



EXECUTIVE BOARD DECISION

REPORT TO:	Executive Member for Finance and Governance
LEAD OFFICERS:	Strategic Director Finance and Resources
DATE:	13 th June 2024

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

KEY DECISION: Y

TITLE OF REPORT: Development of the General Fund Revenue Budget 2025/26

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) 2025/28 as the start of the process for developing the Council's Budget for 2025/26.

2. RECOMMENDATIONS

2.1 It is recommended that the Executive Board:-

- a) note the key risks to the delivery of the budget in 2024/25 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 2025/28 as shown at **Appendix A** and that a further update will be provided in October 2024;
- 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 2025/26;
- f) agree that all Portfolio Holders instigate a review of all fees and charges in their Portfolios, in line with the agreed Fees and Charges Framework, with a view to maximising the amount of income received by the Council;

- g) request that Lead Officers for Portfolios/Directorates be asked to identify and bring forward budget savings options for 2025/26;
- 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) as part of a process of identifying savings options over the medium term, agree to commission external advisors to support the development of strategic business cases and that a budget of £350k, funded from the Invest to Save Reserve, be agreed for this;
- j) subject to the work above and agreement with Councillors, agree that some form of public and business-based consultation on the budget savings proposals should take place over Autumn 2024 with a view to informing decisions on the Council's budget for 2025/26.

3. BACKGROUND

- 3.1 At the meeting of the Finance Council on 28th February 2022, the Council approved the Financial Strategy 2022/25. An Addendum to the Strategy was considered by Finance Council at its meeting on 26th February 2024 when considering the Council's proposed Budget for 2024/25. 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 the Financial Strategy will expire at the end of the current financial year, work was planned to refresh the Strategy. However, with the General Election due to take place in July 2024, the probability of a new Government being formed and the likelihood of a comprehensive review of Government spending plans, the update of the Strategy will be deferred until 2025/26 when it is hoped there will be greater clarity about funding for local government and, indeed, for the Council.
- 3.3 In the meantime, the objective of achieving a sustainable budget over the medium term remains and the current strategic framework based around the '*grow, charge, save and stop*' model will continue to provide the foundation on which the Council's financial plans will be developed and implemented.
- 3.4 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 regular change, it is good practice to review and update the MTFP on a regular basis.
- 3.5 To that end, work has been undertaken to update the Council's Medium Term Financial Plan (MTFP) 2025/28 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 2025/26. 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.
- 3.6 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 2025/26.
- 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 (VfM) arrangements by the External Auditors. The latest assessment of the Council's VfM arrangements, which was reported to the Audit and Governance Committee in March 2024, identified no significant weaknesses under the criteria for Financial Sustainability but one improvement recommendation was made as follows:-

'Going forward, the Council should ensure that the budget efficiencies set are realistic and achievable'

