

REPORT TO EXECUTIVE



DATE	15th February 2024
PORTFOLIO	Resources & Performance Management
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Revenue Budget 2024/25 Statutory Report of the Chief Financial Officer

PURPOSE

1. To enable elected Members to consider the statutory report of the Chief Financial Officer.

RECOMMENDATION

2. That elected Members note this report and have regard to its contents when setting the Revenue Budget for 2024/25.

REASONS FOR RECOMMENDATION

3. To satisfy the statutory requirements of the Local Government Act 2003.

SUMMARY OF KEY POINTS

4. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the budget estimates and the adequacy of the financial reserves. The Act also requires the Authority, to which the report is made, to have regard to the report when making decisions about the budget.
5. In this context, the reference to the Chief Finance Officer is as defined in Section 151 of the Local Government Act 1972. This statutory role is fulfilled in this authority by the Director of Resources.

6. This report covers:

- An assessment of the robustness of the 2024/25 budget setting process for both revenue and capital;
- A high-level assessment of key risks that may impact the budget for 2024/25;
- An assessment of the overall adequacy of reserves to contain financial risk and ensure the sustainability of the Council over the financial year 2024/25; and
- An indication of future direction of travel for the Council over the medium term.

7. **SUMMARY**

7.1 In summary, I am satisfied that the proposals to establish a Net Budget Requirement of £18,986,918 for the financial year 2024/25 and Council Tax Requirement of £8,054,980 as set out in the report to Council on 27th February 2024, are robust to ensure that the Council remains a going concern throughout 2024/25.

7.2 However, the financial outlook for the Council given the medium-term financial strategy continues to be challenging. To ensure a balanced position for 2025/26 and beyond the Council will have to take tough decisions balancing declining access to resources against emerging risks.

7.3 This may require a strategic reprioritisation of commitments especially as reserves are forecast to be diminish over the medium term. The Council will be required to remain proactive in identifying savings and increase income throughout the medium-term period to ensure its viability can be maintained.

7.4 This is also within the context of a government review of relative needs of local authorities, which will inform a change in mechanism of funding for local authorities from 2025/26, of which currently there is much uncertainty and may be pushed back to 2026/27 or later given the proposed timing of the general election.

8. **ROBUSTNESS OF THE BUDGET 2024/25**

8.1 In assessing the robustness of the overall budget for next year, I have taken the following into consideration:

8.2 The robustness of the underpinning financial planning assumptions on which the budget has been determined:

- a. Financial resources are aligned appropriately to the strategic priorities of the Council. Investments in service delivery have been made to support the Council's prosperity and place objectives directing resources to community services.
- b. Savings to deliver a balanced budget have been identified focussing on efficiency and value for money and relative priority needs of services. Identified savings are realistic and action plans for delivery are in place.

- c. The Council, as part of finalisation of the revenue budget 2024/25, has factored minimal growth in business rates due to the continuing impact of challenges to valuations and difficult trading environment for businesses. A minimal increase to the council tax base has also been included due to the number of properties added during the year. There has been a slight increase in the number of CTS claims which will be kept under review during the year.
- d. The determination of funding from Central Government for New Homes Bonus, Minimum Funding Guarantee and the Revenue Support Grant for 2024/25 have been incorporated, based on final settlement figures due to be announced in February 2024.
- e. Employee budgets have been cross-referenced to the agreed establishment. The 2024/25 budget has assumed a forecast headline 5% pay award in the absence of an agreed pay settlement. The pay award for 2023/24 has been finalised and factored into the 2024/25 budget. Pay awards of 3% have been projected for future years.
- f. Assumptions made about future inflation and interest rates are realistic.
- g. Income estimates are based on current patterns of usage and anticipated variations during the coming year. Decisions about levels of charges have already been taken by the Council in January 2024 and will be implemented from 1st April 2024.
- h. Capital and revenue budgeting are integrated, in that the revenue consequences of the capital programme are considered as part of the overall budget process for 2024/25.

