



EXECUTIVE BOARD DECISION

REPORT TO:	Executive Member for Finance and Governance
LEAD OFFICERS:	Strategic Director Finance and Resources
DATE:	10 th October 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 a further update on the Council's Medium Term Financial Plan (MTFP) 2025/28 and to set out the process of developing savings options to balance the Council's budget in 2025/26.

2. RECOMMENDATIONS

2.1 It is recommended that the Executive Board:-

- a) Note the Council's current financial position based on the financial outturn for 2023/24 and the Quarter 1 Budget Monitoring exercise, both of which were considered by the Executive Board earlier this year;
- b) note the continuing uncertainty with the funding outlook for the Council, not least that any progress on Local Government Finance reforms is likely to take place after the Local Government Finance Settlement 2025/26 and the upcoming Spending Review;
- 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 once details of the Local Government Finance Settlement for 2025/26 are known;
- d) note the updated timetable set out in the report for the development of the Council's Budget for 2025/26;
- e) note that all Portfolio Holders have been requested to undertake a review of all fees and charges in their Portfolios, in line with the Council's Constitution and the agreed Fees and Charges Framework, with a view to maximising the amount of income received by the Council by implementing any changes from 1st January 2025 (where it is possible to do so);

- f) ask Portfolios Holders, in conjunction with Lead Strategic Directors/Directors to identify and bring forward budget savings options for 2025/26;
- g) agree that any such budget proposals arising from the work above be considered by the Executive Board in due course (and subject to the proposal on consultation below);
- h) subject to the work above and agreement with Councillors, agree that some form of public and business-based consultation on the Council's budget 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 A further update on the Council's Medium Term Financial Plan was presented to the Executive Board in June 2024. This indicated a budget 'gap' over the medium term of c£18.9m and in response to this, it was resolved that further work be undertaken to consider ways in which the Council can achieve a balanced sustainable budget over the medium term. This report provides an update on this work and sets out how the Council intends achieving a balanced budget specifically for 2025/26.
- 3.3 As the Financial Strategy will expire at the end of the current financial year, work was planned to refresh the Strategy. However, with the expectation that the Government will announce a further single-year funding settlement for Local Government for 2025/26 in advance of conducting a comprehensive review of Government spending plans thereafter, 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.
- 3.4 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.
- 3.5 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.
- 3.6 To that end, work has been undertaken to further 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.
- 3.7 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 last 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 Following the outcome of the General Election in July 2024, and the forming of a new Government, towards the end of that month the Chancellor of the Exchequer made a statement to the House of Commons on public spending. Amongst other matters, this statement set out details of in-year (2024/25) budget pressures (totalling £21.9bn) and several mitigation measures (totalling £5.5bn) to manage some of these pressures.
- 5.3 Included in the mitigation measures was the cancellation of proposed Adult Social Care Charging Reforms (care cost cap and associated measures). These were planned to be introduced in October 2025 but will not now go ahead (saving £30m in 2024/25 and £1.1bn from 2025/26).
- 5.4 Also included in the mitigation measures was a requirement for Government Departments to find savings of £3.2bn to fund pay pressures, including reducing administration spending by 2% and the introduction of means testing for Winter Fuel Payments. Whilst it remains to be seen, indirectly, both proposals may have an impact on local authorities either in reduced availability of funding from Government Departments and/or increased demand for Council services.

- 5.5 Looking ahead, the Chancellor announced that the next Budget Statement will be made on 30th October 2024. This will confirm final budgets for 2024/25 and spending totals for 2025/26 (and, as indicated above, with the likelihood that Local Government will, again, receive a single year funding settlement for the next year).
- 5.6 According to the Government, the next Spending Review will be a multi-year review, covering at least three financial years and will conclude in Spring 2025. The Government will use this to *'improve how different tiers of government work together'*, *'consolidate funding streams for local government'* and *'roll out integrated settlements for Mayoral Combined Authorities'* all of which appears to indicate a greater role for democratically Elected Mayors and Combined Authorities. Anecdotally, there is also a suggestion that the Government will also consider some of the broader reforms of Local Government Finance that have been considered previously (acknowledging that the Labour Party Manifesto clearly indicated that, if elected, they would replace the current Business Rates system *'so that revenue can be raised in a fairer way'*).
- 5.7 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 last Government, the new Government may do differently. Until that is known, however, for the purposes of developing the Medium Term Financial Plan here, 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

