



REPORT OF: Executive Member for Finance and Governance

LEAD OFFICER: Director of Finance

DATE: 9th June 2022

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

KEY DECISION: Y

TITLE OF REPORT: Development of the General Fund Revenue Budget 2023/24

1. PURPOSE

- 1.1 The purpose of this report is to provide the Executive Board with an update on the Council's Medium Term Financial Plan (MTFP) 2023/26 as the start of the process for developing the Council's Budget for 2023/24.

2. RECOMMENDATIONS

- 2.1 It is recommended that Executive Board:-

- a) agree to write to the Department for Levelling Up, Housing and Communities (DLUHC) seeking an increase in the Council's funding settlement for 2022/23 to reflect the significant increase in inflation;
- b) note the key risks to the delivery of the budget in 2022/23 and that these will be subject to consideration as part of the regular Budget Monitoring reports submitted to the Executive Board;
- c) note the uncertainty with the funding outlook for the Council, not least the limited progress on Local Government Finance reforms and the possibility that these may not take place before the next General Election in 2024;
- d) note the update to the Medium Term Financial Plan for 2023/26 as shown at **Appendix A** and that a further update will be provided in October 2022;
- e) note the scenario analysis shown at **Appendix C and D** which models 'worst'/'best' case scenarios around the baseline MTFP as part of the assessment of potential risks facing the Council;
- f) note the potentially significant financial impact of the review of the pay structure (should it be considered necessary), the financial impact of the Social Care reforms and Academisation of Schools and that an update on these matters be provided in future reports on the MTFP;

- g) in accordance with the Council's Budget and Policy Framework Procedure Rules, request that Portfolio Holders develop draft proposals to meet the funding gap set out in the report for the period to 2025/26 and that any such proposals are considered by the Executive Board in due course;
- h) note the timetable set out in the report for the development of the Council's Budget for 2023/24.

3. BACKGROUND

- 3.1 At the meeting of the Finance Council on 28th February 2022, the Council approved the Financial Strategy 2022/26. As part of the Financial Strategy, an update was provided on the Council's Medium Term Financial Plan (MTFP). Acknowledging that the Council is operating in a dynamic environment and that the assumptions underpinning the MTFP are subject to change, it is good practice to review and update the MTFP on a regular basis.
- 3.2 To that end, work has been undertaken to update the Council's Medium Term Financial Plan (MTFP) 2023/26 to ensure that the Council has a good understanding of its forward financial forecasts and is able to start planning for the development of the budget in 2023/24.

4. RATIONALE

- 4.1 The development of the budget is a key element of the Council's financial governance processes. Starting this work early in the current financial year should allow adequate time to develop a range of options for Councillors to consider when setting the budget for 2023/24.
- 4.2 It is also worthwhile noting that, as part of the new approach to the assessment of the Council's Value for Money arrangements, the Council's External Auditors assess what arrangements the Council has in place to deliver a balanced budget including the adequacy of savings schemes, extent to which there is consultation with stakeholders etc. It is important, therefore, for the Council to have developed **a robust and deliverable set of options** for achieving a balanced and sustainable budget over the medium term to avoid any adverse commentary in the Auditor's report on Value for Money that may lead to more directive action.

5. KEY ISSUES

Funding Outlook

- 5.1 Any consideration of the Council's Financial Strategy and Medium Term Financial Plan must be undertaken in the context of the funding outlook for Local Government and what that means for the Council.

Spring Statement 2022

- 5.2 The Spring Statement 2022 provided no new funding announcements of substance for Local Government (or other Government Departments for that matter). This is despite the general rate of inflation increasing to c7% thereby reducing in real terms the funding settlements announced at the Autumn Budget 2021 (which also set out the results of the Comprehensive Spending Review) which are set in cash terms. There has been no indication from the Government that these 'real' terms reductions in funding will be made up with additional allocations.