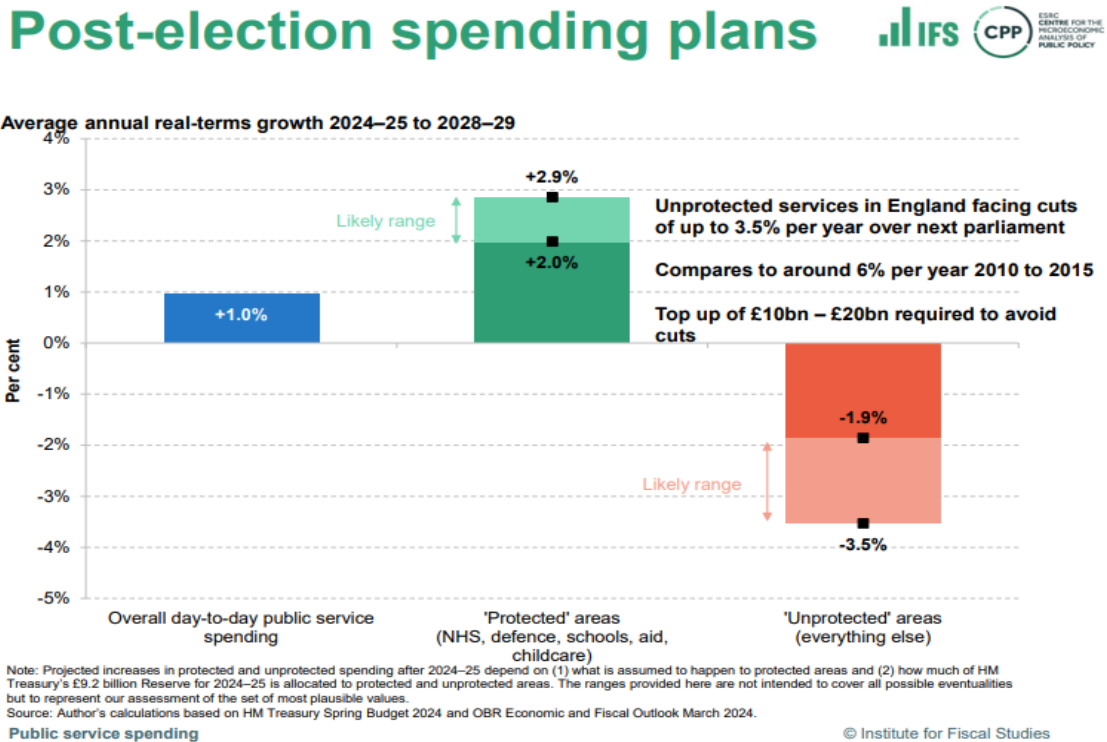
- 4.3 This recommendation reflected some under-delivery of savings in both 2022/23 and 2023/24 albeit not material in the context of the Council's actual and forecast outturn position for those years. Nevertheless, it is a reminder that the Council is expected to have in place a plan to deliver a balanced budget including savings proposals that 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.
- 5.2 The current Government's Spending Review period runs to the end of March 2025 (the 2024/25 financial year). This means that, at this stage, there is no indication of funding levels for Government Departments (including the Department for Levelling Up, Housing and Communities (DLUCH)) beyond that date. Ordinarily, the Government would undertake a new Spending Review in the Autumn of the year preceding the year in which it would be implemented. With the date of the Election now known, it is possible that a new Government may well now have the opportunity to do this and this could inform the provisional Local Government Finance Settlement in December.
- 5.3 What is clear is that there will be limited scope for any new Government to consider any of the proposed reforms to the Local Government Finance system. So, both the Business Rates Retention Scheme and Council Tax are likely to remain unchanged (although there may well be a review of the Council Tax Referendum thresholds). It is possible that areas such as the Social Care Grants, New Homes Bonus, the Services Grants and other such grant funding streams will be affected depending on the new Government's assessment of state of the national finances and what, if any actions are required, to curb Departmental public spending.

5.4 In the absence of any certainty from Government on likely funding levels post 2024/25, the best (and most recent) analysis available of the funding outlook for Local Government is the Institute of Fiscal Studies (IFS) assessment of the Government’s projections included in the Spring Statement 2024 which is summarised in the graph below:-



5.5 The graph indicates that based on current plans (and, of course, these may well change), overall Departmental Spending is expected to grow by 1.0% in real terms over the period to 2028/29. However, underlying this is growth in spending of between 2.0% and 2.9% in real terms in Protected Departments (NHS, Defence, Schools etc) meaning that Unprotected Departments (including those funding Local Government) will experience a funding reduction in real terms of between 1.9% and 3.5%. Whilst this may not appear significant, it is unlikely to be distributed evenly between Departments (and Local Government has generally tended to be subject to higher reductions) and it comes on the back of 14 years of austerity with most, if not all, Councils finding it increasingly difficult to reduce costs/increase income without affecting statutory services.

5.6 Of course, the funding outlook for the Council is, in broad terms, a function of the quantum of funding allocated to Local Government as part of the Government’s overall Departmental Spending allocations and how that funding allocation is distributed to individual Councils. These are both matters that, in contrast to the current Government, a new Government may do differently. Until that is known, however, for the purposes of developing the Medium Term Financial Plan, the underlying prudent assumption is that the Council’s funding from Government will continue to be constrained.

