

MEDIUM-TERM FINANCIAL STRATEGY

2024/28



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INTRODUCTION

1. This strategy provides an overarching framework which sets out the context in which future decisions on resource allocation and budgeting will be taken. The primary purpose of this Strategy is to provide an indication of the future financial position of the Council and in turn inform the annual budget setting process. It quantifies the likely level of resources that are available to deliver the Council's services and achievement of its core strategic objectives as set out in the Strategic Plan.
2. The Council continues to face challenging reductions in funding and will do so for the foreseeable future. Increasingly the ability to achieve strategic objectives is coupled with the need to deliver cash savings and cost reductions. Consequently, it is imperative that resources are allocated following an assessment of strategic priorities and that annual budget decisions are aligned to those priorities.
3. This Strategy includes:
 - Financial context and a high-level overview of funding changes likely to affect the strategy;
 - An impact assessment of the Revenue Budget 2022/23 on future years;
 - Gap analysis for 2024/25, 2025/26, 2026/27 and 2027/28 and underlying assumptions;
 - Balancing the medium term;
 - Risks;
 - Reserves Forecast;
 - Monitoring and Review.
4. This Strategy reflects the approach adopted in a number of other strategies and policies adopted by the Council, which should be read in conjunction with this document. These include the Revenue Budget 2023/24, the Statutory Report of the Chief Finance Officer and the Treasury Management Policy. In addition, the Reserves Strategy is a key document and is included as an appendix to this document.
5. The medium-term financial planning process has been in place for a number of years and is now an established part of the budget setting process. It provides a forecast of the cost of continuing to provide existing levels of service and the resources that are likely to be available to the Council over the period. It sets out the potential budget gap to inform the Executive and Full Council and to determine the overall size of the efficiencies and cost reduction programme needed over the medium term.

FINANCIAL CONTEXT

6. The major aspects of the local government provisional settlement for 2023/24 as they affect 2024/25, 2025/26, 2026/27 and 2027/28:
 - The level of Council Tax increase (excluding any social care) beyond which a referendum is required is to increase to 3% for 2023/24 (2% in 2022/23)
 - The calculation of Core Spending Power
 - Continuation of New Homes Bonus but with changes. From 2017/18 the Government introduced a baseline for housing growth, 0.4% of a Council's band D equivalent properties, which will be deducted from the grant calculation each year. The scheme was amended in 2020/21 in that the grant allocation will be for one year only and will not attract any legacy payments. The scheme remained the same for 2021/22 and 2022/23 and continues to do so for 2023/24. It is likely the scheme won't exist in its current form from 2024/25, as it is being reviewed as part of the Spending and Fair funding Review.
 - Delay of the Spending Review and Fair Funding Review. The Government is currently in the process of reviewing the components of the business rates retention system, both individually and in aggregate, and the role they can play in providing a strong incentive for local authorities to grow the business rates in their area while minimising complexity. This was originally planned to be implemented in 2020/21 but has been delayed to 2025/26 as announced in the recent Policy Statement.
 - Confirmation of the Lancashire Pool continuing under the 50% business rates pooling arrangements, as per 2020/21, 2021/22 and 2022/23.
7. The final local government finance settlement is expected to be announced in February 2023.

CORE SPENDING POWER

8. In previous years, 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 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. As a consequence, a one-off Lower Tier Services Grant was awarded to Councils. The grant was changed to Services Grant in 2022/23, ensuring that no authority has a reduction in CSP. For 2023/24 a Funding Guarantee Grant has been awarded to provide a funding floor for all local authorities, so that no local authority would see an increase in Core Spending Power that is lower than 3% (before any assumptions on council tax rate increases, however includes assumptions on increases to Council Tax base). The calculation of Core Spending Power has changed over the years and is not limited to general government revenue grant and business rates but has also included Council Tax receipts, New Homes Bonus and other specific grants. This means that the headline percentage reduction quoted by the government also takes into account

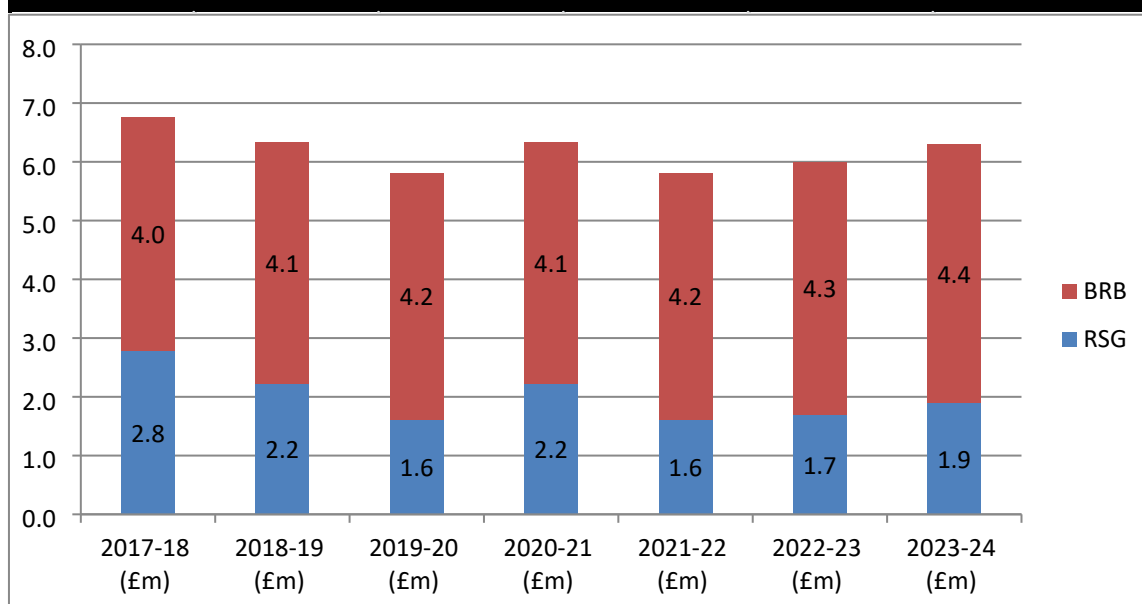
income from sources other than core general government revenue grant and is not representative of only direct government funding.