- 5.8 Since the last update to the Medium Term Financial Plan in June 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 Table 1 below with a more detailed analysis provided at **Appendix A**:-

Table 1: Medium Term Financial Plan 2024/28

	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Portfolio Budgets	170,143	170,194	169,610	169,610
Other Corporate I & E	18,428	18,216	28,051	36,937
Net Revenue Expenditure	188,572	188,410	197,661	206,547
Less Core Funding	(105,818)	(106,596)	(107,388)	(108,243)
Less Council Tax	(69,563)	(73,876)	(78,454)	(83,314)
Shortfall before Reserves	13,191	7,938	11,819	14,990
Change in Collection Fund	(2,751)	(1,500)	(400)	(400)
Change in Specific Reserves	(10,440)	(1,116)	(536)	(536)
Change in GF Balance	-	-	-	-
Funding 'Gap'	-	5,322	10,883	14,054
In Year Funding 'Gap'	-	5,322	5,561	3,171

See Appendix A

- 5.9 **Appendix B** provides an analysis of the movement in the MTFP shown above when compared to the last MTFP reported the Executive Board on 13th June 2024. Some of the key changes are summarised below:-

- early indications are that the Government will sustain Social Grant funding at least at the same level as in 2024/25 (including the additional funding provided to Councils towards the end of Funding Settlement consultation for 2024/25). The Council received £1.593m of additional funding which was originally assumed to be one-off but has now been included in each year over the life of the Medium Term Financial Plan;
- given inflation has broadly returned to normal levels, and the most recent projections of the National Living Wage (see below), a further review of the estimated increase in Social Care Provider Fees rates has been undertaken with a view to determining the financial envelope for discussions to take place. At this stage, this excludes any additional Social Care Grant the Government may make available;
- the pay award for 2024/25 is currently assumed to be 6% overall. The offer from the Local Government Employers is c4% and whilst this has not yet been accepted given inflation is currently around the 2% mark, the Medium Term Financial Plan has been updated to assume this will be the case. This matter is considered in more detail below;
- an additional £2m has been added into the MTFP to reflect current costs pressures being experienced in Children's Social Care.

5.10 As the table indicates, the forecast funding gap for the period to 2027/28 is now estimated to be £14.1m (in comparison to the position last report which indicated a gap of £18.9m).

5.11 As ever, 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.

Financial Outturn 2023/24

5.12 Since the last update to the Council's Medium Term Financial Plan, work has concluded on the financial outturn for 2023/24. Details of this, for both the General Fund Revenue Budget and the Capital Programme, were reported to the Executive Board in July 2024.

5.13 In summary, the General Fund Revenue Outturn for 2023/24 was broadly a break-even position, with the overspend on Services (mainly in the Children, Young People and Education Portfolio) offset by additional investment income. Both matters are reflected in the updated Medium Term Financial Plan.

5.14 The Council's Capital Programme for 2023/24 was significantly underspent. Against a Revised Budget of £42.0m, actual expenditure was £19.5m thereby giving rise to an underspend of £22.5m. Acknowledging that the Programme comprises several significant multi-year projects, the bulk of the underspend (with associated funding) was carried forward to 2024/25.

5.15 More details of what the financial outturn position for 2023/24 meant for the Council's Balances and Reserves are provided below.

