



EXECUTIVE BOARD DECISION

REPORT TO:	Executive Member for Finance and Governance
LEAD OFFICERS:	Chief Executive
DATE:	8 th June 2023

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

KEY DECISION: Y

TITLE OF REPORT: Development of the General Fund Revenue Budget 2024/25

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) 2024/27 as the start of the process for developing the Council's Budget for 2024/25.

2. RECOMMENDATIONS

2.1 It is recommended that the Executive Board:-

- a) note the key risks to the delivery of the budget in 2023/24 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 that these will not now take place before the next General Election;
- c) note the update to the Medium Term Financial Plan for 2024/27 as shown at **Appendix A** and that a further update will be provided in October 2023;
- d) note the scenario analysis shown at **Appendix D and E** which models 'worst'/'best' case scenarios around the baseline MTFP as part of the assessment of potential risks facing the Council;
- e) note the timetable set out in the report for the development of the Council's Budget for 2024/25;
- f) agree that all Portfolio Holders continue to review their budgets in line with the four strands of the Council's financial strategy, Growing, Charging, Saving and Stop, as set out in section 5.38 in this report. This will include a review of all fees and charges in their

Portfolios, in line with the agreed Fees and Charges Framework (see Executive Board September 2023).

- g) note that Lead Officers for the Strategic Workstreams have been requested to identify budget savings options for 2024/25;
- h) agree that, subject to consideration by respective Portfolio Holders, any budget proposals arising from the work above be considered by the Executive Board in due course (and subject to the proposal on consultation below);
- i) subject to the work above and agreement with Councillors, agree that some form of public consultation on the budget proposals should take place over Autumn 2023 with a view to informing decisions on the Council's budget for 2024/25.

3. BACKGROUND

- 3.1 At the meeting of the Finance Council on 28th February 2022, the Council approved the Financial Strategy 2022/26. An Addendum to the Strategy was considered by Finance Council at its meeting on 27th February 2023 when considering the Council's proposed Budget for 2023/24. This set out progress made with the implementation of the Strategy but recognised that there is still more work to do before the Council can be considered financially sustainable.
- 3.2 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.
- 3.3 To that end, work has been undertaken to update the Council's Medium Term Financial Plan (MTFP) 2024/27 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 2024/25. In view of the significant funding deficit identified, it is vital that the Council continues to identify ways a sustainable budget can be agreed at the earliest opportunity.
- 3.4 Responsibility for doing this rests with the Executive Board collectively, hence this report.

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 the Council to consider when setting the budget for 2024/25.
- 4.2 The Council's approach to setting its budget and developing options with which to bridge the forecast funding gap, is part of the assessment of the Council's Value for Money arrangements by the External Auditors. The Council is expected to have in place a plan to deliver a balanced budget including ensuring that savings proposals are robust and deliverable. It is important, therefore, for the Council to have developed a set of options to achieve 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.

Local Government Finance Policy Statement (2023/24 and) 2024/25

- 5.2 As the Executive Board will be aware from previous reports, the Secretary of State for the Department of Levelling Up, Housing and Communities published the Local Government Finance Policy Statement for 2023/24 and 2024/25 as part of the Local Government Finance Settlement for 2023/24. For 2024/25, the Policy Statement provides an indication of the Government's intentions as follows:-

- the core Council Tax Referendum Principles for 2024/25 will be as in 2023/24; that is, the referendum limit for increases in Council Tax will remain at 3% per year and local authorities with social care responsibilities will be allowed to increase the Adult Social Care Precept by 2% (*this is reflected in the Council's Medium Term Financial Plan*);
- major grants (assumed to be the Services Grant) will continue as set out in 2023/24 and Revenue Support Grant will continue and be uplifted in line with Baseline Funding Levels (although it has become apparent that this uplift is likely to be funded from a reduction in the Services Grant hence no net gain in resources is expected);
- the Social Care Grant and other social care grants will increase '*as set out in the Autumn Statement*'. It is neither clear what precisely this means nor has there been any indication of individual grant amounts for each local authority proposed for 2024/25;
- a new funding stream, subject to the successful delivery of the Extended Producer Responsibility for Packaging (pEPR), will become available for local authority waste collection authorities. Limited details of the pEPR have been released by DLUH but it is unlikely that there will be any firm indication of the additional funding available to inform the development of the Budget 2024/25 or the Medium Term Financial Plan.