9. The methodology of the Core Spending Power calculation for 2023/24 includes Revenue Support Grant, Business Rates baseline funding, Council Tax and New Homes Bonus. The Government introduced the Lower Tier Services grant in 2021/22 to ensure that no local authority has a core spending power less than in 2020/21 due to the impact of the Covid-19 on local authority finances and demands for services. This grant was awarded again in 2022/23 as a Services Grant and again in 2023/24 as the Funding guarantee Grant to ensure that no authority has a reduction in core spending power. Burnley's Core Spending Power will increase by 4.5% in 2023/24 (compared to a 5.9% increase in 2022/23).
10. A comparison of Burnley Spending Power with other local authorities is shown in Table A. Burnley has consistently faced Spending Power reductions significantly above the national average. However, as 2023/24 is a 'roll forward' year with inflationary adjustments and the continuation of the New Homes Bonus scheme, Burnley's Core Spending Power is forecast to increase by 4.5%. However, this is in comparison to an England average of a 9.2% increase overall.

| 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) |
| 2023/24 | (4.5) | (9.2) |

11. The direction of travel nationally has been for local government to be funded from local revenues only in the longer term (as shown in Table B):

**TABLE B
BURNLEY'S SETTLEMENT FUNDING ANALYSIS**



12. Whilst this would be a concern nationally, the reduction will impact Burnley greater as it is more heavily dependent on government funding than other Councils which have greater buoyancy in their Council Tax and Business Rates base. This can be shown in Table C below:

| TABLE C % SPENDING POWER FINANCED THROUGH REVENUE SUPPORT GRANT | | |
|--|--------------------|----------------------------|
| Year | Burnley (%) | England Average (%) |
| 2016/17 | 25 | 16 |
| 2017/18 | 20 | 9 |
| 2018/19 | 16 | 3 |
| 2019/20 | 12 | 2 |
| 2020/21 | 11 | 3 |
| 2021/22 | 11 | 4 |
| 2022/23 | 11 | 3 |
| 2023/24 | 11 | 3 |

13. As mentioned earlier, the Government had proposed to revise the methodology for allocating funding to Councils from 2021/22, including changes to the current business rates system and a Fair Funding Review
14. However, in October 2020 the Government announced that the multi-year spending review proposed for 2021/22 – 2023/24 was to be delayed a further year until 2022/23 and replaced with a shorter one-year spending review for 2021/22

only. The settlement for 2022/23 was a 'roll forward' of the 2021/22 year. A two-year settlement has been awarded for the 2023/24 and 2024/25 financial years.

15. Although this was welcomed, significant uncertainty exists for 2025/26 onwards.

BUSINESS RATES POOLING 50% RETENTION

16. During 2019/20 Burnley was part of the Government's 2019/20 pilots which tested a system at 75% Business Rates Retention. This was originally planned for one year, with 2020/21 being the national roll-out of the new funding regime. However, despite the fair funding and spending review being delayed by a year, disappointingly these pilots were not offered again.
17. Despite extensive lobbying, the Government did not reverse this decision and offered only the 50% scheme for 2020/21, as it had run previously.
18. Therefore in 2020/21 Burnley reverted 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. This scheme continued for 2022/23 and will continue for 2023/24.
19. Prior to 2013/14, business rates were collected by local government and paid into a national pool and redistributed to local government as part of formula funding. This meant, for councils such as Burnley any variation in business rates collected (i.e., any increase in business rates or any reduction in business rates collected locally) did not affect the Council's financial performance as the Council's contribution from the national pool was fixed as part of the local government settlement.
20. Burnley has had some success in growing its business rate base over the last four years. Additional income of £1.2m is included within the 2023/24 budget in relation to business rates relief grants. However, there is still a great deal of uncertainty over this funding due to the extent of business rate appeals and demands to invest in economic growth. As a consequence, no further increase in business rates has been factored into this financial forecast.
21. A reassessment of rateable values based on property values as at 1st April 2021 has been carried out, taking effect from 1st April 2023.
22. In the recently published Policy Statement, the Government announced that the Fair Funding Review and Reset of Business Rates will not be implemented until at least 2025/26.

NEW HOMES BONUS

23. The national funding formula has been incentivised to encourage councils to build additional homes. As such councils are rewarded as part of the New Homes Bonus (NHB) to build homes or bring back into use existing stock. In addition, an enhanced rate is paid for social housing. The 2017/18 budget settlement changed the formula for the NHB calculations. NHB was originally paid for 6 years but was reduced to 5 years in 2017/18 and was further reduced to 4 years from 2018/19 onwards. This was applied retrospectively to existing NHB allocations.
24. The scheme was again amended in 2020/21 with the allocation being for one year only and will not attract any legacy payments. This continued into 2021/22 and 2022/23 and will continue for 2023/24. It is likely the scheme won't exist in its current form from 2024/25, as it is being reviewed as part of the spending and fair funding review. This Council budgets for existing legacy payments and any new payments that are confirmed. The final year for receipt of existing legacy payments is 2022/23 which has resulted in a loss of income of £257k in 2023/24.
25. As mentioned earlier, the Government introduced a baseline for housing growth of 0.4% from 2017/18, up to which, the Council will receive no new allocation. The baseline for 2023/24 has remained at 0.4%. This means that for 2023/24's allocation, the first 125 properties do not attract a payment.

