

REPORT TO:	Cabinet	
DATE:	10 September 2025	
PORTFOLIO:	Councillor Vanessa Alexander – Resources and Council Operations	
REPORT AUTHOR:	Martin Dyson – Executive Director (Resources)	
TITLE OF REPORT:	Process for the Development of the Revenue and Capital Budgets for 2026/2027	
EXEMPT REPORT (Local Government Act 1972, Schedule 12A)	No	Not applicable
KEY DECISION:	No	If yes, date of publication:

1. Purpose of Report

1.1 This report provides Cabinet with an update on the development of the Council's Revenue and Capital budgets for 2026/27 and outlines how current risks and assumptions are affecting the Medium-Term Financial Strategy (MTFS) for 2026/27 to 2028/29.

2. Recommendations

It is recommended that Cabinet:

2.1 Note the key risks and pressures to the delivery of the budget in 2025/26. These issues will continue to be monitored and reported through the regular Budget Monitoring updates presented to Cabinet.

2.2 Approve the assumptions outlined in Section 6, which will be incorporated into the Medium-Term Financial Strategy (MTFS) updated for 2026/27 to 2028/29, to be presented to Cabinet in October.

2.3 Note the timetable set out in section 7 of the report for the development of the Council's Revenue Budget for 2026/27.

2.4 Note the timetable set out in section 8 of the report for the development of the Council's Capital Budget for 2026/27.

3. Background

- 3.1 The Council approved its annual Revenue Budget for 2025/26 and the Medium-Term Financial Strategy (MTFS) for 2025/26 to 2027/28 at the Full Council meeting on 27th February 2025.
- 3.2 Since the budget was approved, the government has launched the Fair Funding Reform 2.0 consultation and signalled a multi-year settlement from 2026/27. Early analysis suggests Hyndburn Council may be disproportionately affected.
- 3.3 Therefore, to ensure a credible and robust budget can be delivered for the forthcoming year, the Council has begun early work to develop its financial plans for 2026/27. This early start allows sufficient time for Officers and Members to shape a budget that aligns with the Council's corporate priorities, explores a range of options, and responds to emerging risks and pressures.
- 3.4 The budget is a key financial planning tool that supports delivery of the Corporate Plan. It must demonstrate value for money, be subject to robust scrutiny, and stand up to external audit. The Council's approach to budget development is a core component of the External Auditor's assessment of its Value for Money (VfM) arrangements.
- 3.5 A sustainable budget over the life of the MTFS is essential. Where savings are required, the Council must have a credible and deliverable plan in place. Achieving a balanced and sustainable financial position not only supports service delivery but also provides assurance to External Auditors and helps avoid adverse commentary in the VfM report.

4. Key Risks & Pressures in the Medium-Term Finance Strategy

The main risks/pressures to be considered are detailed below:

Fair Funding Review

- 4.1 The Council faces significant financial risk from the proposed Fair Funding Reform 2.0, which is currently subject to consultation. Early modelling by LG Futures indicates that Hyndburn could experience a substantial reduction in funding under the revised methodology. This is primarily due to the proposed reset of business rates, which disproportionately affects councils like Hyndburn that have seen strong growth in this area.
- 4.2 Hyndburn has been identified as one of the 49 most adversely affected authorities, with projected funding levels falling well below the baseline set out in the government's consultation. Officers have engaged directly with representatives from the Ministry of Housing, Communities and local government (MHCLG) to understand the methodology and any potential transitional arrangements.
- 4.3 Following this engagement and analysis of the modelling, the Council has submitted a formal response to the consultation on the 15th of August. The response is closely aligned with the position of the District Councils' Network, which outlines some key issues that affect most district councils. The outcome of this reform presents a material

risk to the sustainability of the Council's Medium-Term Financial Strategy and will be closely monitored as part of ongoing financial planning.

4.4 However, despite the uncertainty, the true impact of the reform will only be known when the Local Government Finance Settlement is published in December. However, the Council is working closely with LG Futures to model the impact on the MTFS with the latest assumptions on funding reductions outlined in section 5 of this report.

Local Government Reorganisation (LGR)

4.5 The potential reorganisation of local government presents several financial and operational risks for Hyndburn Borough Council. While the long-term implications remain uncertain, the process of exploring reorganisation has already placed additional demands on officer time and resources.

4.6 The Finance team has been required to attend additional meetings and provide detailed financial data to support external consultants in modelling the potential impact of forming a new unitary authority. This has diverted capacity from core financial planning and budget development activities.

4.7 Other service areas, including Democratic Services, HR and Legal, are also affected. These teams must consider the implications of structural change, including workforce integration, governance arrangements, and legal responsibilities associated with amalgamating with neighbouring district councils.