- 5.3 The Executive Board will appreciate that these are broad statements of intent but, whilst providing some indication of the direction of travel, do not provide sufficient detail to make confident predictions about the funding available to the Council.

Spring Statement 2023

- 5.4 The Spring Statement 2023 provided no new funding announcements of substance for Local Government (or other Government Departments for that matter) aside from £63m for a Swimming Pool Support Fund, details of which have yet to emerge from DLUH.

- 5.5 Subsequent analysis of the Spring Statement by the Institute of Fiscal Studies (IFS) indicates that even with reasonably strong economic growth (something that is currently not being achieved), Government Departments with unprotected budgets (including Further Education, HM Courts Services, HM Revenues and Customs **and Local Government**) will be subject to a real terms funding reduction over the period 2024/25 to 2027/28 of 3.2%. In essence, this implies a continuation of austerity measures for another 3 years.
- 5.6 Of course, whilst the IFS is a reputable independent source of information, any future funding allocations for Government Departments will be subject to the policy intentions of whichever Government is in place. With a General Election taking place no later than January 2025, it is likely that any new Government (of whichever 'colour') will undertake a comprehensive spending review based on national financial projections at the time.

Local Government Finance Reforms

- 5.7 The current Government has indicated that it does not intend to undertake the long-awaited Fair Funding Review in the current Spending Review period and, by dint of that, before the next General Election. Similarly, it is unlikely that the Business Rates Retention Review will take place either given that both matters are inextricably linked and would need to be undertaken in tandem. This means that funding allocations to Councils will continue to reflect spending needs from 2013/14 and will continue to ignore how those needs have changed (in relative terms) since that time.
- 5.8 Aspects of the Business Rates System are likely to change following the introduction of the Non-Domestic Rating Bill to Parliament recently. These potential changes, which are subject to the smooth passage of the Bill through Parliament, include:-
- **more frequent revaluations**, a key ask from the business community to ensure that business rates bills keep up with economic trends;
 - administrative reforms to deliver a sustainable shorter revaluation cycle, which will also enable **more accurate rating** lists and enable the **disclosure of more information to ratepayers** about their business rates valuations;
 - **measures to support decarbonisation and investment worth over £700 million**, including **a relief for low carbon heat networks** and **a new Improvement Relief** so that, from April 2024, no ratepayer will see an increase in their rates bill from qualifying improvements made to their property for 12 months;
 - support announced by the Government at Autumn Statement 2022. The Autumn Statement package, **worth £13.6 billion over the next five years**, includes a 3-year Exchequer-funded Transitional Relief scheme worth £1.6 billion. The Bill removes the statutory requirement for revenue neutrality within Transitional Relief and so delivers a key business ask, by allowing 300,000 ratepayers to enjoy an immediate reduction in their bills from 1 April.
 - the **Digitalising Business Rates** project, which will modernise the business rates system, improve the targeting of rates relief, generate better data for central and local government and help to improve business rates compliance;

- much-needed **improvements to the administration of business rates**, including replacing RPI with CPI as the measure of inflation used in the annual indexation of the multiplier.

5.9 What these changes mean specifically for the Council's Medium Term Financial Plan, Business Rates function and the Business community in general remains to be seen.

Update of Medium Term Financial Plan 2024/27

5.10 Since the meeting of Finance Council on 27th February 2023 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 2026/27. 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 2024/27

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Portfolio Budgets	154,978	153,288	153,188	153,243
Other Corporate I & E	16,150	21,285	30,732	39,937
Net Revenue Expenditure	171,128	174,573	183,920	193,180
Less Core Funding	(94,355)	(95,253)	(96,169)	(97,104)
Less Council Tax	(64,861)	(68,886)	(72,949)	(77,028)
Shortfall before Reserves	11,912	10,433	14,802	19,047
Change in Collection Fund	(1,662)	(1,265)	(400)	(400)
Change in Specific Reserves	(10,250)	(996)	(536)	(36)
Change in GF Balance	-	-	-	-
Funding 'Gap'	-	8,172	13,866	18,611
In Year Funding 'Gap'	-	8,172	5,694	4,745

See Appendix A

5.11 **Appendix B** provides an analysis of the movement in the MTFP shown above when compared to the last MTFP reported Finance Council on 27th February 2023.