Delivery of the Budget in 2024/25

- 5.16 Delivering the budget in 2024/25 is critical to the sustainability of the Council's financial position. In line with the Council's normal budget monitoring procedures, at its meeting on 11th July 2024, the Executive Board received reports following the completion of a Qtr 1 Budget Monitoring exercise.
- 5.17 In relation to the Revenue Budget, acknowledging that it is early in the financial year and that the forecast outturn is subject to change as a consequence, it was reported that the forecast outturn position is an overspend of £1.931m comprising an overspend on Portfolio Budgets of £2.701m less an underspend on Investment Income/Minimum Revenue Provision of £770k. Should this position be sustained until the year end, it would require a further drawdown of reserves of £1.931m to deliver a balanced budget.
- 5.18 Just to reiterate, 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. To that end, a detailed monitoring exercise will be undertaken on the delivery of savings and this will form part of the Qtr 2 Budget Monitoring Report to the Executive Board in November 2024;
 - **Pay Award in 2024/25** – this is currently 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 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.

By way of an example, the Qtr 1 Budget Monitoring exercise highlighted a forecast overspend of £1.882m in the cost of Children's Permanence reflecting higher than expected cost of placements.

- **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 4.60%. Current performance is that the average cash balances held by the Council are above the budget level and, whilst the Bank Rate has reduced, it remains above the level on which the Council's budget was set. In view of this, based on the Qtr 1 Budget

Monitoring position, it is forecast that the Council will generate investment income of £3.5m in 2024/25, some £510k more than budget.

- **Delivery of the Capital Programme** – Given the pressure on borrowing costs, there continues to be a close 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.

5.19 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

5.20 As outlined above, there is limited information available from Government on the funding available to the Council from 2025/26 and, therefore, it remains difficult to estimate with any certainty the likely level of funding the Council will receive from 2025/26 onwards. As indicated above, the Government has stated that it will consider reform of the Local Government Finance regime but not before the Settlement for 2025/26.

5.21 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.

5.22 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 2024/25 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. And, as indicated above, the Government has said that the additional Social Care Grant of £1.593m paid to the Council as part of the final Local Government Finance settlement will remain as part of the next year’s settlement hence the change in the Medium Term Financial Plan;
- **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 remains unchanged – 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 last Government previously indicated its intention to reform the New Homes Bonus and consulted on proposals to do this but no such reforms were implemented. Despite the Government’s clear focus on the delivery of more housing, there remains uncertainty about whether the New Homes Bonus Scheme will feature as part of the Local Government Finance Settlement at all.

For this reason, it is assumed that there will be no 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 possible, 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.

And to reiterate, the Labour Party signalled its intention in its manifesto to replace the business rates system in England although this did not feature specifically in the legislative programme set out in the Kings Speech. Given the scale of this task, it is unlikely to be implemented as part of the forthcoming financial settlement; it appears more likely that this matter will be considered in the medium term and will, inevitably, involve significant consultation across a range of sectors, as well as Local Government.

- **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 the last Government subsequently delayed its implementation.

As has been set out before, EPR will be a charge to businesses that produce recyclable waste which is collected by a Government Agency and distributed to Local Councils. The most recent communication from the Government, in early September 2024, is that Councils will receive estimates of the payments due in November 2024 with amounts paid towards the end of 2025. This appears to be dependent on the implementation of the Local Authority Payments (LAPs) digital function.

At this stage, there is insufficient information to indicate how much, if anything, the Council will receive and so nothing is assumed in the Medium Term Financial Plan.

Future Pay Awards

- 5.23 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 towards the end of the year. 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

- 5.24 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.
- 5.25 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

- 5.26 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.
- 5.27 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.
- 5.28 Looking ahead, in early September 2024, the Low Pay Commission updated its projections of the NLW. The LPC is now projecting a rate of £12.10 (with a range of £11.82 to £12.39) which would be a 5.8% increase from present rates (with a range of 3.3% and 8.3%).

General Inflation

- 5.29 At the time of writing, the Consumer Price Index (CPI) was 2.2% (July 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 in the final quarter of 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%.
- 5.30 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.
- 5.31 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

- 5.32 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)*** – the last Government delayed its planned major reforms of the Social Care system and the new Government has confirmed that these will not now go ahead (as part of its immediate actions to alleviate spending pressures in Government). To note, funding has been made available by the Government to support these changes but, in line with national guidance, has been used to support the local care market.

