropping to an average 6% in 2024/25 and 3% in 2025/26;

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 £198k for 2023/24. No savings involve a reduction in staffing.

In addition, £23k of savings were approved at previous Full Council meetings for the 2024/25 financial year.

Total savings identified for 2023/24 to 2025/26 will therefore be £221k.

The Council currently contributes £348k into the Pensions Reserve to help mitigate the potential impact of an increase in pension contributions following the triennial revaluation which will come into effect in 2023/24. Depending on the outcome of the revaluation, this reserve contribution may no longer be needed and could be used as a savings proposal. However, any increase in pension contributions would further increase the budget gap and no saving would be achieved. The Council should

receive an indication from the Actuary in the autumn and the budgetary position will be assessed at that point.

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 £2.3m over the period 2023/26.

The savings recommended for approval in Appendix 1 total £198k which, together with the £23k of savings already approved, leaves a balance of savings required over the period 2023/26 at this stage of £2.1m, as shown in table 3 below.

The budget gap of £2.1m is based on the assumption of an average 4% increase to Core Spending Power in 2023/24, reducing to a 2% increase in 2024/25 and a 0% increase in 2025/26. However table 3 also demonstrates how the budget gap could change should the Government agree to either a 6%, 2%, or 0% increase of Core Spending Power.

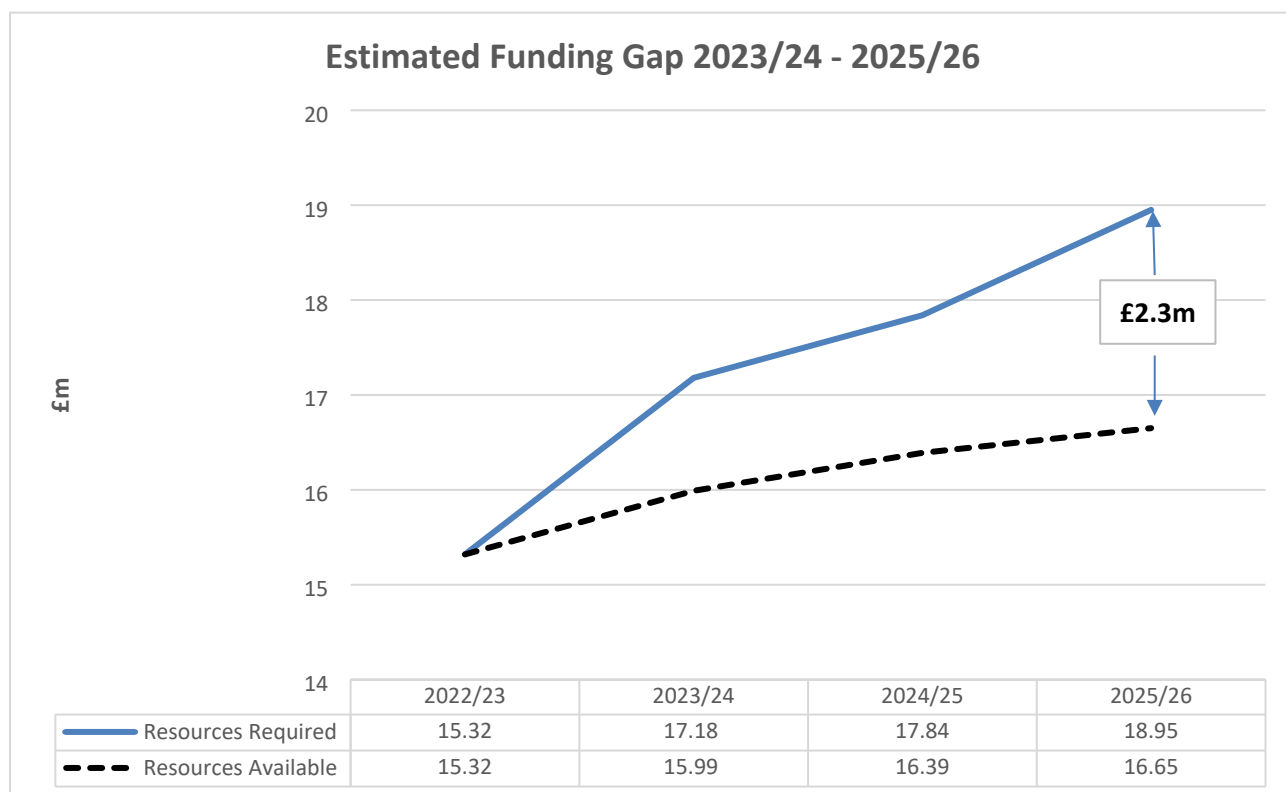
Table 3: MTFS position after savings proposals as at September 2022