PENSIONS

26. 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.
27. 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.
28. The last revaluation was in 2022 which ascertains the payments required for the financial years 2023/24 to 2025/26.
29. As a result of the 2022 preliminary valuation results, the Council's Future Service Contribution Rate (employers pension contribution rate) will increase from 17.6% to 19.4% for the period 2023/24 – 2025/26. 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.
30. Surplus is the extent to which the value of the Fund's service assets exceeds the value of the Fund's past service liabilities. 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).

31. For the 2022 valuation, the council's fund has moved from an assessed deficit position to an assessed surplus position due to the positive performance of the fund and changes in some actuarial assumptions. This means that the Council no longer has to pay annual deficit payments of around £293k. For the three financial years 2020/21 - 2022/23 the council contributed to a pension reserve to help offset any potential adverse results of the 2022 revaluation. As the revaluation has resulted in a surplus to the fund, this contribution to the reserve is no longer required, resulting in a reduction of £332k to the budget.
32. These reductions have been 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 (£455k). Increased contributions relating to the Liberata and Burnley Leisure schemes (see below) will also be funded from this reduction.
33. However, there is also a need to manage the inherent risks that Burnley face in the pension fund.
34. 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 a move back to deficit payments from the next valuation in 2025, which would have to be funded by the Council for the 3 years from 2026/27 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.
35. 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.
36. This makes the Council vulnerable to relatively minor changes as it has a limited contribution base compared to its assets.
37. For example, if the pension fund's assets underperformed by 5% at the 2022 actuarial valuation, this reduction in the value of Burnley's share of assets in the fund would have required an additional £840k of annual revenue funding from the current provisional 2022 valuation. Although this could vary depending on a number of factors. This is illustrated in the table below:-

| 2022 provisional actuarial valuation sensitivity analysis | | |
|--|-----------------------------------|----------------------------------|
| | Base as per 2022 valuation | Assets underperform by 5% |
| Assets (£m) | 167.4 | 159.0 |
| Liabilities (£m) | 148.1 | 140.7 |
| Surplus / (Deficit) (£m) | 19.3 | 18.3 |
| | | |

| | | |
|------------------------------|------|------|
| Pay (£m) | 6.9 | 6.9 |
| Recovery period (yrs.) | 16 | 16 |
| “Maturity” (liabilities/pay) | 25 | 25 |
| | | |
| Surplus (£m) | 0.33 | 0.74 |
| As a % of payroll | 5% | 11% |
| Increase | n/a | 6% |

38. This shows that if there was an underperformance of the fund over the next valuation cycle, there would be a considerable change in the surplus received, circa £0.41m 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.
39. As the Council’s pension fund is now in a surplus, receipts of this surplus will be received annually from the pension fund (rather than as previously, where annual payments of the deficit were made to the pension fund). The council is intending to prepay the service contribution rate annually upfront for 2023/24, however that will be dependent upon cashflow demands.
40. Performance of the fund is monitored annually and any further action that is required will be reported back, along with financial implications.

COUNCIL TAX INCREASES

41. For 2020/21 guidance issued by central Government required a referendum where proposed Council Tax increases were 2% or more than 2% (previously 3% in 2019/20). This remained at 2% in 2021/22 and 2022/23 however has been increased to 3% for 2023/24 and 2024/25.
42. The Council recognises the impact that Council Tax has on local residents and will always take their ability to pay into consideration when setting Council Tax levels. The Council should adopt an approach where local sources of funding are maximised as far as is reasonably practicable to do so. However, a 2.99% Council Tax increase has been factored into the medium-term financial forecast for each year for financial planning purposes only. Clearly, any decisions on setting future Council Tax levels will be considered each year at Budget Council.
43. The financial impact each year of not increasing Council Tax at all is an additional pressure of around £242k, assuming a 2.99% rise is foregone.

COST OF LIVING CRISIS

44. The impact of the cost of living crisis on the 2023/24 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 & Cost of Living 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 and 2022/23 to fund related additional expenditure or loss of income and to provide funding for recovery initiatives. It is forecast that there will be a balance of £721k available at the end of 2022/23 for use in 2023/24 and future years.

AN IMPACT ASSESSMENT OF THE REVENUE BUDGET 2023/24 ON FUTURE YEARS

45. The Medium-Term Financial Strategy for 2024-28 is dependent on the delivery of a number of assumptions within the annual budget for 2023/24. This strategy assumes that:
- the Council will approve an annual budget that delivers savings totalling £1.056m without having to use reserves to support the delivery of the 2023/24 Revenue Budget;
 - the Council receives the estimated business rates assumed in the calculation of the baseline funding level and any additional business rates included as funding within the approved net revenue budget; and
 - the assumed costs of delivering the Council's services both directly and indirectly is in line with planning assumptions.
46. These assumptions are a realistic assessment of the underlying financial position as shown in the Medium-Term Financial Strategy. The annual budget will be approved in February 2023.

POTENTIAL GAP FOR 2024/25, 2025/26, 2026/27 and 2027/28

47. The overall funding gap for 2024/28, using planning assumptions, is summarised below:

| | Reduction from 2023/24 Provisional Settlement (average -2% decrease of Core Spending Power) | |
|------------------------------|--|------------|
| | (£m) | % |
| Anticipated funding changes | (0.9) | |
| Pay and Prices/other | 1.0 | |
| Potential Gap 2024/25 | 0.1 | 0.6 |
| Anticipated funding changes | (0.2) | |
| Pay and Prices/other | 0.9 | |
| Potential Gap 2025/26 | 0.7 | 4.0 |
| Anticipated funding changes | (0.1) | |

| | | |
|---|------------|-------------|
| Pay and Prices/other | 0.8 | |
| Potential Gap 2026/27 | 0.7 | 4.0 |
| Anticipated funding changes | (0.2) | |
| Pay and Prices/other | 0.8 | |
| Potential Gap 2027/28 | 0.6 | 3.3 |
| Cumulative Potential Gap 2023/27 | 2.1 | 12.1 |