As with most Councils that have responsibility for Adult Social Care, the Council continues to experience challenges from increasing demand and complexity of needs. Reforms and sustainable funding for Adult Social Care, with a more integrated approach between health and adult social care, a focus on prevention and recovery services and investment in primary care, community services and intermediate care, are central to ensuring that the pressures in the system can be managed effectively. How the new Government intends to deal with this, remains to be seen.

- ***The financial position of the Lancashire and South Cumbria (LSC) Integrated Care Board (ICB)*** – 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. For 2024/25, the LSC health system has an agreed control total of £175m (deficit) but, to achieve that, must deliver £531m savings during the year (against revenue of £4.8bn and therefore equating to 11%). 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 this financial challenge, it is taking decisions that have a direct financial impact on the Council. For example, in relation to Continuing Healthcare (CHC), the discontinuation of the 28 day revoking period post individual CHC reviews will potentially result in the Council incurring costs of care earlier than would otherwise have been the case.

As the ICB's financial challenge deepens, there is a strong possibility there will be others changes that will require local authorities such as Blackburn with Darwen to share some of the cost burden;

- ***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 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*** – a report elsewhere on the Agenda for this meeting outlines the ongoing improvement work in Children's Social Care. This follows on from Ofsted Inspection of the Service in February 2022 and has been underpinned by a significant financial investment in the service. This work is being overseen by an independently chaired Improvement Board which continues to meet regularly to drive forward this work. With the possibility of a full ILACs inspection in the next 12 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, a further update of which was approved by the Executive Board in June 2024;

Changes to Waste and Recycling – 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 (see above) which makes sure producers pay the ‘full net cost of recovery’ for the packaging that they produce (considered by MHCLG 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.

By way of an example of the implications of this matter, as reported to the Executive Board in July 2024, the Council is committed to introduce a Food Waste Collection Service from 2026 (and must do so by law). Whilst the last Government allocated some capital funding to support the implementation of the scheme (the Council having to supplement this funding to implement the Scheme) there is, as yet, no indication of the amount of revenue funding to be made available to operate the scheme. At this stage, it is assumed that adequate funding will be provided by the Government to operate the Scheme.

- **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 several 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 (particularly given the deadlines imposed by Government for the use of some grant funding) and within budgets provided can be challenging and may require additional programme management capacity to achieve the necessary outcomes.

5.33 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. More details of the Council’s progress against missions in the Corporate Plan and the setting of the Policy Framework for 2025/26 will be presented to Policy Council in December 2024.
- **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. As indicated below, an ‘Invest to Save’ reserve has been established to support this work.
- **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 (LGA). Indeed, the LGA is co-ordinating a National Recruitment Campaign, that will involve Councils, which will launch later this year;
- **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 and 2027/28. 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 expects to capitalise staffing costs totalling c£2.8m (where these staff are actively involved in the delivery of capital projects). This is subject to review and any variance will be picked up as part of the normal budget monitoring processes. 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.

Looking ahead to 2025/26 onwards, it is estimated that the amount chargeable to capital will reduce to c£2.4m, creating a c£400k budget pressure which is reflected in the Medium Term Financial Plan.

- **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 of External Funding** – As indicated above, the Council has a good track record in obtaining external funding (both revenue and capital) as a means of regeneration and/or expanding the delivery of services across Blackburn with Darwen. More recently, with the development of the Levelling Up Partnership, the Council has been able to attract funding to deal directly with some structural issues within the Borough.

In relation to the Revenue Budget, there are some grant funding streams where there is uncertainty about whether they will continue into 2025/26 and, if so, at what level. Details of these are set out at **Appendix C**. It is unclear at this stage when the Council will be notified about the continuation of these funds

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.

