



REPORT OF:	Executive Member for Finance and Governance
LEAD OFFICER:	Director of Finance
DATE:	13 th October 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 and to provide details of a programme of activity to inform the development of the Council's Budget for 2023/24 and future years.

2. RECOMMENDATIONS

- 2.1 It is recommended that Executive Board:-

- a) 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;
- b) 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;
- c) 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 later in the year once details of the Council's funding settlement are known;
- d) 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;
- e) note the potentially significant financial impact of the proposals for the National Living Wage and the financial impact of the Social Care reforms and that an update on these matters be provided in future reports on the MTFP;

- f) in accordance with the Council's Budget and Policy Framework Procedure Rules acknowledge the work that has started on the development of options under the various Workstreams identified at **Appendix E** and that Portfolio Holders continue to develop draft proposals to meet the funding gap set out in the report for the period to 2025/26 with any such proposals considered by the Executive Board in due course;
- g) 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 Executive Board on 9th June 2022, Councillors considered a report on the development of the Council's General Fund Revenue Budget for 2023/24. The report set out details of a revised Medium Term Financial for the period to 2025/26 which indicated a funding shortfall of c£13.2m over the period.
- 3.2 As set out in the report, it was resolved that a further update on the Council's Medium Term Financial Plan for 2023/26 be provided to the Executive Board reflecting the latest assumptions and information available to the Council. This report forms that update.

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 will provide 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.
- 5.2 Since the Spring Statement in March 2022, the Government has not provided any further update on the likely level of funding available to Local Government from 2023/24 onwards. Indeed, given the resignation of the Prime Minister in early June and the ensuing Conservative Leadership Election, there has been little in the form of policy announcements to do with Local Government Finance in recent months. In particular, there appears to be no update as yet on the various proposed Local Government Finance Reforms (Fair Funding Review, Business Rates Retention Review, review of New Homes Bonus).

- 5.3 With the recent formation of a new Government in early September and with a new Secretary of State for the Department for Levelling Up, Housing and Communities (DLUHC), in all likelihood there would appear to be insufficient time for the Government to consult properly on what would, potentially, be significant changes to the redistribution of funding between Councils. These reforms are, therefore, unlikely to take place.
- 5.4 Of more concern, however, is the impact on the public finances of the Government's response to the Cost of Living Crisis and the prospect that the UK economy going into a recession. As set out in the so called 'Mini-Budget' announcement on 23rd September, the Government has committed to substantial additional borrowing both to provide relief to households and businesses for the cost of energy and to cutting tax for individuals and businesses as a way of stimulating growth in the economy. The success or otherwise of these measures will only be seen in time but the sustainability of this approach may have a bearing on the current level of public expenditure and, therefore, the funding received by the Council.
- 5.5 At the time of writing, the Chancellor of Exchequer is expected to set out the Government's Medium-Term Fiscal Plan on 23rd November. This is intended to include a set of fiscal rules including ensuring that the national debt falls as a share of GDP in the medium term and may give a signal to the future course of public spending. That said, when announcing that, the Government also confirmed that it will keep to the spending settlement announced in the Spending Review last year despite the significant increase in inflation since and the recent turmoil in the financial markets.
- 5.6 For Local Government, the next key event is the Provisional Local Government Funding Settlement which is due in December. As the Settlement for 2022/23 is for one-year only, there is currently no clear indication what the likely Settlement for 2023/24 onwards will be. What does appear to be proceeding is the Business Rates Revaluation 2023. This will update business rates rateable values from April 2023 (based on rental market information at April 2021). The impact of this on the Council and Business Ratepayers in Blackburn with Darwen is not yet known although, as with previous Revaluations, the Government is expected to put in place transitional measures to dampen the impact on businesses and make neutral the impact on Local Authorities.

Budget 2022/23

- 5.7 At the last meeting of the Executive Board, Councillors received a report providing details of a budget monitoring exercise undertaken at the end of June 2022. This indicated a forecast overspend of £8.1m for 2022/23.
- 5.8 Work will continue in the current financial year to find ways of containing this overspend wherever possible.

Update of Medium Term Financial Plan 2023/26

- 5.9 Since the meeting of Executive Board in June 2022 when the Medium Term Financial Plan (MFTP) was last considered, and recognising that the Council is operating in a dynamic environment, work has continued to update the Council's MFTP for the period to 2025/26. A summary of the updated MFTP 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	133,905	133,560	133,560
Other Corporate I & E	16,123	23,009	31,305	39,763
Net Revenue Expenditure	150,003	156,914	164,865	173,323
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	10,044	13,826	19,090
Change in Specific Reserves	(13,146)	(1,388)	(960)	(500)
Change in GF Balance	-	-	-	-
Funding 'Gap'	-	8,656	12,866	18,590
In Year Funding 'Gap'	-	8,656	4,210	5,724