5.12 As the table indicates, the forecast funding gap for the period to 2026/27 is now estimated to be £18.6m. The key changes to the MTFP include:-

- a change in the Council Tax assumption for 2025/26 and 2026/27. It was previously assumed that the increase in Council Tax would be limited to a 2.99% threshold in those years; given the Local Government Finance Policy Statement, it is now assumed that the threshold will be 4.99%;
- an update to the cost of pay for 2024/25 onwards following the Pay Award Offer for 2023/24 made by the National Employers. As set out below, the Pay Award Offer for 2023/24 is estimated to worth on average c6% against budget provision of 5% and, if accepted, will increase the forecast cost from 2024/25 onwards;
- an update to the budget provision for Provider Uplifts to reflect the impact of amounts included in the Council's budget for 2023/24;

- an adjustment to the assumption for Investment Income on the basis that interest rates look likely to be higher than previously expected for a longer period. Whilst no adjustment has yet been made, it does follow that interest rates for borrowing are also likely to be higher hence the need for the Council to carefully consider when and if it takes any borrowing;
- update on the inflation assumptions for the Waste Collection contract reflect the likelihood that CPI inflation may remain higher than originally budgeted. Given the nature of this contract, this is largely an unavoidable cost for the Council. It is also worthwhile noting that the main Waste Disposal Contracts held by the Council are due to expire in June 2025 and will be subject to retender.

5.13 These and the other assumptions underpinning the MTFP will remain under review as the financial year progresses.

Key Areas of Uncertainty

5.14 The MTFP is a forecast of the Council's financial position over the period to 2026/27. 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. Some of these are set out below.

Delivery of the Budget in 2023/24

5.15 Delivering the budget in 2023/24 is critical to the sustainability of the Council's financial position. The key risks to delivery of the budget that the Executive Board need to remain sighted on are as follows:-

- ***Implementation of savings*** – the Council agreed savings totalling £3.716m 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 2024/25 onwards. The expectation is that they will be delivered and so monitoring this throughout the year will be crucial. Where likely, it may be necessary to develop contingencies where savings are not expected to be achieved;
- ***Pay Award in 2023/24*** – this is budgeted at 5%. In response to the Trade Unions pay claim, the Employers pay offer was made during February 2023. The offer comprised a flat cash payment of £1,925 on each pay point up to Spinal Column Point (SCP) 43 (this equates to a pay award of ranging from 3.88% to 9.50%); for pay points above SCP43, a pay increase of 3.88% has been proposed. On average, this equates to an increase in pay costs of c6%. If agreed at this level or higher, this will have a knock-on impact to the forecast in the MTFP (as set out above);
- ***Energy Inflation*** – the Council's cost of energy has increased significantly and is now estimated to be c£7.0m in 2023/24. During 2022/23, the Executive Board agreed to a series of measures (eg operation of facilities, implementation of alternative energy supplies etc.) to manage the cost increases, acknowledging that in the current economic climate prices are expected to continue rising. How successful these measures were is difficult to evaluate but it is clear that such 'good housekeeping' measures need to continue in the medium term whilst ever the cost of energy remains high;

- **Demand for Adult and Children's Social Care** – this remains an ever-present risk for the Council, not least given the fragility of the health and care system. Having systems in place to track demand and the available resources to deal with it as it changes is key. Acknowledging that this is an area that can often be out with the control of the Council, the Council's reserves do include amounts that can be drawn down to meet additional demand pressures should it be necessary to do so;
- **Delivery of the Capital Programme** – Given the pressure on borrowing costs, there will need to be a closer focus on the delivery of the Council's Capital Programme within the budgets that have been agreed. This is particularly the case with the impact of price inflation on capital costs rendering some schemes undeliverable within the funding envelopes that have been set. This may necessitate some degree of value engineering on projects, identification of additional funds and/or increasing the pace of asset disposals as part of the asset review and rationalisation process.

5.16 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 from 2024/25

5.17 Given the funding settlement for 2023/24 is for one-year only, and the limited details provided in the Local Government Finance Policy Statement, it remains difficult to estimate the likely level of funding the Council will receive from 2024/25 onwards.

5.18 The amount of funding from Business Rates and Revenue Support Grant appears relatively stable. It is also assumed that the Social Care grant funding provided to the Council, totalling around £25.2m in 2023/24 and including grants such as the Improved Better Care Fund (£8.349m), Market Sustainability and Improvement Fund will, as a minimum, continue at the levels currently provided.