4.8 Although the reorganisation remains at an exploratory stage, the resource implications are real and ongoing. The Council will continue to monitor developments closely and assess the financial impact as further information becomes available. However, it is anticipated that additional support will be required as the demands of LGR further impact the Council.

Capital Programme – Funding Risk

4.9 While the majority of the Council's capital programme is funded through external grants, a financial risk remains due to limited resources within the Capital Receipts Reserve. At present, there are insufficient capital receipts to fully fund all planned projects.

4.10 As a result, the delivery of several schemes may be delayed until further asset disposals are achieved, or alternative funding sources are identified. Given the constraints within the revenue budget, the only viable alternative is borrowing, which introduces additional costs and long-term financial commitments. This risk will be closely monitored as part of the Council's capital strategy and financial planning processes.

4.11 To support the delivery of the capital programme, officers and Cabinet members are reviewing the Council's asset portfolio to identify opportunities for disposal, including sale, auction, or lease. The disposal process is being streamlined to ensure efficiency and maximise capital receipts.

4.12 Furthermore, all capital projects are subject to the Council's Approval to Spend (ATS) process, which acts as a gateway control. Projects can only proceed once sufficient funding is confirmed and formal approval is granted by the Section 151 Officer. Where capital receipts are unavailable, ATS approval will not be given, ensuring financial discipline and alignment with the Council's capital strategy.

Crematorium/Cremators

4.13 There is a financial risk that future changes in environmental legislation may require the installation or retrofitting of mercury abatement systems to the cremators at the Council's crematorium. While £350k is currently held in reserve to support this work, early estimates suggest the total cost could be up to £1 million. This creates a potential funding gap that may require additional capital resources. The Parks team is actively reviewing the implications and will update Cabinet once further information becomes available.

Waste Disposal Site/Transfer Station

4.14 Negotiations with Lancashire County Council regarding the Whinney Hill waste disposal contract are ongoing. Should the current arrangement not continue, Hyndburn and other East Lancashire districts may need to identify alternative disposal sites for residual household waste.

Financial provision has been made within the Medium-Term Financial Strategy, with £700,000 held in earmarked reserves to cover any associated costs.

Hyndburn Leisure

4.15 The Council has allocated funding within its Medium-Term Financial Strategy (MTFS) to provide financial support to Hyndburn Leisure. This allocation forms part of a structured reporting and monitoring framework, aligned with an efficiency savings plan agreed with the Trust. The objective of this plan is to progressively reduce the level of subsidy over future financial years.

4.16 The approved subsidy levels within the MTFS are as follows:

- £700,000 for the financial year 2025/2026
- £500,000 for 2026/2027
- £350,000 for 2027/2028

Prior to the release of any subsidy payments, the Council is required to undertake a Subsidy Compliance Assessment. Following this assessment, formal approval must be sought from Cabinet before any payments are made.

4.17 However, under the terms of the current arrangement, the Council remains financially liable for any operational shortfalls incurred by Hyndburn Leisure. This presents a

potential financial risk, particularly in the context of rising operating costs and economic uncertainty.

4.18 To mitigate this risk, the Council is actively pursuing measures aimed at improving the financial sustainability of Hyndburn Leisure. These include:

- Ongoing decarbonisation works at Hyndburn Leisure Centre, which are expected to significantly reduce utility costs and improve energy efficiency.
- Development of the Cath Thom Leisure Centre at Wilson Playing Fields, which will expand the Trust's service offering and create new revenue-generating opportunities.

4.19 These initiatives are designed to reduce the Council's exposure to future financial liabilities while supporting the long-term viability of leisure services in the borough.

4.20 As of 31 March 2025, the Council's aged debt with Hyndburn Leisure totals £1.62m. While still repayable, this amount has been fully covered by the bad debt provision, eliminating the financial risk of non-payment. The separate loan balance stands at £1.17m, with 60% provisioned. Repayments are being made on time, and as the loan reduces, the provision will be released back to the revenue account as income. This debt position will be reflected in the updated Medium-Term Financial Strategy presented to Cabinet in October.

Huncoat Garden Village

4.21 Following the recent award £29.898 million from Homes England's Brownfield, Infrastructure and Land (BIL) Fund, the Council is now in the delivery phase of a major infrastructure programme. The funded works include land remediation, construction of a relief road, and upgrade contributions for improvements at M65 Junction 8. The scheme will unlock a strategic housing site with capacity for approximately 1,816 new homes over the next decade, supporting delivery of the forthcoming Local Plan.