8.3 Appropriate and effective governance arrangements are in place to manage the financial resource and maintain a balanced budget throughout 2024/25:

- a. Financial management is delegated appropriately, and commitments are entered into in full compliance with Financial Procedure Rules.
- b. Effective governance arrangements are in place for budget monitoring and reporting during the financial year.
- c. A risk assessment has been carried out on the revenue budget and those risks have been appropriately mitigated.

8.4 An assessment of funding framework for local government and its impact on the Council's finances:

- a. The settlement figures provided in the budget are based on the final settlement.
- b. The Executive's proposals do not breach the 'excessiveness' principle for 2024/25, where a local referendum is required for any Council tax increase of 3% or more than 3%.

- c. Appropriate assessment has been made of likely levels of debt impairment provision when determining the local Council tax base.

9. **RISK ASSESSMENT**

The major risks to which the Council are exposed are set out below:

9.1 **Business rates volatility**

Changes to local government funding brought in from 2013/14 allow local authorities to retain an element of business rate growth. There remains an ongoing risk of volatility of business rates arising from unknown appeals and unanticipated fluctuations in collectible income from the business community. However, risk arises as the Council is required to firstly meet any reduction in business rates and secondly, to comply with national business rate policy and government guidance, the accounting arrangements are complex. In 2013/14, the general reserve was increased to £1.379m in recognition of potential risk from a significant loss of business rates. Furthermore, the reserves strategy 2015/16 saw the creation of a business rates volatility reserve to ensure the “smoothing out” of accounting fluctuations. The level of these two reserves are regularly reviewed to ensure that they remain at sufficient levels. It is now also key to mitigate against funding volatility as part of the future business rates and fair funding review. The budget position for 2024/25 reflects a realistic assessment as at February 2024.

9.2 **Utilisation of reserves**

Taking into account known commitments, anticipated risks and lack of affordability to set aside or replenish strategic reserves the forward forecast suggests it is less likely that reserves will be available for future use in this way. However, the position will be kept under review in the light of emerging and changing conditions.

9.3 **Partnerships**

As a result of changes to the Councils’ business model, key services are no longer directly delivered by the Council but through partnership including the Leisure Trust, Urbaser Waste Management and the Liberata Partnership, forecast to account for £8.61m or 15.5% of Council gross spending in 2024/25. These partnerships are intended to deliver transformational change in the way that services are provided to our customers within a reduced cost base. The Council continues to work closely with our partners in ensuring effective delivery and will continue to monitor performance to mitigate any potential risks and issues that emerge. The Liberata contract is due to end in January 2026 and a review is currently taking place to consider a two-year extension. A report containing recommendations will be brought to Members for consideration in early 2024/25. The Council has recently approved a VEAT notice for the Urbaser contract to extend the existing contract for a further 10 to 22 months due to the recent waste collection changes announced by the Government. This will help to mitigate against the price of risk uncertainties if the contract was tendered at this stage.

9.4 **Workforce**

The approved budget for 2024/25 includes a vacancy factor of £169k recognising a normal lag period of appointment to vacant posts of three months. For 2024/25 this represents 1.5% of the staffing budget for 231 fte's. Clearly to ensure a balanced budget for 2024/25 the expectation would be a continuation of this policy unless exceptional and business critical circumstances prevail. The vacancy factor as is current practice will be monitored throughout 2024/25.

9.5 **Capital Receipts**

The delivery of the capital programme relies on capital receipts being generated to fund new developments. The forecast of capital receipts is based on anticipated sales at the time the programme is prepared. Whilst the Council has sufficient capital receipts to deliver the capital programme for 2024/25, from 2025/26 onwards capital receipts are forecast to be insufficient to deliver the forward capital programme. This will require significant re-prioritisation of future schemes. The Council needs to ensure that it maximises the opportunity to generate capital receipts and has the ability to respond effectively and promptly to unforeseen or major capital works specially to respond to health and safety or public protection matters and commercial opportunities. Progress on the generation of capital receipts will be monitored during 2024/25.