5.19 In relation to other grant funding received (or receivable) by the Council:-

- **Services Grant** – This grant was introduced as part of the 2022/23 Settlement. Originally, it was worth £822m for Local Government and for BwD, the grant was £3.072m. In the Settlement for 2023/24, some of the funding for the Grant was used to meet the cost of other matters such as an inflationary increase for the Revenue Support Grant thereby reducing the overall amount of funding to £483m; BwD's share of the grant in 2023/24 is £1.802m. It is anticipated that the Services Grant will continue to be top-sliced for other matters in 2024/25 onward but it is unclear how this will happen;
- **New Homes Bonus** – this grant has now evolved into an annual payment to reflect housing growth achieved in the previous year (rather than the incentive-based multi-year payment rewarding housing growth). The Government has previously indicated its intention to reform the New Homes Bonus and has consulted on proposals to do this. However, aside from reducing it to an annually determined payment, no changes have been made and there remains uncertainty about whether it will feature as part of the Local Government Finance Settlement at all. For this reason, it is assumed that there will be no New Homes Bonus payment in the life of the current MTFP; any payments received will be treated as windfall income.

- **s31 Grants for Business Rates** – as with most Councils, Blackburn with Darwen receives s31 Grants to compensate for the loss of Business Rates income due to range of reliefs and exemptions provided to businesses in lieu of the payment of Business Rates. Indeed, around half of the businesses in the Borough do not currently have a Business Rates liability.

The extent to which the Government can continue to support businesses in this way is dependent on the strength of the national economy. It is likely, for example, that the current Retail Relief will expire at the end of the current financial year requiring some Retail businesses to start paying Business Rates for the first time in a number of years. In these circumstances, the Council will lose the s31 Grant and will be required to collect the Business Rates income in its place.

- **Extended Producer Responsibility** – an anticipated new feature of the forthcoming Funding Settlement is the Extended Producer Responsibility payment. Whilst few details of this payment are currently known, it will be a charge to businesses that produce recyclable waste which is collected by a Government Agency and distributed to Local Councils. The Government has indicated that the first payments of the pEPR will be made in 2024/25 but, at this stage, there is insufficient information to indicate how much, if anything, the Council will receive.

Future Pay Awards

- 5.20 As the Executive Board may be aware, the Pay Award for 2023/24 has not yet been agreed and given the position of both the National Employers Organisation and the Trade Unions, it appears it is unlikely to be agreed until later in the year. As set out above, the current Pay Offer would exceed current budgeted provision and, once agreed, would form the basis of subsequent pay bills. As a consequence, assuming that the National Employers Pay Offer is eventually agreed at proposed levels, additional provision has been built into the MTFP to reflect this.
- 5.21 Looking ahead, according to estimates from the Office of Budget Responsibility it is anticipated that inflation will start to reduce quite rapidly through 2023 with the expectation that it will return to the Bank of England's target level of 2% during Q1 of 2024. Given that pay negotiations have centred around the impact of high inflation and the need for wages to keep pace, the expectation of much lower inflation may curb both the pressure for higher pay awards and the actual pay awards in turns. Nevertheless, being prudent, the MTFP assumes that there will remain pressure on pay assuming a pay award in 2024/25 of 6%, falling to 4% in 2025/26 and 2% in 2026/27.

National Living Wage and Impact on Pay Structure

- 5.22 In broad terms, the change in the National Living Wage (NLW) impacts the Council in the following ways:-

- the Local Government Employers Organisation, which represents most Local Authorities in pay negotiations with the Trade Unions, is committed to pay staff above the NLW. Given the current NLW is only marginally below the lowest hourly rate paid to Local Government staff, in recent years the increase in the NLW has required increases in the lowest hourly rates that, when applied to the whole pay spine, are not affordable. As a consequence, in the last 2 years, the National Employers Organisation has offered lump sum pay awards on each point of the Local Government Pay Spine which, whilst progressive, is leading to a flatter pay spine. This is not considered sustainable and will require a complete review of the Pay Spine (akin to a national job evaluation exercise) which may have significant implications for pay costs;
- the Council uses the National Living Wage (and from 2023/24, the Real Living Wage (RLW)) as the starting point of its determination of the amounts payable for Adult Social Care commissioned services. Given the value of the commissioning arrangements, which is c£40m annually, and that wages represent on average c70% of Providers Costs, the change in the National Living Wage has a significant bearing on the cost of these services to the Council.