48. Underlying assumptions included within the forecast are:
- Anticipated funding changes include government support, fees & charges and Council Tax income;
 - Council Tax will increase by 2.99% for 2024/25, reverting back to 1.99% for 2025/26 onwards;
 - No increase has been factored in for non-inflationary changes in Council Tax base; business rates or additional New Homes Bonus;
 - Pay award assumed at 3% per annum (5% 2023/24), fees and charges income at 2% per annum;
 - Inflation assumed at between 2-5% dependent upon the contract;
 - Transitional funding to replace any potential loss of Revenue Support Grant (RSG) and New Homes Bonus (NHB); and
 - No assumptions built into forecast regarding changes to Council Tax Support claimant numbers, although the impact of changes to the scheme have been included.
49. The above scenario assumes that core power will increase by 4.4% in 2024/25 as per the Government's Policy statement, falling to a 2% reduction for 2025/26 onwards (with Core Spending Power defined as RSG/Transitional Support, Business Rates, Council Tax and New Homes Bonus).
50. However, as 2025 may see the conclusion of the spending and fair funding review which will review and redesign the funding mechanism for local government, below are 2 further scenarios showing Core Spending Power increases at 2% and at 0%:

51.

| | Reduction from 2023/24 Provisional Settlement (average 0% increase in Core Spending Power) | |
|---|---|------------|
| | (£m) | % |
| Anticipated funding changes | (0.9) | |
| Pay and Prices/other | 1.0 | |
| Potential Gap 2024/25 | 0.1 | 0.6 |
| Anticipated funding changes | (0.3) | |
| Pay and Prices/other | 0.9 | |
| Potential Gap 2025/26 | 0.6 | 3.4 |
| Anticipated funding changes | (0.3) | |
| Pay and Prices/other | 0.8 | |
| Potential Gap 2026/27 | 0.5 | 2.9 |
| Anticipated funding changes | (0.3) | |
| Pay and Prices/other | 0.8 | |
| Potential Gap 2027/28 | 0.5 | 2.9 |
| Cumulative Potential Gap 2024/28 | 1.7 | 9.8 |

| | Reduction from 2023/24 Provisional Settlement (average 2% increase of Core Spending Power) | |
|---|---|------------|
| | (£m) | % |
| Anticipated funding changes | (0.9) | |
| Pay and Prices/other | 1.0 | |
| Potential Gap 2024/25 | 0.1 | 0.6 |
| Anticipated funding changes | (0.5) | |
| Pay and Prices/other | 0.9 | |
| Potential Gap 2025/26 | 0.4 | 2.3 |
| Anticipated funding changes | (0.5) | |
| Pay and Prices/other | 0.8 | |
| Potential Gap 2026/27 | 0.3 | 1.7 |
| Anticipated funding changes | (0.5) | |
| Pay and Prices/other | 0.8 | |
| Potential Gap 2027/28 | 0.3 | 1.7 |
| Cumulative Potential Gap 2024/28 | 1.1 | 6.3 |

52. Until there are indicative allocations of funding for 2025/26 and beyond, the ability to forecast funding elements is severely restricted. Due to this uncertainty it is necessary to show various scenarios of funding changes in the above scenarios, which are summarised below:-

| | 2% increase of Core Spending Power (£m) | 0% increase of Core Spending Power (£m) | 2% reduction of Core Spending Power (£m) |
|---|--|--|---|
| Potential Gap 2024/25 | 0.1 | 0.1 | 0.1 |
| Potential Gap 2025/26 | 0.4 | 0.6 | 0.7 |
| Potential Gap 2026/27 | 0.3 | 0.5 | 0.7 |
| Potential Gap 2027/28 | 0.3 | 0.5 | 0.6 |
| Cumulative Potential Gap 2024/28 | 1.1 | 1.7 | 2.1 |

BALANCING OVER THE MEDIUM TERM

53. The Council operates in a generally challenging environment. Given the significant reductions in the Council's funding from Government over the last decade and forecasts of further pressures over the medium term there will need to be a continuing fundamental review of the core purpose of the Council. This will demand strategic and corporate leadership and it is essential that there is seen to be strategic ownership of such a review given the scope of changes which will result from this.
54. The overall size of the challenge that the Council faces is significant and the formulation of a balanced budget over the longer term requires the delivery of savings through strategic prioritisation, service transformation and continuous improvement. The Council continues to make and face key decisions affecting the way it delivers core Council services.
55. The Council will consider fully its strategic intent as encapsulated in the Strategic Plan and will seek not only to reduce costs and deliver the necessary savings but seize opportunities to use those cost saving programmes as leverage for wider strategic benefits.
56. The structure of the Council should be adapted to reflect the challenging operating environment. Furthermore, these structural changes will require that there is also sufficient flexibility to meet all challenges which may arise. Significant service reconfiguration will therefore continue to take place and further progress will be made to update the way the Council is structured. A review of internal business processes will continue so as to promote automation and to reduce back office workloads. This will change the way we work in line with the organisational development strategy and through the promotion of self-service wherever possible.
57. The Council has a strong track record of delivering efficiency savings over recent years and this work will need to continue for the foreseeable future. The outcome

will be a Council which is more streamlined and focussed on key strategic objectives, delivered through transformed services working in partnership.

58. Given the challenges ahead, the Council will continue to use the commercial strategy which sets a framework for developing a commercial approach by everyone within and representing the Council. By doing this we will seek to maximise income from our activities and services whilst still having regard to the ability to pay. The Council will also minimise the costs involved in service provision through this approach by promoting better procurement and continuing to gain value from contracts with partner organisations and so aim to reduce the future funding gap.
59. Outcomes from the Spending Review and Fair Funding Review will be critical to determine the financial horizon for this authority. Without the outcome of this, there remains significant uncertainty for future funding of the Council, which makes it very difficult to plan over the medium term. Various scenarios for funding have been presented in this report. However, until indicative allocations are given for future years later on in 2024, that uncertainty will remain.
60. 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 commenced 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 2022/23 will be around £0.8m.