Local Government Finance Reforms

5.3 Equally, the Government has not made any further announcements about the progress, or otherwise, of the planned reforms of Local Government Finance. As previously set out, there are three areas of proposed reform as follows:-

- **Fair Funding Review** – this review commenced in 2018 with the aim of setting new baseline funding allocations for each local authority based on their relative needs and available resources. The outcome of the review was to inform the funding settlement for Councils for 2020/21 but was delayed due to BREXIT. And, in April 2020, the Government announced the implementation of the review '*would not now go ahead to allow Councils to focus on meeting the immediate public health challenge posed by the Pandemic*'.

Most recently, as part of the Local Government Finance Settlement for 2022/23, the Government confirmed its commitment to '*ensuring that funding allocations for Councils are based on an up-to-date assessment of needs and resources and to consulting with Local Government on any potential funding reform*'. That being said, however, there has been no movement by the Government on this matter to date.

- **Business Rates Retention Review** – the Government had planned to increase the percentage of business rates that Councils keep, from 50% to 75%, from 2020/21. Again, this has been postponed and it was expected this will be implemented in 2022/23. Again, given the impact of Covid-19 on business and questions about the sustainability of business rates as a method of funding local government services, it is not clear whether the Government will pursue a policy of increasing the amount of business rates retained.

And, related to Business Rates, in May 2020 the Government announced that, again due to the impact of the Pandemic, the planned revaluation of Business Rates in 2021 will now take place in 2023 and will be based on rental data from April 2021. This was confirmed in the Government's response to the Business Rates Review undertaken in 2021/22 which also:-

- set out the Government's proposals **to have more frequent revaluations** to improve the distributional fairness of the business rates system. In essence, this means revaluations will take place every 3-years (and not every 5-years as at present) with an aspiration to moving to annual revaluations in the future;
- include reform of the Business Rates Valuation Appeals process (otherwise known as **Check, Challenge, Appeal**) by removing the 'Check' stage and reducing the window for submission of Challenges to 3-months. These changes are likely to take place from the 2026 List and should, hopefully, reduce the number of spurious appeals;
- referenced the current consultation by HM Treasury on an **Online Sales Tax** which may be considered to help rebalance the taxation of the retail sector recognising the move from traditional 'bricks and mortar' retail outlets to online retailing and the impact on the Business Rates tax base ([OST_condoc.pdf \(publishing.service.gov.uk\)](#)).

- **Services Grant** – This is a new grant that was introduced as part of the 2022/23 Settlement. In total, this is worth £822m for Local Government and for BwD, the grant is £3.072m. In the Settlement for 2022/23, the Government described this grant as ‘one-off’ and that the funding would be excluded from any proposed baseline for transitional support in future years. What this means specifically is not clear but, for the purposes of the MTFP, it is assumed that the grant will continue at its present rate;
- **New Homes Bonus** – as part of the Funding Settlement for 2022/23, the Secretary of State for DLUHC announced a further one-year allocation of New Homes Bonus (plus the legacy payments from previous years);

The Government’s rationale for a single year payment in the previous financial year (2021/22) was their intention to consult on a new method of incentivising housing growth in Spring 2021 (this consultation was expected in 2020 but was deferred because of the Covid-19 Pandemic). The Government did conduct a consultation on changes to the New Homes Bonus Scheme early in 2021 but, despite the end of the consultation, the Government remains silent on the future of the New Homes Bonus;

• **Lower Tier Services Grant** – a new feature of the Funding Settlement for 2021/22 was the payment of a Lower Tier Services Grant which, as its name suggests, is payable to Councils like Blackburn with Darwen that have a responsibility for lower tier services. It was assumed that this grant was one-off for 2021/22 but the Government chose to pay it also in 2022/23. It has been assumed that this will continue to be paid over the life of the MTFP.

- 5.4 Recent speculation in the public sector press quotes the Chief Executive of the Local Government Association suggesting that these reforms are now unlikely to take place before the next General Election. This now seems likely given the potential for the redistribution of funding to be challenging for the Government.