- 5.34 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

- 5.35 Any consideration of the Council’s Medium Term Financial Position needs also to consider what reserves and balances are available.
- 5.36 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 D** and this reflects the changes in reserves following the setting of the Budget for 2024/25 and 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. At the start of the current financial year, the balance of the reserves was £4.995m. Based on the Qtr 1 Budget Monitoring exercise, it is estimated that £2.626m will be used from this reserve to support the budget in 2024/25. A further £2.0m 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 £1.924m will be used for this purpose leaving an uncommitted balance of £2.342m;
- an **Insurance Reserve** of £4m has been created, as set out in the budget report to Finance Council, to strengthen the Council's arrangements for self-insurance. This is primarily to counter the rising cost of insurance premiums for the Council and will be guided by an Insurance Financing and Risk Strategy, details of which are provided elsewhere on the Agenda for this meeting;
- Remaining **Earmarked Reserves (for discretionary use)** will only be used for the purposes for which they have been set aside and will be subject to annual review. In 2024/25, it is estimated that £14.156m will be used to fund specific expenditure in the year. Of the balance of Reserves, in the main they are committed to specific issues.

5.37 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.

Financial Strategy 2022/23 to 2025/26

5.38 The Financial Strategy remains focused on four key strands: **Growing** (the Council's Taxbases and thus, its income), **Charging** (for services where it is possible to do so), **Saving** costs (through a series of strategic workstreams) and **Stopping** (spending on low priority activity or working with partners to find different ways of delivering services).

5.39 More details of these four key strands are provided in the Financial Strategy ([Financial Strategy](#) and subsequent updates [Addendum to Financial Strategy](#)). And to note, reviewing the Financial Strategy is a priority for the next year, once the Government has provided a clearer indication of its funding plans and any potential reforms to Local Government Funding system.

5.40 In the meantime, efforts to grow the Borough's economy (including its housing stock) continue with significant amounts of investment both as a consequence of grant funding

provided by the Government but also from the Council's own funds. Likewise, in line with the Council's Fees and Charges Framework, there are regular reviews of fees and charges to ensure the Council is generating income from services provided. Acknowledging that these actions alone are not sufficient to deliver a balanced budget in the short term, there is a need to consider how the Council can reduce its cost base to match its ongoing revenue.

Developing the Budget for 2025/26

- 5.41 In the last report to the Executive Board on this matter, a two-stage process for addressing the Council's funding deficit over the medium term was agreed. This comprised:-
- a) for 2025/26, continuing with the identification of new savings proposals focussed on various strategic workstreams (Organisational Review, Procurement, Back Office Efficiencies, Asset Management etc). More details of this request are provided below.
 - b) looking beyond 2025/26, commissioning 'expert' external support to provide additional capability and capacity to identify a range of strategic transformation proposals which, if implemented, could help deliver similar or better service outcomes but at a lower cost to the Council.
- 5.42 On the latter, as has been reported, the Council has appointed Impower to provide support to the development of a range of outline business cases. Subject to detailed development, these proposals are intended to provide the Council with options for consideration and, subject to consideration by the Executive Board, implementation thereafter. This work is currently progressing with a view to concluding the first phase of work in mid-October, details of which will be reported to the Executive Board as part of the next update on the Financial Strategy and Medium Term Financial Plan.
- 5.43 But, as the Executive Board is aware, the Council is required by statute to have a balanced budget annually. Given the forecast deficit for 2025/26 as set out above, there is need to consider what action can be taken so that the Council can comply with its statutory obligation in relation to the budget. To that end, each Portfolio Holder is requested to work with the Lead Strategic Director for their Portfolio to develop proposals.

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 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	Completed
June 2024	Development of Budget Savings Targets and Options	Ongoing
July-Sept 2024	Corporate Leadership Team consider first draft of ideas/options	Ongoing
Sept 2024	Updated MTFP/Options to Corporate Leadership Team	Ongoing
10th Oct 2024	Update MTFP to Executive Board	This report
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	Consultation on Budget Proposals	
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 – Revenue Grant Contributions at Risk

Appendix D – Balances and Reserves 2025/28

VERSION:	1
CONTACT OFFICER:	Dean Langton Strategic Director Finance and Resources
DATE:	16 th September 2024
BACKGROUND PAPERS:	None