9.6 **Possible litigation and uninsured risks**

During the normal course of business, the Council operates in an environment where there is an underlying risk arising from contractual obligations and uninsured risks. In the event that liabilities emerge during the course of the year the Council will assess impact including disclosure as contingent liabilities or provisions. We will further assess, following robust challenge, whether these liabilities will be an obligation on the Council for which resource is required. Where possible the Council will seek to set aside resources subject to affordability within a reduced funding context.

9.7 **Public sector risks**

Increasingly, the Council is finding itself in the position of reduced contributions as historic austerity measures continue to impact on other public sector partners. In the event that issues emerge they will be factored within the overall budget monitoring position.

9.8 **Changes to local government funding**

As part of the announcement of the provisional local government settlement for 2018/19 in December 2017, government announced a consultation; "*Fair funding review: a review of relative needs and resources.*" The review was put on hold during the pandemic. Government announced, as part of the 2023/24 budget settlement, that the fair funding and business rates reviews will be delayed until at least 2025. This will define new relative needs of authorities for 2025/26 onwards and the change to the business rates retention scheme and other changes. The proposed timing of the general election will result in further delays, pushing the review into 2026/27 or beyond. This will have an effect on the overall funding that this authority receives. This uncertainty on funding going forward represents a key risk for this Council.

A revaluing of rateable values has taken place and is based on property values as at 1st April 2021. The new system was implemented from 1st April 2023. The impact on the baseline funding level has been incorporated into the 2024/25 budget.

9.9 Pensions

Payment rates and performance of investments in the Lancashire County Pension Fund are assessed for this authority every three years, with the latest valuation occurring in 2022 which determines payment rates and values of assets and liabilities from 2023/24 onwards. Following the valuation there was a significant reduction in payments required by the Council for its assessed deficit in the fund. In fact, the valuation has resulted in the fund going into a surplus position. Following the 2019 valuation, a Pensions Reserve was created and it was agreed to transfer £350k per annum over the financial years 2020/21 to 2022/23 to provide a funding for any increase in contributions as a result of the 2022 valuation. The reserve would provide funding over a transitional period to reduce the impact any increase would have on the Council's revenue budget. As the 2022 valuation has resulted in a further reduction it is proposed to retain the balance in the Pension Reserve for the 2025 valuation. This is a key risk area and is covered extensively in accompanying budget reports. It is essential for this authority to ensure the pension fund is sustainable for its members, as is the Council's responsibility, and the significant volatility of payments and performance of the pension fund are assessed with action taken on an on-going basis.

9.10 Covid-19 and Cost of Living Crisis

The impact of the Covid-19 pandemic and the Cost-of-Living Crisis on the 2024/25 budget is still being felt and its impact in future years is unknown. However, during 2023/24 we have continued to see income from fees and charges return towards pre-pandemic levels. The Council will continue to monitor the position throughout 2024/25. A Covid Reserve was created in 2020/21, later renamed the Cost of Living Reserve, to deal with any fluctuations in income and expenditure in future and to provide some additional resource.

10. ADEQUACY OF RESERVES 2024/25

- 10.1 In assessing the adequacy of reserves, I have taken into consideration the forward forecast of reserves contained within the Medium-Term Financial Strategy which indicates that reserve levels for both strategic and general reserves are sufficient to mitigate any downside risks facing the Council during 2024/25.
- 10.2 The longer-term assessment of reserves required to meet known commitments and future risks facing the Council indicate strategic reserves to be significantly reduced, which include the effect of three major schemes (see paras 11.5 to 11.7).
- 10.3 This will impact on the Council's ability to deliver its strategic objectives over the medium term and careful consideration of their use should be made to ensure the Council obtains the most added value in their utilisation.
- 10.4 However, as part of budget decisions for 2024/25 and beyond there is a ten-year plan to contribute into the Council's Revenue Support Reserve to provide resilience for the Council. This began with a £100k contribution in 2019/20 and grows to a recurrent £200k from 2024/25 onwards.

10.5 A reserves strategy stating the purpose for which each reserve is held, managed and controlled is contained within the Medium-Term Financial Strategy recommended for approval by Council. However, I am satisfied that the level of reserves is sufficient for 2024/25.