Update of Medium Term Financial Plan 2023/26

- 5.5 Since the meeting of Finance Council on 28th February 2022, and recognising that the Council is operating in a dynamic environment, work has continued to update the Council’s Medium Term Financial Plan (MTFP) for the period to 2025/26. A summary of the updated MTFP is provided in the Table 1 below with a more detailed analysis provided at **Appendix A**:-

Table 1: Medium Term Financial Plan 2023/26

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Portfolio Budgets	133,880	132,912	132,567	132,567
Other Corporate I & E	16,123	20,553	27,776	35,351
Net Revenue Expenditure	150,003	153,465	160,343	167,918
Less Core Funding	(82,626)	(84,717)	(85,618)	(86,537)
Less Council Tax	(54,231)	(62,153)	(65,421)	(67,696)
Shortfall before Reserves	13,146	6,595	9,304	13,685
Change in Specific Reserves	(13,146)	(1,388)	(960)	(500)
Change in GF Balance	-	-	-	-
Funding 'Gap'	-	5,207	8,344	13,185

In Year Funding 'Gap'	-	5,207	3,137	4,841
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See Appendix A

- 5.6 **Appendix B** provides an analysis of the movement in the MTFP shown above when compared to the last MTFP reported Finance Council on 28th February 2022.
- 5.7 As the table indicates, the forecast funding gap for the period to 2025/26 is now estimated to be £13.1m. The key changes to the MTFP include:-
- an update to the Pay Award assumption for 2023/24 onwards. For planning purposes, it is now assumed that the Pay Award for 2023/24 will be 4%, falling to 2% in 2024/25 and 2025/26. This reflects guidance from the National Employers Organisation which is cognisant of rising inflationary pressures. Whilst inflation is tracking at c7% in the current financial year to date, the Office of Budget Responsibility expect it to peak in 2022 and fall back to 4% in 2023, and c2% thereafter;
 - an update to the assumption on the National Living Wage to reflect the Low Pay Commission's 'central path' forecast. This assumes a c6% year-on-year increase over the life of the MTFP. As the Executive Board may be aware, this is a key issue in the determination of Adult Social Care Provider uplifts. These 'uplifts' are, however, likely to be determined with reference to the Fair Cost of Care exercise (and Market Sustainability Assessment) the Council is required by the Government to undertake in 2022/23 and which may have a significant bearing on what the Council should pay;
 - update on the inflation assumptions for energy costs to reflect the significant change in the wholesale price of energy and its potential impact on the Council's activities, for example the operation of Leisure Centres. This in turn has impacted on the assumed increase in commissioning costs for both Adults and Children's Services.
- 5.8 These and the other assumptions underpinning the MTFP will remain under review as the financial year progresses.

Key Areas of Uncertainty

- 5.9 The MTFP is a forecast of the Council's financial position over the period to 2025/26. At this stage, there remain a number of matters where insufficient information is available but which are likely to have a significant impact on the MTFP. These include:-

Delivery of the Budget in 2022/23

- 5.10 Delivering the budget in 2022/23 is critical to the sustainability of the Council's financial position. The key risks to delivery of the budget that Executive Board need to remain sighted on are as follows:-
- ***Implementation of savings*** – the Council agreed savings totalling £2.065m to balance the budget for the year. All of these savings were permanent reductions in the budget and to the extent that they are not delivered in full or at all, there will be an additional budget pressure for 2023/24 onwards. The expectation is that they will be delivered;
 - ***Pay Award in 2022/23*** – this is budgeted at 2%; at this stage no announcements have been made on the pay award 'ask' or 'offer' but with general inflation (CPI) tracking at c7%, there is every likelihood that the pay award could be higher than budgeted. To note, for every 1pp increase, the additional cost to the Council is c£550k (and will, of course, have an ongoing cost to the Council);