Update of Medium Term Financial Plan 2025/28

5.7 Since the meeting of Finance Council on 26th February 2024 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 2027/28. 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

	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Portfolio Budgets	170,143	168,419	167,915	167,915
Other Corporate I & E	18,428	21,790	31,570	41,365
Net Revenue Expenditure	188,572	190,209	199,485	209,280
Less Core Funding	(105,818)	(105,003)	(105,795)	(106,650)
Less Council Tax	(69,563)	(73,876)	(78,454)	(83,314)
Shortfall before Reserves	13,191	11,330	15,236	19,316
Change in Collection Fund	(2,751)	(400)	(400)	(400)
Change in Specific Reserves	(10,440)	(1,036)	(536)	(36)
Change in GF Balance	-	-	-	-
Funding 'Gap'	-	9,894	14,300	18,880

In Year Funding 'Gap'	-	9,894	4,406	4,580
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See Appendix A

- 5.8 **Appendix B** provides an analysis of the movement in the MTFP shown above when compared to the last MTFP reported Finance Council on 26th February 2024. As the table indicates, the forecast funding gap for the period to 2027/28 is now estimated to be £18.9m.
- 5.9 The MTFP is a forecast of the Council's financial position over the period to 2027/28. There are various assumptions underpinning the development of the MTFP and equally, there remain several matters where insufficient information is available but which are likely to have a significant impact on the position reported here. Some of these assumptions and issues are set out below.

Delivery of the Budget in 2024/25

- 5.10 Delivering the budget in 2024/25 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 £4.140m to balance the budget for the year. All 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 2025/26 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 2024/25** – this is budgeted at 6%. In response to the Trade Unions pay claim, the Employers pay offer was made during May 2024. The offer comprised a flat cash payment of £1,290 on each pay point up to Spinal Column Point (SCP) 43 (this equates to a pay award of ranging from 2.5% to 5.8%); for pay points above SCP43, a pay increase of 2.5% has been proposed. On average, this equates to an increase in pay costs of c4%. If agreed at this level, it should be within the budget agreed by the Council;

- **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;
- **Investment Income** – the budget for investment income in 2024/25 is £2.990m. This assumes an average cash balance of £65m and an average interest of 4.65%. Whilst inflation continues to reduce, which will mean interest rates will also start to be reduced, current indications are that the assumptions here will hold up and the budget for investment income should be achieved;
- **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.

5.11 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 from 2025/26

5.12 Given the funding settlement for 2024/25 is for one-year only and, as outlined above, the limited information available from Government on the funding available to the Council from 2025/26, it remains difficult to estimate with any certainty the likely level of funding the Council will receive from 2025/26 onwards.

5.13 The amount of funding from Business Rates and Revenue Support Grant appears relatively stable. Business Rates income is assumed to rise by 1.6%, being the predicted rate of inflation from 2025/26 onwards (there is a statutory requirement to increase the Business Rate Multiplier by the rate of CPI Inflation annually) and Revenue Support Grant is assumed to be cash limited over the life of the MTFP.

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

- **Social Care Grants** – It is also assumed that the Social Care grant funding provided to the Council, totalling around £30.3m in 2025/26 and including grants such as the Improved Better Care Fund (£8.349m), Market Sustainability and Improvement Fund (£1.990m) will, as a minimum, continue at the levels currently provided. This is except for the additional Social Care Grant of £1.593m paid to the Council as part of the final Local Government Finance settlement; the assumption here is that this was a one-off payment and will not be repeated from 2025/26.
- **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. The grant has reduced in successive years since, being used to pay for increases in other grants, and currently stands at £0.311m. The assumption in the MTFP is that this grant will not be paid from 2025/26 onwards;

- **New Homes Bonus** – in 2024/25, the Council will receive £0.830m in New Homes Bonus grant. 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** – these total £14.4m in 2024/25. As with most Councils, Blackburn with Darwen receives s31 Grants to compensate for the loss of Business Rates income due to a 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 several years. In these circumstances, the Council will lose the s31 Grant and will be required to collect the Business Rates income in its place.

For the purposes of the MTFP, it is assumed that the current grant will be increased by 1.6% in line with the assumed increased in Business Rates.

- **Extended Producer Responsibility** – an anticipated new feature of the forthcoming Funding Settlement is the Extended Producer Responsibility payment. This was originally to be introduced as part of the 2024/25 financial settlement for Local Government but Government subsequently delayed its implementation

Few details of this payment are currently known; it will 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 may be made in 2025/26 but, at this stage, there is insufficient information to indicate how much, if anything, the Council will receive.