11. **FINANCIAL OUTLOOK**

11.1 The Council continues to be financially challenged over the medium term facing a budget gap of up to £4.4m or 22% by the end of 2028/29. The Council must continue to be focussed in maintaining its financial health by downsizing in a planned and sustainable way so that it is able to continue to operate as a going concern and maintain operational services. The Council entered into a strategic partnership that has, and will continue to deliver transformational change to customer services over the life of the contract including greater use of digitisation and providing inward investment. Savings arising from this partnership have contributed towards closing the budget gap, however further Council wide savings will be required through prioritisation, transformation and continuous improvement.

11.2 The financial forecast is based on indicative funding figures and will be subject to change. However, several scenarios have been presented in the Medium-Term Financial Strategy 2025/29. This Council will also influence the Fair Funding Review as far as possible, to attempt to ensure funding is representative of the Council's need. Possible changes in 2026/27, around the business rates retention scheme, fair funding reforms and other changes leave uncertainty on funding levels from that year onwards and represent a key funding risk.

11.3 The impact of the performance of the UK economy, and in particular regarding the uncertainties surrounding Brexit and the impact of the trade deal, could potentially affect future funding for the Council. This could take the form of lower funding levels available to local government, pressure on income and expenditure budgets and impacts arising from pressures on Business Rates and Council Tax funding in relation to the local economy. This will be monitored and factored into the Medium-Term Financial Strategy.

11.4 The Covid-19 pandemic and cost of living crisis has had a significant impact on both the Council and also businesses and residents within the borough. Significant Government intervention was received in 2020/21, that continued into 2021/22, in the form of business grants, furlough scheme and funding provided to local authorities to compensate for additional expenditure and lost income. The longer-term financial impact is not yet known, for example, the impact on council tax and business rates collection rates. The Government introduced a series of financial measures to assist local authorities and their residents and businesses during 2022/23, some of which are continuing into 2024/25.

11.5 As reported to Full Council in December 2018 this Authority commissioned two significant capital projects, namely the Pioneer Place development and the Sandygate Square Student Accommodation scheme. The Sandygate Square development was completed and open in time for the 2020/21 academic year. This scheme has been incorporated into the MTFS. A revised Pioneer Place scheme was later approved at Full Council in October 2021 and work started on site in January 2022. These works completed in the summer of 2023 and the site is now open. The second phase of the scheme at Manchester Road has now commenced and work is ongoing. The Charter

Walk shopping centre was advertised for sale by its owners in 2021 resulting in Full Council approving its acquisition in July 2021. The acquisition was successfully completed in October 2021 and the Council has subsequently made a annual surplus that is being ring-fenced for future regeneration of the town centre.

- 11.6 These developments require significant financial support from the Council, as well as taking on significant commercial risk over the lifetime of these projects (between 30 and 50 years). These schemes will also require significant use of reserves and will see unprecedented amounts of borrowing – circa £48m. These present threats to the financial viability of the Council. However, in partial mitigation, various strategies have been put in place.
- 11.7 These include contractual conditions for the Pioneer Place scheme, the retention of asset and property managers for Charter Walk, a strategy to build up reserves over the next 10 years to provide a buffer for budget pressures, specific reserves for all of these schemes to renew the assets and capture any over-performing income and recognition of limited capacity to take on other significant capital schemes. The financial performance of these schemes continued to be monitored against their approved business models.
- 11.8 The Council must remain proactive in its activity to deliver sustainable savings over the medium term if it wishes to remain a viable entity.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

12. As set out in the report on the Revenue Budget for 2024/25, Capital Investment Programme 2024/25 to 2028/29 and Medium-Term Financial Strategy 2025/29 elsewhere on your agenda.

POLICY IMPLICATIONS

13. None

DETAILS OF CONSULTATION

14. None

BACKGROUND PAPERS

15.
 - Revenue Budget – 2024/25
 - Capital Investment Programme 2024/25 to 2028/29
 - Medium-Term Financial Strategy – 2025/26 to 2028/29