- **Energy Inflation** – the Council’s cost of energy has increased significantly and is now estimated to be £3.916m in 2022/23 (in 2021/22, it was £1.447m). may want to give some consideration to any measures (eg operation of facilities, implementation of alternative energy supplies etc.) that can be implemented to manage the cost increases, acknowledging that in the current economic climates prices are expected to continue rising;
- **Demand for Adult and Children’s Social Care** – this remains an ever present risk for the Council, not least as the Borough emerges from the impact of Covid-19. As part of the budget setting process, £1m of Social Care Grant was held back to mitigate the impact of costs pressure but, in the light of the recent Ofsted Inspection of Children’s Social Care, that funding has been allocated entirely towards the delivery of the Children’s Social Care Improvement Plan. Any cost of demand pressures will, therefore, have to be contained within existing budgets;
- **Impact of Covid-19** – whilst the rates of infection for Covid-19 have fallen, and continue to fall, the risk of new variants remain and with all legal restrictions lifted, there is potential for surge infections to occur. The Government has provided no new funding to Local Authorities in 2022/23 to deal with Covid-19, so any activity undertaken will have to be funded from within existing resources;

5.11 These and other matters will be considered in more detail as part of the regular budget monitoring reports to the Executive Board as the financial year progresses.

Funding Settlement

5.12 Given the funding settlement for 2022/23 is for one-year only, and that there appears to be a diminishing prospect of the Local Government Finance reforms referred to above, it is difficult to estimate the likely level of funding the Council will receive from 2023/24 onwards. Whilst the amount of funding from Business Rates and Revenue Support Grant appear relatively stable, it is not clear how the Government might choose to distribute the Services Grant or whether the New Homes Bonus will continue in any form at all.

Future Pay Awards

5.13 As the Executive Board may be aware, the Pay Award for 2021/22 has only recently been settled with no details as yet about the Pay Offer for 2022/23. It is likely that, given the current ‘cost of living’ crisis, the pay negotiations for 2022/23 will be as protracted as they were in the last financial year and there will be significant pressure on Local Government Employers to agree a pay award in line with the rate of inflation. And unless inflation is brought under control, there is every likelihood that the pressure on Pay Awards will continue to grow.

National Living Wage and Impact on Pay Structure

5.14 Details of the likely change in the NLW are set out above. An emerging issue arising from the increase in the NLW is the erosion of the ‘headroom’ between it and the lowest points on the NJC Pay Scales, a principle of that Employers have sought to maintain since the introduction of the NMW.

- 5.15 According to present forecasts, by 2024 all of the 'headroom' will have gone and, given the view of Local Government Employers that Local Government should not be a minimum wage employer, consideration is being given to options to avoid this. However, it is expected that any such options (eg deleting pay points or reducing the working week) will, inevitably, result in additional costs for Councils (and may, if there is a need to undertake a formal job evaluation exercise, lead to significant work).
- 5.16 In relation to any proposal to reconsider the pay structure of the Council in the light of the change in NLW, it is recommended that, should it be considered necessary, a report on this matter is considered by the Executive in due course setting out the options for the Council.

Social Care Reforms (including Market Sustainability and Cost of Care exercise)

- 5.17 During 2022/23, the Council is required to undertake a Cost of Care exercise (for 65+ Care Homes and 18+ Domiciliary Care) alongside the development of an Adult Social Care Market Sustainability Plan. Whilst it is not intended to replace the negotiation of commissioning or contract arrangements for care, the Cost of Care exercise is expected to inform Provider uplifts for 2023/24. Although it is not possible to predict the outcome of this exercise, the Council's payments to providers are already known to be below other Commissioners (eg Lancashire County Council) and so there is every likelihood the Cost of Care exercise will suggest an increase in payments to Commissioners.
- 5.18 Overlaying these requirements is the move towards the broader social care reforms set out in the Government's White Paper – 'People at the Heart of Care'. In particular, the introduction of the Cost of Care Cap from October 2023 and the need to understand how demand might change as a result of charging reform, changes in the means test capital limits and the self-funders who look to the Council for their care and support needs. Aside from the difficulties of assessing the financial impact of this (the cost to the Councils, estimating the likely additional funding from the Government), it is inevitable that it will require to review and redesign of both existing systems and processes to cope with the changes efficiently and effectively.
- 5.19 In view of the magnitude of the proposed changes and once more information is available from the Government, it is recommended that a report on this matter is submitted for consideration by the Executive Board in due course.

