

**REPORT TO THE EXECUTIVE**



<b>DATE</b>	<b>20 September 2023</b>
<b>PORTFOLIO</b>	<b>Resources and Performance Management</b>
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**Revenue Budgets 2024/2027 – Latest Position and Savings Proposals**

**PURPOSE**

- 1. To update The Executive on the latest position regarding balancing the Council’s 2024/27 revenue budgets.
- 2. To outline proposed savings for recommendation to Full Council.

**RECOMMENDATION**

- 3. The Executive are asked to -
  - a) note 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) recommend for approval at Full Council further proposed savings totalling £255k to assist in balancing the 2024/27 revenue budgets - see Appendix 1

**REASONS FOR RECOMMENDATION**

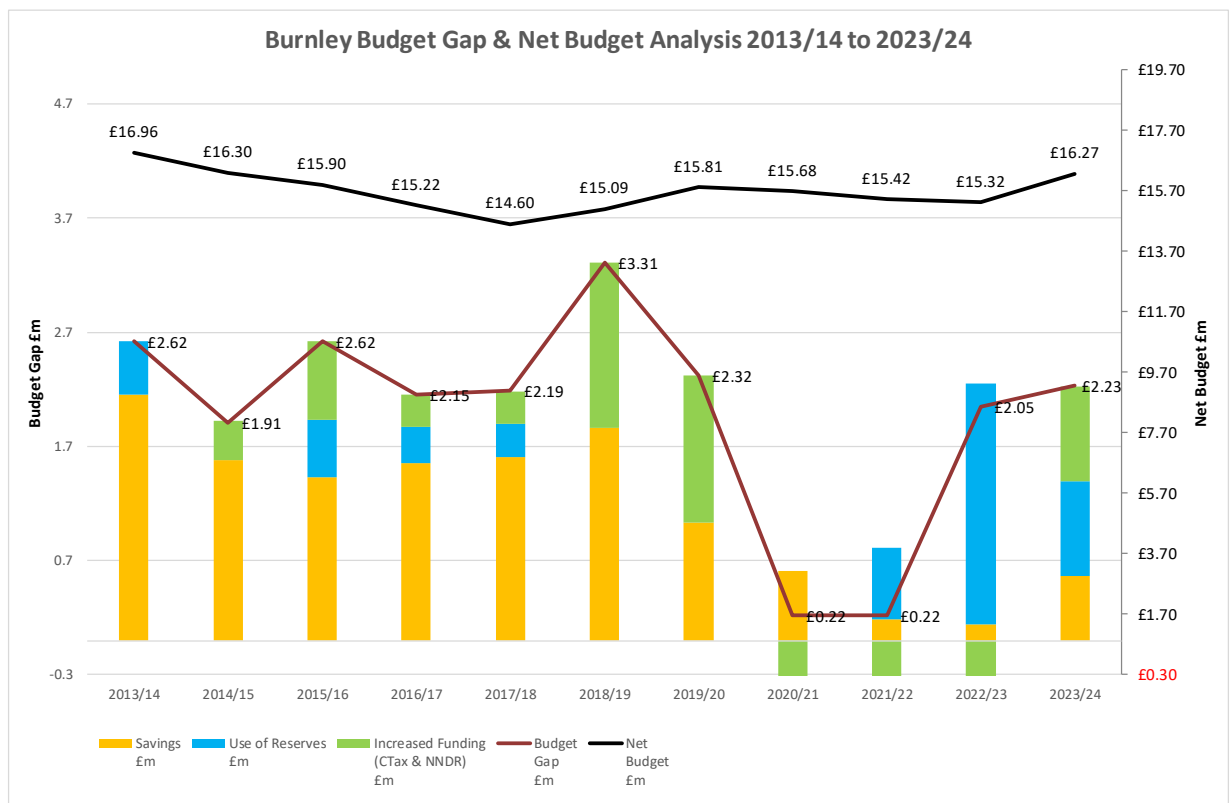
- 4. To progress the preparation of the Council’s 2024/25 revenue budgets.