Future Pay Awards

- 5.15 As indicated above, the Pay Award for 2024/25 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 after the General Election. As set out above, the current Pay Offer would be within the budget estimate for the year. Looking ahead, given the forecast for inflation, an average pay award of 3% is assumed for 2025/26 and 2% for each year thereafter.

Employers Pension Contributions

- 5.16 As the Executive Board will be aware, the Council is required to make contributions to the Lancashire Pension Fund to support the payment of pensions to employees. The contribution rate is 17.7% and this will remain constant in 2025/26.
- 5.17 As required by statute, a triennial valuation of the Pension Fund will be undertaken during 2025 and the results of that will inform revised contribution rates with effect from 2026/27 (for 3 years). At present, the Lancashire Pension Fund is in surplus (of which the Council's share of that at 31st March 2024 was £165m) although what the position will be when the valuation is done cannot be determined at this stage. For the purposes of the Medium Term Financial Plan, it is assumed that the contribution rate will increase by 0.6% although this is currently subject to review.

National Living Wage and Impact on Pay Structure

- 5.18 By way of a reminder, and 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. Consequently, in recent pay offers, 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.

- 5.19 The NLW is currently £11.44 per hour (the statutory minimum payment for anyone aged over 23yrs). The Real Living Wage is £12.00 (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 £11.59 (only 15p above the NLW and 41p below the RLW) although this will rise to £12.26 if the pay offer from the Employers for 2024/25 is accepted. The change in the NLW (and RLW) for 2025/26 will not be known until later in the year.

General Inflation

- 5.20 At the time of writing, the Consumer Price Index (CPI) was 2.3% (April 2024), marginally above the Bank of England's (BoE) target rate of 2.0%. The BoE expect inflation to continue falling as it has done over the last year and be close to the target rate by September 2024. Thereafter, the Office of Budget Responsibility (in their Economic and Fiscal Outlook published in March 2024) forecast that CPI will remain at or around the BoE target of 2.0%.

- 5.21 The most significant caveat to the assumptions underpinning this forecast is the continuing instability from the current conflicts in Ukraine and the Middle East. These continues to pose a significant risk to the global economy and any widening of the conflicts in the region, given they are important to the global oil and gas supply, may result in a surge in energy prices and with it the rate of inflation.
- 5.22 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.

Other Matters

- 5.23 There continue to be a range of matters that may have an impact on the development of the Council's budget. As well as the range of pressures set out above, there are some specific service-related matters where there will need to be a 'watching brief' to ensure that any decisions impact on the Council's budget are reflected accordingly. 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 quality and 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 has been used to support the local care market. As well, this funding may not be sustained or sufficient to make the rapid improvements necessary since much will depend on the integration of health and social care and what that might deliver in terms of efficient and effective services;
- ***The financial position of the Integrated Care Board*** – as the Executive Board may be aware, the financial position of the Lancashire and South Cumbria Integrated Care Board has deteriorated significantly over the last 18 months. This is partly due to the continuing increase in demand for healthcare but equally the pace of delivering efficiencies within the healthcare system. As the ICB grapples with its financial challenge, there is a possibility that it will look to work more closely with local authorities to deal with this challenge, exploiting opportunities for more and better healthcare integration.
- ***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 monthly to drive forward this work. With the possibility of a full ILACs inspection in the next 18 months, it is important for the Council to ensure that the improvements made in the Service continue to be supported with appropriate financial investment whilst balancing the need to ensure value for money;
- **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, considering the production and consumption of emissions.

Following the outcome of a People’s Jury, a series of recommendations were made and these now form the Climate Emergency Action Plan which was agreed by the Executive Board in June 2023;

- **Changes to Waste and Recycling** – Stemming from the Environment Act 2021, in September 2023, the Government announced plans for ‘*Simpler Recycling*’, to make recycling as simple as possible for residents. In essence, this would appear to promote co-mingling of recyclate but given concerns about contamination of waste affecting the end markets for it, the industry view is that existing separate collections are better.

The Government has also announced the introduction of *weekly separate food waste collections*. Indeed, a report on this matter is elsewhere on the Agenda for this meeting. As the report indicates, the Council is obliged to implement this scheme from June 2026 (although as the report indicates, whilst capital funding has been provided for this, there is currently no indication of what revenue funding will be made available);

In addition to these matters, the Environment 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. These include, for example:-

- 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 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, Youth Investment Fund and, more recently, Levelling Up Partnership Funding) 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.