See Appendix A

- 5.10 **Appendix B** provides an analysis of the movement in the MTFP shown above when compared to the last MTFP reported to the Executive Board on 9th June 2022.
- 5.11 As the table indicates, the forecast funding gap for the period to 2025/26 is now estimated to be £18.6m. The key changes to the MTFP include:-
- a further update to the cost of pay reflecting:-
 - the current pay offer from the Employers-side in 2022/23 and its effect on the pay bill in subsequent financial years. The pay offer comprises in the main a cash lump sum of £1,925 on each point of the pay scale. At SCP1 (the lowest grade), this equates to a salary increase of 10.5% whereas at SCP64 (the highest (non Chief Officer) grade), this equates to a 2.7% salary increase. On average for the Council, including the impact on both National Insurance Contributions and Employers Pension Contributions, the Pay Offer equates to an increase in salaries of 7.4%;
 - a reduction in the cost of National Insurance Contributions following the Government's recent decision to cancel the increase that was implemented in April 2022. This change takes effect from 6th November 2022 and will have a knock-on impact from 2023/24 onwards with the cancellation of the Health and Social Care Levy also;
 - the deletion of the contingency (c£1m) held for general other costs to provide some resources to meet the additional cost of the pay offer referred to above.
- 5.12 These and the other assumptions underpinning the MTFP will remain under review as the financial year progresses.

Key Areas of Uncertainty

- 5.13 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

5.14 Delivering the budget in 2022/23 is critical to the sustainability of the Council's financial position. As indicated above, on the basis of the Quarter 1 Budget Monitoring exercise, the Council is forecasting an overspend of £8.1m. An update on some of the key risks to the delivery of the budget is provided below:-

- **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. At this stage, it is expected that savings of £1.799m will be implemented, a shortfall of £0.266m attributed to Children's Services;
- **Impact of the 'Cost of Living' Crisis** – as the Executive Board will be aware, the 'Cost of Living' crisis has both a direct impact on the Council's activities – higher cost of supplies and services, increase costs of capital schemes, reduced footfall at facilities such as the Markets, Leisure Centres impacting on the Council's income streams – and indirectly through the impact on residents and businesses affecting their ability to pay Council Tax and Business Rates;
- **Pay Award in 2022/23** – as indicated above, negotiations on the pay award for 2022/23 have not yet concluded. The Employers-side have made an offer which equates to an additional cost to the Council of c7% (against a budget of 2%). This is currently the subject of consultation between Unions and their Members, the outcome of which is unlikely to be known before the end of October 2022;
- **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) reflecting price increases earlier in the year. On the basis of Quarter 1 budget monitoring, there are no specific concerns to raise at this stage. Equally, the Council will benefit from the Energy Bill Relief Scheme to be implemented by the Government from 1st October and which will last until March 2023;
- **Investment in Children's Services** – The Executive will be aware of the outcome of the Ofsted Inspection of Children's Services earlier this year and the decision of the Executive Board to invest an additional £1m in the service to accelerate improvements in the service so that better outcomes can be achieved. This is particularly the case with the Leaving Care Service where the bulk of the additional funding is being invested. As indicated at the time of this investment, this is a matter that will need to remain under review as the year progresses;
- **Demand for Adult and Children's Social Care** – whilst demand pressures in Adult Social Care to date are being contained within existing budgets, the continuing fragility of the health system means there is the real potential for this to change. Indeed, with the onset of winter, the pressure on the Council's services is likely to increase and will need to be monitored closely.

As indicated in the Quarter 1 Budget Monitoring report, current demand on Children's Service means that the Service is forecast to overspend by c£2.3m on Placements. Work is underway to review all Placements to ensure they are appropriate and that they represent value for money for the outcomes achieved;

- **Impact of Covid-19** – whilst the rates of infection for Covid-19 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.

5.15 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

5.16 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

5.17 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.

Inflation

5.18 As in previous years, other than for Pay, Utilities and Commissioned Providers Fees, budgets are assumed to be cash limited and not increased by inflation. This is a matter that remains under review given the prevailing rate of inflation not least because in the case of some budgets, this may not be a sustainable position.

National Living Wage and Impact on Pay Structure

5.19 As indicated in the report on the Medium Term Financial Plan in June 2022, 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.

5.20 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. Indeed, the current flat rate payment proposed by the Employers in their pay offer for 2022/23 recognises the difficulty this issue is causing.

5.21 Any options (eg deleting pay points or reducing the working week) have the potential to result in additional costs for Councils (and may, if there is a need to undertake a formal job evaluation exercise, lead to significant additional work) so this matter will need to remain under close review.

Pension Fund Valuation

- 5.22 The Executive Board may be aware that, as with all Local Government Pension Funds, the Lancashire Pension Fund is subject to a valuation every three years. The outcome of these triennial valuations is to determine Employers Contribution Rates for the following three years.
- 5.23 Work on the triennial valuation of the Fund has been ongoing in recent months, on the basis of the position of Fund as at 31st March 2022. The initial results from this work, for the Fund overall, is that it has performed well over the last three years. That said, the Council has yet to receive details of its own position within the Fund; these are due in October with the likelihood that a report on this matter will be considered by the Executive Board before the end of the year.