MTFS	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Continuation estimate	2.0	0.9	0.8	3.7
Funding	(0.7)	(0.4)	(0.3)	(1.4)
Savings	(0.2)	(0.0)	(0.0)	(0.2)
Budget Gap	1.1	0.5	0.5	2.1
2023/26 Funding Scenarios				
Funding – 6% increase in core spending power	(0.9)	(0.7)	(0.7)	(2.3)
Budget Gap	0.9	0.2	0.1	1.2
Funding - 2% increase in core spending power	(0.5)	(0.4)	(0.4)	(1.3)
Budget Gap	1.3	0.5	0.4	2.2
Funding - 0% increase in core spending power	(0.4)	(0.3)	(0.4)	(1.1)
Budget Gap	1.4	0.6	0.4	2.4

Budget gaps of £1.1m for 2023/24, £0.5m for 2024/25 and £0.5m for 2025/26 remain.

Proposals to meet the 2023/24 balance of savings required will be taken to Full Council for approval in February 2023.

The chart below shows the estimated budget gap between the councils spend requirement and assumed funding over the period 2023/26:



Risks and Sensitivity

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

Assumption	Sensitivity Analysis	2023/24 Financial Impact
Council tax will increase by 1.99% each year	+/- 1%	+/- £74k
An increase to the council tax base of 0.25%	+/- 0.25%	+/- £19k
Pay award has been assumed at 3% per annum (Burnley BC, Liberata, Burnley Leisure & Urbaser)	+ 1%	+ £159k
Contractual and general inflationary increases of 10%	+ 1%	+ £119k

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 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. The Government has recently announced that the spending review will be delayed to 2023/24 and the 2023/24 settlement

will be for a two-year period. Details of this review are yet unknown and therefore funding levels as per 2022/23 have been assumed for 2023/24.

The funding settlement is usually based on September's CPI which is published in October each year. CPI is currently 10.1% (July 2022). Due to the uncertainty around the budget settlement, we have assumed an average 4% increase in core spending power as the budget settlement for Burnley is usually below the England average, as can be seen in the table below:

TABLE A SPENDING POWER REDUCTION / (INCREASE)		
Year	Burnley (%)	England Average (%)
2016/17	4.4	2.1
2017/18	3.9	(1.3)
2018/19	3.3	(1.8)
2019/20	1.5	(2.5)
2020/21	(3.5)	(6.0)
2021/22	(2.6)	(2.8)
2022/23	(5.9)	(6.9)

- b) Salary costs – the 2022/23 pay award is currently under negotiation with the employer's side offering a one year pay agreement of £1,925 across all pay points. This equates to an average 7.3% increase. It has been assumed for the purpose of the MTFS that this pay award will be agreed. An annual pay increase of 5% has been factored into the budget assumptions for 2023/24 reducing to 3% from 2024/25 onwards.
- 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 significantly increase the revenue budget. The revenue implications will be considered as part of the monitoring of the Capital Programme.

Work is currently ongoing on the Pioneer Place development which represents significant long-term costs for the Council and will require a significant amount of borrowing over 50 years, with payback very dependent on the successful income levels of the scheme. This carries significant financial risk for the authority and is an important element of the financial horizon of this Council.

- d) Budget preparation – The preparation of the 2023/24 budget is currently being undertaken. Issues may arise from the exercise that could have an impact on the 2023/24 budget and future years.
- e) 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.

- f) Inflation – inflation is expected to peak at around 13% by the end of the calendar year. An increase of 10% has been factored into the Council’s current contract costs, however any increases in excess of those forecast will result in further spending pressures.
- g) Cost of living – the current cost of living crisis may have an impact on income collection, specifically around fees and charges and council tax & business rates collection. Income monitoring is currently ongoing in 2022/23 and any potential shortfalls will be factored in to the 2023/24 budget.
- h) Energy costs – the Council’s pre-buys it’s energy in October each year for use over the following 12 months as part of the Crown Commercial Services energy framework. Due to the increasing costs of energy, this will impact on the 2023/24 budget. The Council established an Energy Volatility Reserve in 2021/22 to help mitigate future fluctuations in energy costs, however it is likely that the increase in costs will exceed the reserve balance.
- i) Interest rates – interest rates have been at a historical low for the last few years, with the bank rate remaining at 0.25% from early 2020 until March 2022. However in an attempt to slow the increasing rates of inflation the Bank of England has increased the bank rate by 1.5% in 4 tranches over the period March 2022 to August 2022, from 0.25% to 1.75%. 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.
- j) Covid-19 – Uncertainty around the long-term impact of Covid-19 on the UK economy. Especially around the collection of income and further spending pressures.
- k) Brexit – 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.

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:****Howard Hamilton-Smith - Head of Finance & Property****ALSO:****Amy Johnson – Finance Manager**