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

- **implementing the Corporate Plan** – The Council continues to take action to deliver against the Corporate Plan for the period 2023/27. 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 and to provide it, the Council may need to 'buy-in' additional resource;
- **stability in the Workforce** – as with several sectors and organisations, the Council continues to experience difficulties with the recruitment and retention of staff in several business areas. 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;
- **Use of Reserves** – The MTFP assumes that the Council will use c£1m of reserves to support the budget in 2025/26, reducing to £500k in 2026/27. 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 2024/25, the Council will capitalise staffing costs totalling c£2.5m. 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. Where there are not required, consideration will need to be given to the costs of ‘exit’ from the organisation;
- **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;
- **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. More recently, with the development of Levelling Up Partnerships, the Council has been able to attract funding to deal directly with some structural issues within the Borough.

With a new Government from July 2024, it is not clear what the future of external funding will be and to what extent any funding available will match the needs of the Borough. That said, as ever, the Council must be able to develop ‘oven ready’ bids that are of high quality, capable of being successful and ultimately can be delivered. And, as funding streams come to an end, it is important that the Council puts in place arrangements, such as clear exit strategies, 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.

- 5.25 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

- 5.26 Any consideration of the Council’s Medium Term Financial Position needs also to consider what reserves and balances are available.
- 5.27 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 2024/25 (this is subject to change following the closure of the Council’s Accounts for 2023/24). 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, the forecast net change in this reserve will be an increase of £1.185m giving a forecast balance at 31st March 2024 of £3.170m. It is estimated that £1.540m from this reserve will be used to support the budget in 2024/25. A further £1.5m will be used over the life of the MTFP to support the budget with the Reserve almost exhausted at that point;
- 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). During 2024/25, it is estimated that £1.410m will be used for this purpose leaving an uncommitted balance of £2.856m (subject to the proposed investment set out in this report);
- 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 2024/25, it is estimated that £7.490m will be used to fund specific expenditure in the year. Of the balance of Reserves, in the main they are committed to specific issues.

5.28 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)

5.29 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.

5.30 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 good practice and acts as an indicator of the Council's financial sustainability.

5.31 The sensitivity analysis gives some indication of the likely range of the Council's deficit position bounded by realistic worse- and better-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 worse case assumes strongly negative estimates for most of the main aspects of the MTFP. Likewise, the better-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

	2025/26 £000	2026/27 £000	2027/28 £000
Better Case	3,720	6,862	9,308
Base Position (Table 1 above)	9,894	14,300	18,880
Worse Case	14,263	22,321	30,716

See Appendix D and E

5.32 As the table indicates, the range of potential positions is a deficit of c£3.7m to a deficit of £30.7m. 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

5.33 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.

5.34 The Financial Strategy was reported and approved by Council at its meeting on 28th February 2022 with a further addendum to the Strategy provided to Finance Council on 26th February 2024.

'Growing'

5.35 The 'Growing' strand is largely dependent on the activity of the Council's Growth and Development Team with the focus on increasing housebuilding rates and economic/industrial development. The recent adoption of the Local Plan to 2037, providing the spatial strategy for the sustainable development of the Borough, will provide the foundation for the Council's continuing growth aspirations.

5.36 The trajectory of housing growth is reasonable, with a significant increase in the Council's taxbase for 2024/25 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. More details of the Council's Growth Programme are set out in a report elsewhere on the Agenda for this meeting.

'Charging'

5.37 'Charging' for services and maximising the income to the Council alleviates the pressure to find savings from budget reductions. To that end, each Portfolio/Directorate is again being requested to undertake a review of all the fees and charges within their control, in line with the previously agreed Fees and Charges Framework.

'Savings' and 'Stopping'

5.38 Both the 'Savings' and 'Stop' strands require services to do things differently. The proposed Strategy to do this is two-fold:-

- acknowledging that the Council is required to set a balanced budget annually, and given the extent of the forecast funding gap for 2025/26, it is proposed to set targets for Portfolios/Directorates as the basis of developing policy options for the Executive Board to consider as part of the approach to achieving a balanced budget; and
- to complement this approach, and focussing on the medium term sustainability of the Council's budget when compared to the current and anticipated demand on services along with the uncertainty of future funding, it is proposed to commission external support to assist the Council to identify a range of strategic transformation proposals (or interventions) across various services that will, if implemented, provide the opportunity for the Council to move to a lower cost base whilst ensuring achievement of planned outcomes.