**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 61% (£10.1m) from 2010 to 2023. During this period of austerity, to balance the budget the Council has delivered savings of £28.22m, as shown below:



6. **MTFS Position as at February 2023**

The 2024/27 strategy was approved at the meeting of Full Council on 22 February 2023 and indicated that the cumulative budget gap for 2024/25, 2025/26 and 2026/27 was estimated to be £1.5m, equivalent to 9.8% of the 2022/23 net revenue budget of £15.322m (£15.153m excluding parish precepts).

The Councils MTFS for 2024/27 reported in February 2023 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 2023

MTFS	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Continuation estimate	1.0	0.9	0.8	2.7
Funding	(0.9)	(0.2)	(0.1)	(1.2)
<b>Budget Gap</b>	<b>0.1</b>	<b>0.7</b>	<b>0.7</b>	<b>1.5</b>

The assumptions underpinning the figures above are as follows:

- i) Council Tax will increase by 2.99% for 2024/25, reverting back to 1.99% for 2025/26 onwards;
- ii) No increase has been factored in for non-inflationary changes in business rates or additional New Homes Bonus;
- iii) Core Spending Power will increase by 4.4% in 2024/25, as indicated in the Government's December 2022 budget policy statement, falling to a 2% reduction for 2025/26 onwards (with Core Spending Power defined as Revenue Support Grant, Business Rates, Council Tax, New Homes Bonus and one-off general grants);
- iv) Transitional funding to replace any potential future loss of Revenue Support Grant (RSG) and New Homes Bonus (NHB);
- v) Pay award assumed at 3% (5% 2023/24);
- vi) Fees and charges income at 2% per annum; and
- vii) Inflation assumed at between 2-5% dependent upon the contract.

#### **7. Revised MTFs Position as at September 2023**

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 £0.5m, with the cumulative budget gap now estimated at £1.0m, equal to 6.1% of the 2023/24 revenue budget of £16.267m (£16.094m excluding parish precepts).

The current high levels of inflation and the proposed pay award for 2023/24 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 the 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 2023/24.

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. Further delays to the multi-year spending review meant that the Council received 'one year' settlements in each of the 2021/22 and 2022/23 financial years. The 2023/24 settlement was a one-year settlement with high level indicative figures for 2024/25. No details around settlement figures have been provided for 2024/25 leaving a great deal of uncertainty.

As part of the much-delayed spending review, the Government had proposed to revise the methodology for allocating funding to Councils. This included 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 2024/27 can be seen below:

**Table 2: MTFS position before saving proposals as at September 2023**

<b>MTFS</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>Total £m</b>
Continuation estimate	1.3	0.8	0.5	2.6
Funding	(0.9)	(0.3)	(0.4)	(1.6)
<b>Budget Gap</b>	<b>0.4</b>	<b>0.5</b>	<b>0.1</b>	<b>1.0</b>

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

- i) Council Tax will increase by 2.99% in 2024/25, reverting back to 1.99% in 2025/26 onwards;
- ii) An increase to the council tax base of £100k per annum (equivalent to 1.3%);
- iii) No changes have been assumed regarding changes in Council Tax Support numbers or to scheme contribution levels;
- iv) Inflationary increase in business rates of 6% in 2024/25 reducing to 3% 2025/26 onward (based on assumed September CPI figures);
- v) An assumed average 4% increase for all other elements of Core Spending Power for 2024/25, decreasing to 2% in 2025/26 onwards;
- vi) It has been assumed that we will continue to be members of the Lancashire Business Rates Pool 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 are intending to confirm their membership for 2024/25;
- vii) Pay award has been assumed at 5% in 2024/25 and 3% in 2025/26 and 2026/27;
- viii) An increase to fees and charges at 3% in 2024/25 (with the exclusion of car parking charges which were increased in 2023/24), remaining at 3% in 2024/25 and 2025/26; and
- ix) Contractual and general inflationary increases of 6% in 2024/25, dropping to an average 3% in 2025/26 onwards;

## 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 £229k for 2024/25. No savings proposals involve a reduction in staffing.