5.23 The NLW is currently £10.42 per hour (the statutory minimum payment for anyone aged over 23yrs). The Real Living Wage is £10.90 (a voluntary minimum payment for any aged over 23yrs working in the UK outside of London). The lowest point on the Local Government Pay Spine currently pays £10.50 (only 8p above the NLW and 40p below the RLW). The change in the NLW (and RLW) for 2024/25 will not be known until later in the year.

General Inflation

5.24 Given the global economic supply issues in a range of sectors as the World emerges from the Pandemic combined with other geo-political events, the rate of general inflation has become a predominant issue for national economies including the United Kingdom. At the time of writing, the Consumer Price Index was at 10.1% (as at March 2023). The persistently high rate of inflation is fuelling both demands for higher wages (see Pay Award above) and costs for goods and services all of which are increasing the financial pressure on the Council.

5.25 Looking ahead, as set out above, the expectation is that inflation will start to reduce quickly towards the early part of 2024 will return to target levels (at or around 2%). That said, this will depend on the aggressiveness of the Bank of England's Monetary Policy (the change in interest rates) as well as global geo-political events.

5.26 Other than for certain contracts and commissioned services, the Council does not generally provide for inflationary cost increases in budgets. The expectation is that Services will contain these costs which, inevitably, leads either to reduced service provision or, more likely costs overspends which would need to be managed in year.

Cost of Living Crisis

5.27 The Council's response to the Cost of Living Crises, which has seen increase demand for support from some of the most vulnerable people in the Borough, is largely being funded from additional monies provided by the Government. As examples, this includes the Household Support Fund and Council Tax Support Relief. This funding is in place until the end of 2023/24 and it is not clear what, if any, further funding will be made available. Given this type of support has now been provided since the onset of the Pandemic almost 3 years

ago, it may be the case that there are expectations in the community that the Council will continue to provide it even if there is no funding from Government.

Other Matters

5.28 As well as the range of pressures affecting the Council's financial position overall set out above, there are some specific service related matters of that may equally have a bearing on the Council's financial position. Most of these matters are picked up in the Addendum to the Council's Financial Strategy but are repeated here for information:-

- ***Social Care Reforms (including Market Sustainability and the Fair Cost of Care)*** – although the Government has delayed some of the major reforms of the Social Care provision there is, nevertheless, a need for the Council to make changes to improve the sustainability of the local care market and to prepare for the changes to come. Whilst funding has been made available by the Government to support these changes, this may not be sufficient to make the rapid improvements necessary. Equally, much will depend on the integration of health and social care and what that might deliver in terms of efficient and effective services;
- ***Preparing for Care Quality Commission (CQC) Inspection*** – the Executive Board has received various updates on the CQC's mandate to independently review and assess the quality of care provided by Local Authorities. It is not clear when the Council will be subject to this review but it clear that the Council needs to undertake a significant amount of work to be prepared. Again, from the updates provided, the outcome of the review is uncertain and with that the extent of any actions, and therefore resources, that may be necessary in response to the review;
- ***Improvements in Children's Social Care*** – again, there will be an awareness of the significant investment in Children's Services to support an improvement journey since the outcome of the Ofsted Inspection of the Service in February 2022 (and, indeed, before then). This work is being overseen by an Improvement Board which continues to meet on a monthly basis to drive forward this work. The extent to which further investment in the Service will be needed to deliver improvements is not clear at this stage but is something that may well emerge during the year;
- ***Climate Change and achieving Net Zero*** – as with other Councils, the Council declared a Climate Emergency and has committed to making Blackburn with Darwen carbon neutral by 2030, taking into account the production and consumption of emissions.