RISKS

61. The significant risk areas are:

| RISK | MITIGATION | ASSESSMENT |
|--|---|-------------------|
| (i) Ability to maintain a balanced budget over the medium-term | Consideration of core purpose of the Council. Development of a multi-year planned and systematic programme of efficiency and cost reduction measures; Ensure effective programme management to ensure timely delivery. Maintain an effective reserves strategy. Undertake close monitoring of Pioneer Place/Charter Walk schemes. | HIGH |
| (ii) Funding uncertainty with regard to the proposed changes in NHB funding, changes in Business Rates funding and the fair funding review for local government. | Horizon scanning national developments and proactive contribution to help shape the funding framework. Lobby for additional resources with government and also through the LGA. Seek to maximise local funding sources. | HIGH |
| (iii) Business rate volatility including appeals | No projected increase factored into MTFs, reserves available as buffer in short term. Active consideration of all appeals to minimise impact on revenues. | HIGH |
| (iv) Partnership performance – achievement of planned savings and delivery of these savings on time | Continued development of enhanced contract management skills and procedures. Project management discipline. Consolidation of good working relationships with contract partners. | MEDIUM |
| (v) Reserves - potential impact on reserves position, if they are required to support the delivery of a balanced budget over the medium-term. | Include policy on use of reserves within Medium-Term Financial Strategy (attached). Programme of action to increase reserve levels over the next 10 years. | HIGH |

| | | |
|---|--|--------|
| (vi) Potential claw-back or loss of any external or grant funding. | Compliance to external and grant funding conditions, careful programme monitoring of capital projects. | MEDIUM |
| (vii) Prices - the Strategy only allows for budget increases in specific areas, e.g. business rates and contractual requirements. The forecast for CPI and RPI is for bigger increases. | Review at each update of the Strategy | LOW |
| (viii) Pay – 3% in Strategy but pressure for higher settlements may develop in the future | Review at each update of the Strategy | LOW |
| (ix) Income and fees and charges. | Ensure that the Council's commercial strategy is used to maximise income opportunities. An allowance has been built into the Medium-Term Financial Strategy for an increase in line with the Council's commercial strategy. This will be reviewed as part of the annual fees and charges review. | LOW |
| (x) Treasury Management. | Approved Treasury Management Policy, with regular monitoring with support from external advisors. | LOW |
| (xi) Pensions – Managing the financial impact of the volatility of performance of pension fund investments and its impact on the Council's budgets | Additional employers' contributions will be made over the next 3-year period. A pensions reserve was established in 2021/22 to partially fund any adverse impact on the Council's pensions liability position after the next triennial pension revaluation in 2025. | HIGH |

| | | |
|---|---|---------------|
| <p>(xii) 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. The potential impact on the UK economy and corresponding impacts on interest rates, the local economy and further spending pressures is unknown.</p> | <p>Continuation of resilience with regards to diversifying sources of income, driving further efficiencies, monitoring the outcome of Brexit negotiations and updating the MTFS as necessary</p> | <p>MEDIUM</p> |
| <p>(xiii) Cost of living crisis – Uncertainty around the impact of the cost of living crisis on income and expenditure streams in future years</p> | <p>Continue to monitor the Council’s revenue budgets in respect of loss of income and additional expenditure as well as monitoring the collection of local taxation. To continue to lobby Central Government for additional funding as necessary.</p> | <p>MEDIUM</p> |
| <p>(xiv) Heritage Assets – Uncertainty around the cost of capital works required for our Heritage Assets through the planned maintenance programme.</p> | <p>Undertake appropriate building surveys before work commences on any capital works. Continually monitor progress and cost of works throughout the programme.</p> | <p>MEDIUM</p> |

RESERVES & BALANCES

62. The overall forecast position on reserves is shown in the table below. This includes all strategic earmarked and general reserves. The forecast below includes approved commitments and anticipated spend and income into the reserves. The Reserves Strategy can be found in detail at Appendix 1.

| | Strategic Earmarked Reserves £'000 | | General Fund Reserve £'000 | | Revenue Support Reserve £'000 | | Total £'000 |
|---|---------------------------------------|---|-------------------------------|---|----------------------------------|---|----------------|
| Balance as at 01/04/22 | 4,341 | | 1,379 | | 1,251 | | 6,971 |
| In year adjustments | 1,873 | | | | 1,000 | | 2,873 |
| Approved use to Q3 2022/23 | (1,709) | | 0 | | (74) | | (1,783) |
| Balance available after approvals as at Q3 | 4,505 | 0 | 1,379 | 0 | 2,177 | 0 | 8,061 |
| Future commitments and risk | (2,999) | | 0 | | 1,587 | | (1,412) |
| Balance remaining as at 31/03/28 | 1,506 | | 1,379 | | 3,764 | | 6,649 |

63. The reserves position does not include any requirement to support the budget gap on an on-going basis.
64. General reserves are held to provide short term emergency funds for exceptional circumstances and to cover risks that could impact the Council as a going concern. The current level of the Council's General Reserve is set at £1.379m and has been reviewed as part of the re-assessment of the MTFs and it is proposed that it should remain at £1.379m.
65. Earmarked reserves are held for specific purposes either as a strategic reserve to give flexibility in the use of corporate resources or as specific ring-fenced reserves for operational needs.
66. 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, as well as awaiting the outcome of central government's funding review, which will govern local government funding from 2023/24 onwards, 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.
67. Any resources that are released by savings on the approved budget will be transferred into an earmarked reserve, although it is expected that given the increased pressures on the annual revenue budget the ability for the Council to build up reserves will become increasingly difficult in future years. The purposes, for which reserves are held, are included within Appendix 1.