Care Quality Commission (CQC) Inspection

- 5.20 Councillors may be aware that the Health and Care Act 2022 includes provisions for a new assurance framework led by the CQC to inspect the performance of the delivery of Adult Social Care. The implementation of these provisions depends on the enactment of the Bill, the arrangements that the CQC need to put in place to conduct the inspection and the timetabling of individual Local Authority inspections.
- 5.21 The CQC Inspection is likely to focus on the Council's arrangements for working with people- (assessment of needs, prevention etc.), providing support (nature and strength of care markets, integration with NHS etc.), ensuring the safety of residents (safeguarding, safe systems of care) and Leadership.

- 5.22 Despite the uncertainty around the date of inspection of the Council's Adult Social Services, work is already underway to ensure the Council is prepared for any such inspection. This will include, in due course, briefing for Councillors as necessary. Subject to this ongoing work, there may be a need to consider the Council's capacity to do this work effectively so that the Council is adequately prepared.

Investment in Children's Services

- 5.23 The Executive will be aware of the outcome of the recent Ofsted Inspection of Children's Services and the need for additional investment to support the Improvement Plan. Indeed, this is a matter dealt with in a report elsewhere on the Agenda for this meeting. It is expected that this will be funded from within the current budget. However, the extent to which improvements are made and better outcomes achieved will be subject to regular review by Ofsted and may, potentially, necessitate additional investment. This is a matter that will need to remain under review as the year progresses.

Academisation of Schools

- 5.24 Following the publication of the Education White Paper, the Government has set out a clear timeline for all Schools to become part of a Multi-Academy Trust by 2030. This includes the proposal for Local Authorities to establish MATs.
- 5.25 The proposition of establishing a Local Authority MAT will, subject to more detail being provided by the Government, be the subject of a separate report to the Executive Board in due course. However, the initial assessment of the impact of further academisation on the Council's financial position has highlighted the risk to the sustainability of the Council's 'top-slice' of Dedicated Schools Grant (DSG)(c£941k) and income from Service Level Agreements (c£2.4m), both of which could be substantially reduced as this policy is implemented.

Other Matters

- 5.26 The narrative above sets out some of the key matters for Executive Board consider but it is not an exhaustive list. Other issues include, for example, the sustainability of recharges to the capital account, management of adult and children's social care demand, affordability of rising debt charges, the future of shared costs under the Continuing Healthcare arrangements given the changes to the Health and Social Care system in Lancashire. As ever, consideration will be given to the likely impact of these matters on the Council's MTFP.

Scenario Planning (Sensitivity Analysis)

- 5.27 As mentioned above, the MTFP is based on a range of assumptions which impact on both income and expenditure. Changes in these assumptions can have a fundamental effect on the Council's funding gap and the level of savings the Council will be required to make over the next 3 years.

- 5.28 The Executive Board will appreciate that it is good practice to model scenarios based on changes to some of the key assumptions in the MTFP. The purpose of this sensitivity analysis is not to predict or forecast the future, but rather test and understand the Council's sustainability into an uncertain future given alternative plausible scenarios for the key drivers of costs, service demands, funding and key risks to which the Council is exposed. Such 'stress testing' is considered to be good practice and acts as an indicator of the Council's financial sustainability.
- 5.29 The sensitivity analysis gives some indication of the likely range of the Council's deficit position bounded by realistic worst- and best-case scenarios. Although it is always possible there might be scenarios outside of these boundaries (as well as numerous ones within them), this is considered unlikely as the worst case assumes strongly negative estimates for most of the main aspects of the MTFP. Likewise, the best-case contains only positive changes.
- 5.30 Some of the key variables that have been modelled are as set out at **Appendix C** with the results of this analysis at **Appendix D** and summarised in Table 2 below:-

Table 2: Scenario Analysis

	2023/24 £000	2024/25 £000	2025/26 £000
Best Case	274	1,535	3,493
Base Position (Table 1 above)	5,207	8,344	13,185
Worst Case	11,310	16,111	22,994

See Appendix C and D

- 5.31 As the table indicates, the range of potential positions is a deficit of c£3.5m to a deficit of £23m. These scenarios are provided to reflect the level of potential volatility in the assumptions and reinforces the uncertainty with future budget estimates.