5.39 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 2024/25. 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. Several Star Chamber 'challenge' sessions were held to provide some oversight to this process.

5.40 It is proposed to persevere with this approach as a first step to identifying new savings proposals for 2025/26. To that end, targets will be set for each Portfolio/Directorate and Lead Officers will be tasked with developing proposals in conjunction with respective Portfolio Holders.

5.41 Looking beyond 2025/26, it is clear that the Council's budgetary position requires a more fundamental in-depth review of what the Council does and how it does it. This applies across the whole range of Council activities. Given existing demands on the Council, the capacity to do this is limited and so there is a need to commission 'expert' external support to provide this additional capacity. To that end, it is proposed to commission an external provider to support the Council with the development of strategic transformation proposals which, if implemented, will help achieve service outcomes but at a lower cost to the Council.

5.42 This approach will be undertaken in three distinct phases:-

- **Phase 1** – the preparation and co-production of proposals and opportunities to achieve better service outcomes at less cost to the Council; this work will be undertaken across the range of Council activities and, supported by comprehensive insight and benchmarking, will result in a longlist of priorities for further work;
- **Phase 2** – using the priorities for further work, this phase will work with those responsible for Service Delivery to develop a strategic outline, scope and plan for each opportunity. It will test the reasonable of each proposal and the scale of ambition the Council may have with each proposal.
- **Phase 3** – the development of between 6 and 10 robust strategic outline business cases that provide meaningful inputs to the Council's budget process. In essence, these business cases would set out a series of options that if implemented should result in the same of better service outcomes but at a lower cost to the Council.

5.43 Subject to normal procurement processes, the estimated cost of this phase is up to £350k which would be funded from the Council's Invest to Save Reserve.

Consultation on Budget Proposals

5.44 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*'.

5.45 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.

5.46 In compliance with this requirement, and subject to budget proposals coming forward, it is proposed that some form of public consultation on the budget savings proposals should take place over Autumn 2024 with a view to informing decisions on the Council's budget for 2025/26. The form and content of such a consultation will be determined in due course.

5.47 And, in compliance with s65 of the Local Government Finance Act 1992, the Council will undertake consultation with the business community once details of the budget are developed.

Next Steps

5.48 Table 4 below provides an outline timetable for the development of the budget for 2025/26.

Table 4: Indicative Timetable for Development of Budget 2025/26

Date	Action	Status
Mar 2024	Budget Implementation Report 2024/25	Completed
May 2024	Updated MTFP to Corporate Leadership Team	Completed
13th June 2024	Updated Financial Strategy and MTFP to Executive Board	This report
June 2024	Development of Budget Savings Targets and Options	
July-Sept 2024	Corporate Leadership Team consider first draft of ideas/options	
Sept 2024	Updated MTFP/Options to Corporate Leadership Team	
10th Oct 2024	Update MTFP to Executive Board	
Oct/Nov 2024	Consultation on Budget Proposals	
Oct/Nov 2024	Further development of ideas/options	
Nov 2024	First Budget Report to Corporate Leadership Team	
12th Dec 2024	First Budget Report to Executive Board	
Dec 2024	Provisional Local Government Finance Settlement (LGFS) 2025/26	
Dec 2024	Update on Budget/LGFS to Corporate Leadership Team	
Dec 2024	Update on Budget/LGFS to Policy Development Session	
Jan/Feb 2025	Final Local Government Finance Settlement 2025/26	
Jan 2025	Update on Budget to Corporate Leadership Team	
13th Feb 2025	Second Budget Report to Executive Board	
24th Feb 2025	Finance Council sets Budget and Council Tax 2025/26	

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 2025/28

Appendix B – Changes to the Medium Term Financial Plan 2025/28 since Finance Council

Appendix C – Balances and Reserves 2025/28

Appendix D – Assumptions for Best/Worst Case Scenario Analysis

Appendix E – Analysis of Best/West Case Scenario Analysis

VERSION:	1
CONTACT OFFICER:	Dean Langton Strategic Director Finance and Resources
DATE:	28 th May 2024
BACKGROUND PAPERS:	None