68. It is Council policy that earmarked reserves should not be used to pay for continuing expenditure. Earmarked reserves should be used for the specific purpose for which they were set aside. This includes funding one-off or non-recurring items, invest to save initiatives or to provide short term and time limited support to manage the transition from the withdrawal of funding.
69. The Council's reserves are not set at excessive levels and furthermore, it is prudent to protect and enhance earmarked reserves where there are opportunities to do so to provide one-off protection particularly given the uncertainty of the current financial climate and longer term risks associated with the local government funding arrangements. It can be seen in the table above however that it is anticipated that a substantial part of the Council's strategic earmarked reserves will be at, or below, their recommended minimum level by the end of the MTFS period. The adequacy of strategic earmarked reserves will continue to be monitored to meet future demands.

MONITORING & REVIEW

70. The Council operates delegated financial management. Following approval of the annual budget, budgets are delegated to service units where each Head of Service has delegated responsibility to ensure that they monitor and maintain budgetary control, achieve efficiency plans built into the budget and follow financial procedure rules. Each Head of Service is charged with ensuring their lead Member is fully briefed on financial issues. Corrective action plans are required in the event of any underperformance against budget to ensure the budget remains on track by the end of the financial year. Conversely, any service underspend at the end of the financial year will be used to contribute towards corporate priorities - general carry forward of underspends by services is not permitted. Any requests for specific service commitments to be rolled into the following financial year will be considered on an exception basis.
71. The Council is committed to achieving value for money in all aspects of its operations. To achieve this, reviews are regularly undertaken to determine whether cost improvements can be made, and to ensure that resources are prioritised and are aligned to strategic intent.
72. Any new proposals for on-going revenue growth must be backed up by a clear business case that demonstrates delivery of efficiencies aligned to strategic objectives. Criteria will be used to determine the relative priority of all capital projects.
73. The Council will operate a commercial strategy which will be reviewed periodically.
74. The Council will carry out three cycles of budget monitoring during each financial year together with a combined revenue and capital final outturn report, each of which will be reported formally to the Executive. These will also be reported to the Scrutiny Committee. Approval of any adjustments to capital or revenue budget control totals will then be sought from Full Council.
75. The financial modelling projections contained within this Medium-Term Financial Strategy are a dynamic model, which will be updated, revised and reported

following receipt of business intelligence, changes to underlying assumptions and as the position becomes clearer.

APPENDIX 1: RESERVES STRATEGY

BACKGROUND

1. The Council continues to face significant financial challenges and uncertainty in funding. The Council however remains committed to its ambitions of delivering its place shaping strategic priorities. This means that the Council is not only prioritising resources for key service objectives but is also continuing to adjust to a reduced cost base to ensure financial sustainability over the medium term.
2. Within this context, reserves play a vital role in offering transitional support to act as a buffer and to ensure smooth service transition as the Council adapts to organisational changes and new ways of working; and to offer time limited opportunity for investment to aid strategic delivery.
3. It is imperative, therefore, that the Council has in place a strong and robust reserves strategy, that adequately reflects the future needs of the organisation, set at a level that mitigates against future risks and certainties and provides opportunity for investment within the confines of overall affordability and availability of resource.
4. Given the current context of operations there are no planned arrangements for replenishing reserves drawn down beyond that set out in the report, although a minimum level of reserve (general reserve) has been assessed for the Council to remain a going concern. As part of the finalisation of the year end position, opportunities will be taken, if possible, to replenish reserves in the light of risk appraisal.
5. This reserves strategy sets out the protocol for use of reserves and re-assesses the adequacy of reserves.

LEGISLATIVE/REGULATORY FRAMEWORK

6. The requirement for financial reserves is acknowledged in statute. Sections 32 & 43 of the Local Government Finance Act 1992 require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure, when calculating the budget requirement.
7. There are no statutory minimum levels imposed and it is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum or maximum level of reserves required, either as an absolute amount or a percentage of the budget.
8. The adequacy of the level of reserves is therefore a matter of local judgement bearing in mind the level of risk the council faces together with the requirement to provide any non-recurring or one-off support for strategic priorities.

9. The management of reserves within the current difficult financial environment is not universally agreed. There is a conflict between the expectation of Government that Councils should utilise their reserves over the medium term and the views of professional and regulatory bodies who suggest that reserves should be increasing over the same period.

ROLE OF THE CHIEF FINANCIAL OFFICER

10. Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer (in Burnley's case this is the Head of Finance and Property) to advise the local authority about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.
11. This requirement is also reinforced by Section 114 of the Local Government Finance Act 1988, which requires the Chief Financial Officer to report to all the authority's councillors, if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

PURPOSE OF RESERVES & BALANCES

12. Reserves can be classed as general reserves or earmarked reserves and represent funds that are not part of the normal recurring budget of the Council but are distinct "pots" of finite funds.
13. General reserves are set aside to provide a short-term cushion for the impact of uneven cash flow, to provide an emergency fund for exceptional unmitigated circumstances and to ensure that the Council remains a going concern. The current level of the Council's general reserves is set at £1.379m. This includes an assessment of volatility within the business rates retention scheme. This figure is judged as a prudent level of balance to be set aside to ensure the Council remains financially liquid as a going concern. This fund is held as a fund of "last resort" when all other reserves or budgets have been completely depleted for unknown risks.
14. Earmarked reserves are held to mitigate against potential specific risks that the Council faces; cushion against uncertainty; provide for anticipated liabilities and provide short term investment for strategic priorities or support the operational delivery of specific services. These reserves are held for either strategic purposes to give flexibility in the use of corporate resources or are held as specific ring-fenced reserves for operational needs.
15. Given the increased pressures on the annual revenue budget the ability for the Council to build up reserves will become increasingly difficult in future years. Clear protocols therefore should be in place for the use of each earmarked reserve that set out:
 - The reason for/purpose of the reserve;
 - How and when the reserve can be used;
 - An assessment of the adequacy of the reserve in light of risk factors;