Following the outcome of a People's Jury, a series of recommendations were made and it was resolved that a report on the recommendations, in the context of the Council's own Action Plan, should be brought forward for consideration by the Executive Board. This is likely to happen in June 2023;

- ***Environment Act 2021*** – The Act has a wide range of changes that will impact on the Council, generally in relation to environmental matters and more specifically as both waste collection and waste disposal authority. This includes, for example:-
 - the collection of glass, metal, plastic and paper/card from households for recycling;

- exploring the possibility of Councils having separate food waste collections at least once a week for recycling and composting;
- the introduction of a Deposit Return Scheme (where consumers pay a deposit for a single-use container at the point of purchase which is then refunded to the consumer when they return the container for recycling);
- the Extended Producer Responsibility which makes sure producers pay the 'full net cost of recovery' for the packaging that they produce (considered by DLUCH to be a substantial new income source for the Council);
- the provision of a free garden waste collection.

The implementation of measures in the Act is unlikely to take place without further consultation with local authorities, not least because of the potentially significant financial implications. Indeed, whilst acknowledging the need to increase rates of recycling, local authorities have been clear that to implement the measures in the Act will require significant additional funding from Government.

At this stage, given the lack of clarity available about the implementation of the Act and the expectation that Government will provide additional funding, no provision is included in the Medium Term Financial Plan for the impact of the Environment Act 2021 at this stage.

- **Capital Investment Plans** – the Council has been successful in securing a range of funding (Community Renewal Fund, UK Shared Prosperity Funding, Town Deal for Darwen, Levelling Up Funds for M65 and Blackburn Town Centre and, more recently, Youth Investment Fund) to deliver a range of projects. In most cases, these projects require some amount of match and third-party funding which, where identified, has been factored into the Council's Capital Programme.

However, as with any programme of this nature, ensuring delivery on time and within budgets provided can be challenging and may require additional programme management capacity to achieve the necessary outcomes.

5.29 Overlaying these issues are various internal matters that also represent key areas of uncertainty. These include, for example, the following matters:-

- **implementing the new Corporate Plan** – The Council has agreed a new Corporate Plan for the period 2023/27. This sets out a range of missions that will provide a framework for the Council's activities. There needs to be strong link between the Council's Corporate missions and its ability to deliver them within the resources available. This is likely to require both an iterative approach to service and financial planning and consideration of innovative ways of delivering priority actions;
- **creating capacity for change** – it is inevitable that, to deliver the scale of savings necessary to achieve a sustainable budget, the Council needs to have adequate corporate capacity to identify, develop and implement changes in the way it operates and delivers Council services. This capacity is necessary so that services can continue to operate effectively as changes are implemented;
- **stability in the Workforce** – As with a number of sectors and organisations, the Council continues to experience difficulties with the recruitment and retention of

staff in a number of business areas. This is starting to impact significantly on the delivery of services with remedial actions being taken to deal with this issue where it is possible to do so. However, this is a broader sectoral issue and not necessarily unique to Blackburn with Darwen hence it is a matter that it also being considered by the Local Government Association to determine whether there is national response to this matter;

- **Local Plan 2021-2037** – The Council is in the final stages of agreeing a new Local Plan for the period 2021 to 2037. At the time of writing, the Plan is being subject to independent examination in public by the Planning Inspectorate. Subject to the outcome of that process and any modifications necessary to achieve a sound and legal plan, it will be presented to the Council for adoption. Depending on the nature of any modifications necessary, this could be later in 2023;
- **Use of Reserves** – The MTFP assumes that the Council will use c£1m of reserves to support the budget in 2024/25, reducing to £500k in 2025/26. This funding is being taken from the Budget Support Reserve which will be exhausted by March 2026. This trajectory of the use of reserves reflects a key element of the Financial Strategy in that the Council should seek to reduce the reliance placed on reserves and move to a position where ongoing expenditure is met from ongoing resources;
- **Capitalisation of Staffing Costs** – In 2023/24, the Council will capitalise staffing costs totalling c£2.0m. These staff are actively involved in the delivery of capital projects. However, once projects are delivered, the Council will need to consider to what extent those staff employed on the projects are required and how, if they are required, their costs will be funded;
- **Education Service Level Agreements** – The Council receives c£2.5m from the provision of services to Schools. This is based on a range of Service Level Agreements across a range of services. To sustain the income from the provision of these SLAs, the Council will need to continue providing services that provide value for money. Equally, expanding the scale of service provision, both of existing and new services, continues to be a focus for services. With the push for greater academisation of Schools, this level of income will be at risk and will require the Council to consider what strategies it needs to employ to sustain the income or ensure that the related cost base is reduce as income reduces;
- **Commercial Services and Income Recovery** – A commercial approach to the delivery of services has become a regular theme of Council plans in recent years. Within the bounds of both statutory and other guidance, the Council needs to consider to what extent it can derive more income from taking a more commercial approach to the delivery of services. This approach will need to be underpinned by a commercial strategy so that any actions implemented are within a strategic framework and fit with the Council's own objectives;
- **Availability External Funding** – As indicated above, the Council has a good track record in obtaining external funding as a means of regeneration and/or expanding the delivery of services across Blackburn with Darwen. The hallmark of current funding streams is the need to bid for funds, generally in competition with other local authorities;