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

Total savings identified for 2024/25 will therefore be £252k.

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 2024/27 Revenue Budget Position**

It can be seen in table 2 at paragraph 7 above that there is an overall savings requirement of £1.0m over the period 2024/27.

The savings recommended for approval in Appendix 1 total £255k which, together with the £23k of savings already approved, leaves a balance of savings required over the period 2024/27 at this stage of £0.7m, as shown in table 3 below.

The budget gap of £0.7m is based on the assumptions around Core Spending Power contained within paragraph 7 above. However, table 3 also demonstrates how the budget gap could change should the Government agree to either a 2% or 0% increase of Core Spending Power.

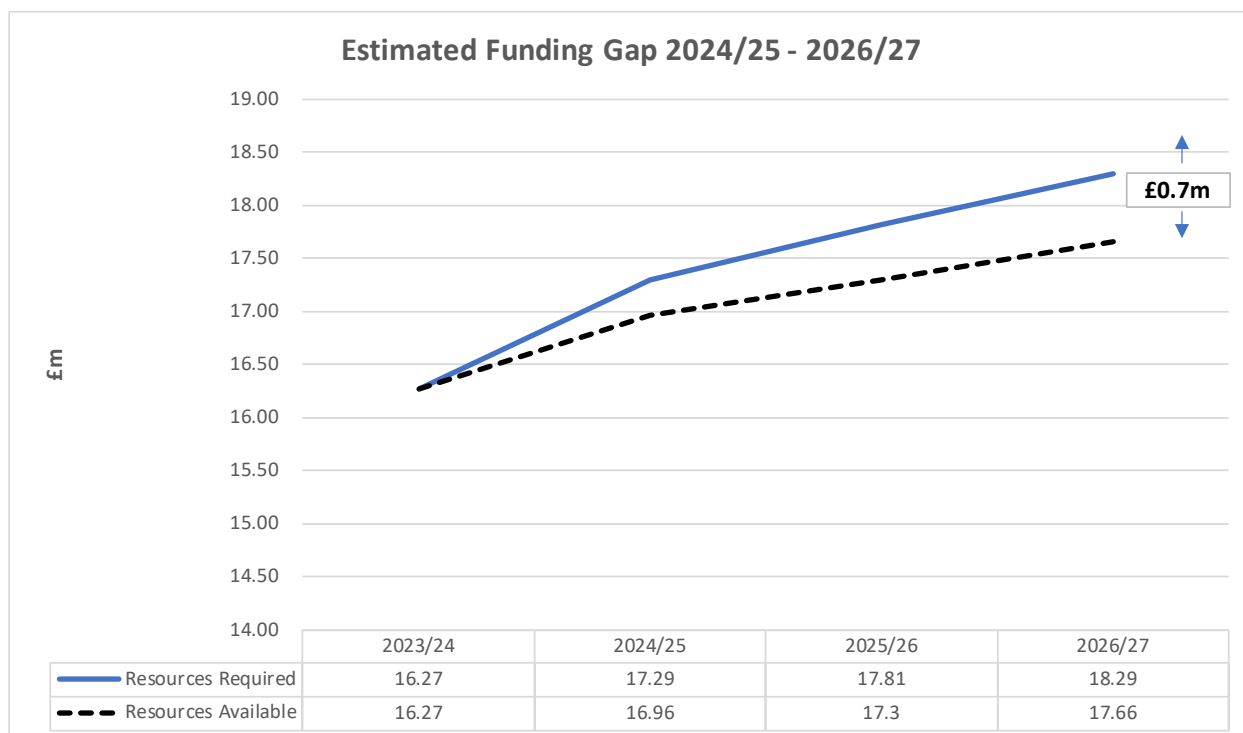
**Table 3: MTFS position after savings proposals as at September 2023**