- Procedures for the reserve's management and control; and
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

RISK FACTORS

16. The table below identifies the key risks that are mitigated and managed through this reserves strategy:

| Risk | Reserve |
|--|--|
| Short term liquidity and cash flow. | General |
| Unforeseen emergencies. | General |
| Strategic service transformation and ability to ensure services remain fit for purpose and deliver value for money. | Transformation |
| Achievement of high priority strategic objectives that require pump priming or inward investment. | Growth |
| Financial risks inherent in major developments and projects that are aligned to strategic priorities. | Revenue Support Specific scheme reserves |
| Provide interim support for emerging risks that were unknown at budget setting and are an unavoidable commitment through regulatory or legislative reform that are outside the direct control of the council | Transformation Revenue Support |
| Fluctuations, loss and uncertainty in funding or income levels coupled with the Council's ability to respond in a timely way, thereby providing a buffer to enable the Council to downsize. | Transformation |
| Variations in business rate yield due to the impact of appeals and other factors which can reduce funding availability | Business Rates Volatility |
| Ensure resources available to provide for future unavoidable and non-recurrent specific needs. | Transport & Plant Local Development Framework (Local Plan) Town Centre Master Plan Burnley Bondholders Cremator Relining |
| Transparency in accounting arrangements for self-financing initiatives. | Taxi Licensing Selective Licensing |
| Respond to changes in demand for services. | Transformation |
| Volatility of pension fund performance | Pensions |
| Impact of the cost of living crisis on income and expenditure revenue streams. | Covid-19 & Cost of Living Crisis |
| To manage future repair demands to Sandygate Student Accommodation. | Sandygate Major Refurbishment |

| | |
|---|-----------------------------------|
| To manage fluctuations in rental income against expenditure demands. | Sandygate Smoothing |
| To manage future repair demands to Charter Walk. | Charter Walk Major Refurbishment |
| To fund future regeneration of the town centre and to manage fluctuations in income against expenditure demands. | Charter Walk Regeneration |
| To manage future repair demands to Charter Walk. | Pioneer Place Major Refurbishment |
| To manage fluctuations in income against expenditure demands. | Pioneer Place Smoothing |
| To mitigate the impact of the 2020/21 collection fund deficit generated as a result of Covid-19 which is to be spread over 3 financial years. | Collection Fund Deficit |

REPORTING FRAMEWORK

17. The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Head of Finance and Property. The protocols covering all reserves are set out below for strategic and operational reserves respectively.
18. The Medium-Term Financial Strategy and the Council's annual Revenue Budget report include a statement showing movements in reserves. In addition, the Medium-Term Financial Strategy includes a forward forecast of future balances for the relevant period.

STRATEGIC RESERVES PROTOCOL

19. Any member of Management Team, in consultation with the relevant Executive Portfolio Holder and the responsible officer for the relevant strategic reserve, may use a relevant reserve to support items, such as feasibility studies, to achieve transformation, regeneration or support speculative funding applications.

| Reserve | Level of reserve | Purpose | How & When Used | Control Procedures | Timescale for review |
|-----------------------|--|---|---|---|---|
| Transformation | Recommended to have available balance of £1.5m uncommitted | To support specific projects aimed at transforming services either to reduce the cost base; deliver value for money or ensure services remain fit for purpose | Used to mitigate the impact of any one-off expenditure that arises from organisational and transformational change and to assist with organisational downsizing | Managed by the Head of Finance and Property (Chief Financial Officer) | The overall level will be reviewed twice-yearly as part of the final accounts and budget processes and any movements monitored as |

| | | | | | |
|---------------|--|---|---|--------------------------------|---------------------------------------|
| Growth | This reserve will cease to exist once depleted | To assist the Council in achieving its strategic objectives through the provision of one-off investment as leverage | Used to pump prime projects that deliver demonstrable wider strategic benefits that enable the council to fulfil its place shaping role | Managed by the Chief Executive | part of the budget monitoring process |
|---------------|--|---|---|--------------------------------|---------------------------------------|

OPERATIONAL RESERVES PROTOCOL

| Operational Reserve | Level of Reserve | Purpose | How & When Used | Procedures for Management & Control | Timescale for Review |
|---|--|--|---|---|--|
| Business Rates Volatility | As assessed, depending on level of appeals and changes to the Council funding mechanisms | To safeguard against the inherent volatility within the business rates retention system particularly around the potential impact of appeals, as well as impact of changes to government funding of local authorities | Used to support the business rates funding figure included within the Council's net revenue budget in the event that actual business rates collected generate a figure below this estimated funding figure, as well as impact of changes to government funding of local authorities | Managed by the Head of Finance and Property (Chief Financial Officer) | Twice-yearly, as part of the final accounts and budget processes |
| Transport & Plant | Dependent on planned replacement strategy for transport and plant financed from within service revenue budgets | To manage the financing of the Council's transport & plant requirements | There is an annual payment into the reserve, which helps to equalise spending, as transport & plant replacements are due | Managed by the Head of Green Spaces and Amenities | Twice-yearly, as part of the final accounts and budget processes |
| Local Development Framework (Local Plan) | Anticipated spending requirements | To fund the necessary work needed for the Core Strategy and other development plans | Any cost of the preparation of the Local Development framework will be funded through drawdown on this reserve | Managed by the Strategic Head of Economy and Growth | Monitored as part of budget monitoring process |