To be successful, the Council has to be in a position to develop comprehensive bids that are of high quality, capable of being successful and ultimately can be delivered. It is important, therefore, that the Council puts in place arrangements, such as clear exit strategies, when funding streams come to an end so that the burden of additional cost does not simply add to the ongoing budget shortfall. In doing so, however, there needs to be a holistic approach to reviewing the contribution of funded schemes to the Council's Strategic Objectives in comparison to those services/projects/schemes funded directly by the Council's base budget.

- 5.30 Again, whether external or internal factors, these are not exhaustive lists, but it does outline some of the major issues that may impact on the Council's financial position and will need to be considered in the context of both the Council's priorities and its ability to deliver a balanced and sustainable budget.

Balances and Reserves

- 5.31 Any consideration of the Council's Medium Term Financial Position needs also to consider what reserves and balances are available.

- 5.32 Details of the Council's Reserves and Balances are provided regularly in reports to the Council's Executive Board. An updated analysis of Reserves and Balances is now provided at **Appendix C** and this reflects the changes in reserves following the setting of the Budget for 2023/24 (and includes . The strategy for the use of Reserves and Balances is as follows:-

- the **Minimum Working Balance** will be maintained at £6m. As the Executive Board will know, the Minimum Working Balance is held as a contingent sum to provide for unexpected and unforeseen circumstances and is part of the Council's various measures to maintain financial resilience;
- a **Budget Support Reserve** of £5m was established in 2021/22. This Reserve is being used to 'smooth' the impact of budget reduction measures over the life of the Medium Term Financial Plan. In 2023/24, an amount of £2.688m will be used to support the budget (of which £700k relates to the write down of provisions in 2022/23 and £570k relates to a technical delay of savings in 2023/24). A further £1.5m will be used over the life of the MTFP to support the budget with the Reserve almost exhausted;
- an '**Invest to Save**' Reserve of £5m was also established in 2021/22. This reserve is being used to provide funding to invest in activities specifically aimed at reducing the Council's net cost base (either by reducing expenditure, generating additional income or a combination of both). Use of the reserve will be subject to an appropriate business case. An amount of £470k is being used in 2023/24 in support of the Council's Digital Transformation Strategy and the balance of funding available is estimated to be £4.096m at 31st March 2024;
- Remaining **Earmarked Reserves (for discretionary use)** will only be used the purposes for which they have been set aside and will be subject to annual review. In 2023/24, it is estimated that £7.092m will be used to fund specific expenditure in the year. In the main, this comprises revenue contributions to capital expenditure of £6.956m. Of the balance of Reserves, in the main they are committed to specific issues.

5.33 It is worthwhile reiterating that the reserves are a finite source of funding and should not be relied upon to support the Council’s budget other than as part of the clear strategy to achieve a sustainable budget in the medium term.

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. Some of the key variables that have been modelled are as set out at **Appendix D** with the results of this analysis at **Appendix E** and summarised in Table 2 below:-

Table 2: Scenario Analysis

	2024/25 £000	2025/26 £000	2026/27 £000
Best Case	2,076	6,519	10,968
Base Position (Table 1 above)	8,172	13,866	18,611
Worst Case	13,943	20,640	26,444

See Appendix D and E

5.37 As the table indicates, the range of potential positions is a deficit of c£2.1m to a deficit of £26.4m. 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

5.38 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.

5.39 The Financial Strategy was reported and approved by Council at its meeting on 28th February 2022 with a further addendum to the Strategy provide to Finance Council on 27th February 2023.