<b>MTFS</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>Total £m</b>
Continuation estimate	1.3	0.8	0.5	2.6
Funding	(0.9)	(0.3)	(0.4)	(1.6)
Savings	(0.3)	(0.0)	(0.0)	(0.3)
<b>Budget Gap</b>	<b>0.1</b>	<b>0.5</b>	<b>0.1</b>	<b>0.7</b>
<b>2024/27 Funding Scenarios</b>				
Funding – 2% increase in core spending power (all years)	(0.8)	(0.3)	(0.4)	(1.5)
<b>Budget Gap</b>	<b>0.2</b>	<b>0.5</b>	<b>0.1</b>	<b>0.8</b>
Funding - 0% increase in core spending power (all years)	(0.8)	(0.3)	(0.3)	(1.4)
<b>Budget Gap</b>	<b>0.2</b>	<b>0.5</b>	<b>0.2</b>	<b>0.9</b>

Budget gaps of £0.1m for 2024/25, £0.5m for 2025/26 and £0.1m for 2026/27 remain.

Proposals to meet the 2024/25 balance of savings required will be taken to Full Council for approval in February 2024.

The chart below shows the estimated budget gap between the Council's spend requirement and assumed funding over the period 2024/27:



### **Risks and Sensitivity**

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

<b>Assumption</b>	<b>Sensitivity Analysis</b>	<b>2024/25 Financial Impact</b>
Council tax will increase by 2.99% ( <b>2024/25 only</b> )	+/- 1%	+/- £77k
An increase to the council tax base of 1.3%	+/- 0.25%	+/- £19k
Pay award has been assumed at 5% per annum (Burnley BC, Liberata, Burnley Leisure & Urbaser)	+ 1%	+ £159k
Contractual and general inflationary increases of 6%	+ 1%	+ £59k

- 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 2023/24 settlement was a one-year settlement with high level indicative figures for 2024/25. No detail around settlement figures have been provided for 2024/25.

The funding settlement is usually based on September's CPI which is published in October each year. CPI is currently 6.8% (July 2023). Due to the uncertainty around the budget settlement, we have assumed an average 4% increase in core

spending power for 2024/25 as the budget settlement for Burnley is usually below the England average, as can be seen in the table below:

<b>TABLE A SPENDING POWER REDUCTION / (INCREASE)</b>		
<b>Year</b>	<b>Burnley (%)</b>	<b>England Average (%)</b>
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)

b) Salary costs – the 2023/24 pay award is currently under negotiation with the employer’s side offering a one year pay agreement of £1,925 across all pay points, with the exception of Chief Officers where the offer of a 3.5% pay award has been accepted. This equates to an average 5.04% 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 2024/25 reducing to 3% from 2025/26 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 and Manchester Road 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 2024/25 budget is currently being undertaken. Issues may arise from the exercise that could have an impact on the 2024/25 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 risk will be closely monitored during the year to ensure that income targets are being achieved.

- f) Inflation – inflation is expected to reduce to around 6.1% by the end of the calendar year. An increase of 6% 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, council tax and business rates. Income monitoring is currently ongoing in 2023/24 and any potential shortfalls will be factored into the 2024/25 budget.
- h) Energy costs – the Council pre-buys its energy in October each year for use over the following 12 months (April to March) as part of the Crown Commercial Services energy framework. All central government departments are also part of this framework. Due to the increasing costs of energy, it has made a major impact on the revenue budget. An additional £700k was built into the 2023/24 budget to help mitigate the impact of the increases in costs, £250k of which was a temporary increase funded from reserves.
- 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 February 2022. However, in an attempt to slow the increasing rates of inflation the Bank of England has increased the bank rate by 5% in 13 tranches over the period March 2022 to August 2023, from 0.25% to 5.25%. Any increase has implications on the Council's revenue budget in future years where there is a requirement to finance future capital schemes from borrowing.
- 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:**

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**ALSO:**

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