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

- 5.24 At its meeting in August 2022, the Executive Board received a report providing details of a range of Adult Social Care Reforms. These include, for example, the introduction of the Care Cap, a change to the existing means test for chargeable care services, the requirement to make an assessment of, and move to pay, a fair cost of care (and to produce a Market Sustainability Plan) and the assessment and brokerage of care for Self Funders.
- 5.25 As required by Government, and as outlined in the report referred to above, a substantial amount of work has been undertaken over the Summer on the Fair Cost of Care exercise for Domiciliary Care and Residential/Nursing Care. This work is expected to inform the Provider Fee uplifts in 2023/24 (as well as potential additional fee payments in 2022/23). More details of this will be subject of a report to the Executive in due course.
- 5.26 In the meantime, work continues on the assessment of likely costs of the broader reforms. At the same time, the Government has been consulting on the distribution of the additional funding identified for the reforms. In the absence of both firm estimates of costs and confirmation of funding allocations from Government, it is not possible at this stage to be definitive about the impact on the Council suffice to say that there is a general view amongst local authorities that the proportion of funding allocated for these reforms is likely to be insufficient to meet the estimated costs. **Councillors should note that, at this stage, aside from the estimated uplift of Provider Fees, no additional funding is factored into the MTFP for these reforms at this stage.**
- 5.27 Again, in view of the magnitude of the proposed changes and once more information is available from the Government, a report on this matter will be submitted for consideration by the Executive Board in due course.

Care Quality Commission (CQC) Inspection

- 5.28 Councillors will 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.

- 5.29 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.
- 5.30 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.

Academisation of Schools

- 5.31 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.
- 5.32 Whether the Council establishes a MAT will be a matter for further consideration in due course. Aside from the national policy intent, any assessment of this will need to include the financial impact on the Council (and Schools for that matters) with a view to understanding better the implications in the context of the Council's MTFP.

Other Matters

- 5.33 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)

- 5.34 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.
- 5.35 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.
- 5.36 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.

- 5.37 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	3,723	7,500	11,679
Base Position (Table 1 above)	8,656	12,866	18,590
Worst Case	14,373	19,954	26,520

See Appendix C and D

- 5.38 As the table indicates, the range of potential positions is a deficit of c£3.7m to a deficit of £27m. 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

- 5.39 By way of a reminder, the Financial Strategy remains based around four key strands – Growing, Charging, Saving and Stopping. An outline explanation of these strand is provided below along with an update on progress wit :-

- **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.

By way of an update on this strand, as the Executive Board is aware, the Council has an ambitious Growth Strategy for the Borough. Building on the significant growth in housing delivery over recent years, following the last meeting of Full Council, the Council has submitted its draft Local Plan for examination by the Planning Inspectorate. Subject to the Local Plan being adopted by the Council following examination, this will provide the spatial and planning policy framework for the Council to build on the housing and economic growth achieved to date.

At the same time, work is ongoing on the delivery of the Darwen Town Deal where almost all of the business cases for the various projects have been approved by DHLUC. This will allow delivery of the projects to begin. The grant funding provided through the Town Deal is being matched both by the Council's own funds and significant private sector investment.

And earlier this year, the Council submitted two bids to the Government for Levelling Up Funding of £40m. One of the bids will accelerate the first phase of the £250m masterplan for Blackburn Town Centre, including a new £60m Skills and Education Campus, with the other to be invested to significantly improve the transport infrastructure to the south of Blackburn, including upgrades to Junction 5 of the M65 motorway.

- **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;

At the last meeting of the Executive Board, a range of income generation proposals was considered and approved. The additional income from these changes will both impact on the budget in 2022/23 and future years.

The Executive Board also approved the Fees and Charges Framework as the basis of reviewing the Council's discretionary fees and charges. Recognising the significant amount of income generated from fees and charges, this is with a view to ensuring that there are regular reviews of fees and charges, that the basis on which they are set reflects the service objectives and that wherever possible, income is maximised.

- **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.

*Work on both of these strands is captured in a series of Workstreams, details of which are provided at **Appendix E**. These Workstreams comprise cross-cutting matters such as an Organisational Review, Asset Management reviews (including Council Office Accommodation), Procurement and consideration of Alternative Models of Service Delivery as well as specific services reviews including Adult Social Services and Children's and Young People Services. Underpinning these reviews are enabling functions such as transformation and human resources which will support any proposals arising.*

- 5.40 A further update on the implementation of the Financial Strategy will be provided as the budget process develops.

Next Steps

- 5.41 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
June 2022	Updated MTFP to the Executive Board	Completed
June - Sept 2022	Development of Proposals	In Progress
13th Oct 2022	Update MTFP to Executive Board	This report
Oct-Nov 2022	Further development of ideas/options	
8th Dec 2022	First Budget Report to Executive Board (Indicative)	
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

Appendix E – Outline of Strategic Workstreams

VERSION:	1
CONTACT OFFICER:	Dean Langton – Director of Finance
DATE:	30 th September 2022
BACKGROUND PAPERS:	None