5.40 The ‘Growth’ strand is largely dependent on the activity of the Council’s Growth and Development Team with the focus on achieving increase housebuilding rates and economic/industrial development. The trajectory of housing growth is good, with a significant increase in the Council’s taxbase for 2023/24 reflecting success in this area. Likewise, the success of obtaining the Towns Deal for Darwen, the LUF bid for the Blackburn Town Centre and the J25 of the M65 combined, hopefully, with the adoption of the Local Plan 2037 augurs well for the Council’s growth ambitions.

5.41 ‘Charging’ for services and maximising the income to the Council alleviates the pressure to find savings from budget reductions. To that end, each Directorate is requested to undertake a review of all the fees and charges within their control, in line with the agreed Fees and Charges Framework provided at **Appendix F**.

5.42 Both the ‘Savings’ and ‘Stop’ strands require services to do thing differently. As the Executive Board will be aware, acknowledging that the Council’s approach to identifying savings/income generation proposals in the past has been akin to ‘salami’ slicing, a more strategic methodology was used for 2023/24. This focussed on various Strategic Workstreams (Organisational Review, Procurement, Back Office Efficiencies, Asset Management etc), each with a Lead Officer tasked with developing from each workstream, a range of options for savings/income generation. A number of ‘budget challenge’ sessions were held to provide some oversight to this process.

5.43 It is proposed to continue with this approach as a first step to identifying new savings proposals for 2024/25. To that end, targets have been set for each Strategic Workstream and Lead Officers are working on the development of proposals for their workstreams (where necessary, in conjunction with respective Portfolio Holders).

Table 3: Workstream Savings Targets for 2024/25

Workstream	2024/25 £000
W1 – Organisational Review	629
W2 – Asset Review	943
W3 – Alternative Delivery Models	1,257
W4 – Children’s Operating Model	943
W5 – Adults/Health Operating Model	2,200

W6 – Income/Commercial	314
W7 – Back Office Efficiency	1,257
W8 – Procurement Reviews	629
Total	8,172

- 5.44 In addition to the workstream savings targets, portfolio budget holders will continue to review their budgets in line with the Council’s financial strategy.

Consultation on Budget Proposals

- 5.45 It is good practice for Councils to consult on proposals that may affect the delivery of services including those related to budget savings and/or income generation. Indeed, the Value for Money Assessment undertaken by the External Auditors specifically questions whether the Council has asks ‘*Are stakeholders consulted during the development of savings plans? Depending on the nature of the savings plans, stakeholders could include staff, local residents, service users, the voluntary sector and local businesses*’.
- 5.46 Further to that, the Budget and Policy Framework at Section 3 of the Council’s Constitution does provide for the Executive Board to set out its arrangements for consultation of budget proposals and that at the end of any such consultation, the Executive Board will draw up proposals having regard to consultation responses.
- 5.47 In compliance with this requirement, and subject to budget proposals coming forward, it is proposed that some form of public consultation on the budget proposals should take place over Autumn 2023 with a view to informing decisions on the Council’s budget for 2024/25. The form and content of such a consultation will be determined in due course.

Next Steps

- 5.48 Table 4 below provides an outline timetable for the development of the budget for 2024/25.

Table 4: Indicative Timetable for Development of Budget 2024/25

Date	Action	Status
Mar 2023	Budget Implementation Report 2023/24	Completed
May 2023	Updated MTFP to Corporate Leadership Team	Completed
8th June 2023	Updated Financial Strategy and MTFP to Executive Board	This report
July-Sept 2023	Further Development of ideas/options	
12th Oct 2023	Update MTFP to Executive Board	
Oct/Nov 2023	Further development of ideas/options	
7th Dec 2023	First Budget Report to Executive Board	
Dec 2023	Provisional Local Government Finance Settlement (LGFS) 2024/25	
Jan/Feb 2024	Final Local Government Finance Settlement 2024/25	
8th Feb 2024	Second Budget Report to Executive Board	

Date	Action	Status
26 th Feb 2024	Finance Council sets Budget and Council Tax 2024/25	

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 2024/27

Appendix B – Changes to the Medium Term Financial Plan 2024/27 since Finance Council

Appendix C – Balances and Reserves 2024/27

Appendix D – Assumptions for Best/Worst Case Scenario Analysis

Appendix E – Analysis of Best/West Case Scenario Analysis

Appendix F – Fees and Charges Framework

VERSION:	1
CONTACT OFFICER:	Denise Park Chief Executive
DATE:	26 th April 2023
BACKGROUND PAPERS:	None