Financial Strategy 2022/23 to 2025/26

- 5.32 The Financial Strategy remains based around the following strands:-
- **Growing** the Council's income using the funding mechanisms now in place for local government, particularly the Business Rate Retention Scheme and the New Homes Bonus if it remains as a potential income stream. This means that the Council must actively consider ways in which it can increase income from business and housing growth to ensure that funding for services can be maintained;
 - **Charging** for services, raising income which will mean that it is possible to continue providing services that resident's value. This will mean reviewing the level of fees and charges, reducing the subsidy on some services and considering the introduction of new fees and charges. It will also include reviewing the amount of Council Tax Support given;
 - **Saving** costs by, for example, reviewing how the Council delivers services, doing things differently and more efficiently, scaling services to appropriate levels within the resources available to the Council and working with local town and parish councils and other partners to sustain local facilities;

- **Stop** spending on lower or non-priority areas. This could also mean, for example, that the Council works with other partners (Voluntary, Faith, Community Sector, Town/Parish Councils etc.) and residents to deliver services, something akin to the ‘Your Call’ Initiative.

5.33 The Financial Strategy was reported and approved by Council at its meeting on 28th February 2022.

Next Steps

5.34 Table 3 below provides an outline timetable for the development of the budget for 2023/24.

Table 3: Indicative Timetable for Development of Budget 2023/24

Date	Action	Status
Mar 2022	Budget Implementation Report 2022/23	Completed
May 2022	Updated MTFP to the Executive Board	This report
June - Sept 2022	Development of Proposals	
13th Oct 2022	Update MTFP to Executive Board	
Oct-Nov 2022	Further development of ideas/options	
8th Dec 2022	First Budget Report to Executive Board	
Dec 2022	Provisional Local Government Finance Settlement (LGFS) 2023/24	
Dec 2022	Update on Budget/LGFS to Corporate Leadership Team	
Dec 2022	Update on Budget/LGFS to Policy Development Session	
19th Dec 2022	First Budget Report to Resources Scrutiny	
Jan/Feb 2023	Final Local Government Finance Settlement 2023/24	
Jan 2023	Update on Budget to Corporate Leadership Team	
9th Feb 2023	Second Budget Report to Executive Board (with Scrutiny Minutes)	
27th Feb 2023	Finance Council sets Budget and Council Tax for 2023/24	

6. POLICY IMPLICATIONS

6.1 There are no policy implications arising directly from this report.

7. FINANCIAL IMPLICATIONS

7.1 The financial implications are as given in the report.

8. LEGAL IMPLICATIONS

8.1 There are no legal implications arising directly from the contents of this report.

9. RESOURCE IMPLICATIONS

9.1 There are no other resources implications arising from the contents of this report.

10. EQUALITY AND HEALTH IMPLICATIONS

10.1 There are no equality and health implications arising from the contents of this report.

11. CONSULTATIONS

11.1 None arising from the contents of this report.

12. STATEMENT OF COMPLIANCE

12.1 None arising from the contents of this report.

Appendices

Appendix A – Updated Medium Term Financial Plan 2023/26

Appendix B – Changes to the Medium Term Financial Plan 2023/26 since Finance Council

Appendix C – Assumptions for Best/Worst Case Scenario Analysis

Appendix D – Analysis of Best/West Case Scenario Analysis

VERSION:	1
CONTACT OFFICER:	Dean Langton – Director of Finance
DATE:	12 th May 2022
BACKGROUND PAPERS:	None