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|------------------------------------|--|---|--|---|---|
| Taxi Licensing | Self-financing | To ensure the costs associated with licensing is ring-fenced and recovered by the taxi trade | To manage annual surpluses and deficits on the account | Managed by the Head of Streetscene | The overall level will be reviewed twice-yearly as part of the final accounts and budget processes and any movements monitored as part of the budget monitoring process |
| Selective Licensing | Self-financing | To ensure the costs associated with licensing are ring-fenced and recovered by landlords | To manage annual surpluses and deficits on the account | Managed by the Head of Housing and Development Control | Monitored as part of budget monitoring process |
| Primary Engineer Reserve | Anticipated spending requirements | To support a training initiative in schools within Burnley | To fund delivery of the training on an annual basis | Managed by the Chief Executive | Monitored as part of budget monitoring process |
| Town Centre Master Plan | Anticipated spending requirements | To enable the Council to deliver a major Town Centre regeneration scheme | To assist in procuring the expertise to carry out an exercise to develop a vision and plan for the town centre | Managed by the Strategic Head of Economy & Growth | Monitored as part of budget monitoring process |
| Burnley Bondholders Reserve | Self-financing | To manage the excess sponsorship contributions for bondholder organisations | To fund Burnley brand and marketing initiatives in order to attract economic investment into the area | Managed by the Strategic Head of Economy and Growth | Monitored as part of budget monitoring process |
| Cremator Relining Reserve | Dependent on planned replacement strategy for cremator relining financed from within service revenue budgets | To manage the financing of the Council's cremator relining requirements | There is an annual payment into the reserve, which helps to equalise spending, as cremator relining are due | Managed by the Head of Green Spaces and Amenities | Monitored as part of budget monitoring process |
| Revenue Support Reserve | Anticipated spending requirements | To provide funding for unanticipated reductions in income and initiatives to offset budget reductions | To be used in response to income pressures identified during the budget monitoring process | Managed by the Head of Finance & Property (Chief Financial Officer) | Monitored as part of budget monitoring process |

| | | | | | |
|--|---|---|--|---|--|
| Revenue Grants Unapplied | Dependent upon revenue grants received | To hold revenue grants that have been received but not yet spent | To be used when expenditure on grant schemes is incurred | Managed by the Head of Finance & Property (Chief Financial Officer) | Monitored as part of budget monitoring process |
| Regeneration Reserve | Anticipated spending requirements | To manage minor projects within the regeneration department. | The reserve is financed by revenue contributions and grants received. | Managed by the Strategic Head of Economy & Growth | Monitored as part of budget monitoring process |
| Covid-19 & Cost of Living Reserve | Anticipated reductions in income collection and additional expenditure demands. | To manage the impact of Covid-19 & the cost of living crisis on income collection and additional expenditure pressures. | The reserve is financed from Government support received. | Managed by the Head of Finance & Property (Chief Financial Officer) | Monitored as part of budget monitoring process |
| Sandygate Major Refurbishment Reserve | Anticipated spending requirements | To manage future repair demands to Sandygate Student Accommodation. | The reserve is financed from rental receipts. | Managed by the Strategic Head of Economy & Growth | Monitored as part of budget monitoring process |
| Sandygate Smoothing Reserve | Anticipated spending requirements | To manage fluctuations in rental income against expenditure demands. | The reserve is financed from rental receipts. | Managed by the Strategic Head of Economy & Growth | Monitored as part of budget monitoring process |
| Pension Reserve | Funded from the reduction in the deficit payment following the 2019 Actuarial Review. | To mitigate the impact of future increases in pension deficit payments following future tri-ennial reviews. | The reserve is financed from a reduction in deficit payment following the 2019 Actuarial Review. | Managed by the Head of Finance & Property (Chief Financial Officer) | Monitored as part of budget monitoring process |

| | | | | | |
|--|--|---|--|---|--|
| Charter Walk Major Refurbishment Reserve | Anticipated spending requirements | To manage future repair demands to Charter Walk. | The reserve is financed from rental receipts. | Managed by the Head of Finance & Property (Chief Financial Officer) | Monitored as part of budget monitoring process |
| Charter Walk Regeneration Reserve | Anticipated spending requirements | To fund future regeneration of the town centre and to manage fluctuations in rental income against expenditure demands. | The reserve is financed from rental receipts. | Managed by the Head of Finance & Property (Chief Financial Officer) | Monitored as part of budget monitoring process |
| Pioneer Place Major Refurbishment Reserve | Anticipated spending requirements | To manage future repair demands to Pioneer Place. | The reserve is financed from rental receipts. | Managed by the Head of Finance & Property (Chief Financial Officer) | Monitored as part of budget monitoring process |
| Pioneer Place Smoothing Reserve | Anticipated spending requirements | To manage fluctuations in rental income against expenditure demands. | The reserve is financed from rental receipts. | Managed by the Head of Finance & Property (Chief Financial Officer) | Monitored as part of budget monitoring process |
| Collection Fund Deficit Reserve | As per the 2020/21 collection fund deficit due to Covid-19 | To fund the 2020/21 collection fund deficit due to Covid-19 which is to be spread over the 3 financial years 2021/2024. | Used to support the annual three year spread of the 2020/21 collection fund deficit within the Council's net revenue budget. | Managed by the Head of Finance and Property (Chief Financial Officer) | Twice-yearly, as part of the final accounts and budget processes |
| Elections Reserve | Anticipated spending requirements | To manage expenditure in relation to borough elections. | The reserve is financed by revenue contributions. | Managed by the chief Executive | Monitored as part of budget monitoring process |

| | | | | | |
|------------------------------------|-----------------------------------|---|---|--|--|
| Housing Initiatives Reserve | Anticipated spending requirements | To manage minor projects within the housing department. | The reserve is financed by revenue contributions and grants received. | Managed by the Head of Housing and Development | Monitored as part of budget monitoring process |
|------------------------------------|-----------------------------------|---|---|--|--|