4.22 A key financial risk during delivery is the potential for cost overruns. Where such costs cannot be absorbed by or passed on to developers, the Council may be liable for the shortfall. This risk underscores the importance of robust project governance, effective cost control, and proactive engagement with delivery partners to manage financial exposure.

Future Revenue Costs for Levelling Up Fund Projects

4.23 In 2023, the Council secured £20 million from the Government's Levelling Up Fund to support a series of regeneration projects in Accrington Town Centre. These projects are now in the delivery phase and are scheduled for completion by the end of the 2025/26 financial year, with full operational use expected to commence in 2026/27.

4.24 Initial revenue costs are anticipated, particularly in relation to the Burtons Chambers and Market Chambers developments. While these costs may reduce over time as the facilities become fully operational, there is a risk that early-year operating costs may

exceed any savings, particularly from the Market Hall budget, which may no longer be required.

4.25 Work is ongoing to determine the full extent of the additional revenue costs associated with the Levelling Up Fund programme. Cabinet will be updated once more detailed financial forecasts are available.

Supported Housing - Housing Benefit Claims

4.26 The Council is increasingly concerned about the financial and operational challenges posed by Supported Housing in Hyndburn. A multi-agency group has been established to address these issues.

4.27 Supported Housing helps vulnerable residents live independently, but provision is fragmented, with both registered and non-registered providers operating locally. Funding is complex, with Housing Benefit (HB) playing a key role. However, for Supported Exempt Accommodation provided by non-registered entities, the Council receives significantly reduced HB subsidy, creating a direct financial burden.

4.28 Subsidy losses have fluctuated:

- 2024/25 Mid-Year: Forecast subsidy loss of £882k, contributing to a total service budget pressure of £488k
- 2024/25 Year-End: Actual loss of £725k, contributing to a total service budget overspend of £315k
- 2025/26 Mid-Year: Forecast loss of £691k, contributing to a total service underspend of £57k

While recent figures show improvement since the quarter 1 report, HB subsidy remains volatile and difficult to predict. Without effective regulation and oversight, this poses an ongoing risk to the Council's Medium-Term Financial Strategy.

Posts Funded from Reserves or External Grants

4.29 Several staff posts currently funded through reserves or external grants face a funding shortfall from 2025/26, with up to £400,000 per annum required to sustain them. This pressure has already been built into the Medium-Term Financial Strategy and contributes to the projected budget gap from 2026/27 onwards. However, officers are actively exploring new funding opportunities that may help reduce the impact.

5. Assumptions for the Medium-Term Financial Strategy

5.1 The Medium-Term Financial Strategy for Hyndburn Borough Council presents three scenarios:

- **Standard** – the most likely outcome for the year.
- **Pessimistic** – a “worst case” scenario.
- **Optimistic** – a “best case” scenario.

Given how early we are in the budget setting process and the unknowns at this point, (e.g. we have no indications of changes in government funding yet) these scenarios can differ significantly at this stage.

There are several assumptions which are used as part of producing the budget. The estimates to be used in the construction of the budget are set out below:

Pay Award

5.2 The agreed pay award for 2025/26 is 3.2% for Hyndburn Borough Council, which was 0.2% over the budget and results in additional costs of c.£27k p/a. For financial modelling purposes, a 2.5% increase will be assumed in the standard scenario, with 4.0% used in the pessimistic case and 1.0% in the optimistic case.

Inflation

5.3 The Consumer Price Index (CPI) rose by 3.6% in the 12 months to June 2025. As inflation varies across cost types, utility cost forecasts will be calculated separately and are addressed below. For general inflation modelling, a rate of 3.0% will be used in the standard scenario, with 5.0% in the pessimistic case and 2.0% in the optimistic case.

Utilities

5.4 The Council entered a new energy contract in October 2025, which runs until September 2027. While this provides short-term price stability, future costs remain uncertain due to potential market volatility and unpredictable usage patterns. To reflect this, inflation for gas and electricity will also be modelled at 3.0% in the standard scenario, 5.0% in the pessimistic case, and 2.0% in the optimistic case.

Sales, Fees and Charges

5.5 The Council charges customers for a range of services, and the cost of delivering these is expected to rise due to inflation and pay awards. To help offset these pressures, it is considered prudent to increase fees accordingly. In the standard scenario, a 3.0% increase in fees and charges will be assumed, consistent with general inflation. In the pessimistic scenario, a lower increase of 1.0% will be assumed, reflecting potential constraints on the Council's ability to raise charges. In the optimistic scenario, a 4.0% increase will be assumed, reflecting greater flexibility and demand.

5.6 Following the recent Corporate Peer Challenge, the Council is reviewing its Sales, Fees and Charges income targets and developing a strategy for inclusion in the Medium-Term Financial Strategy. This may include increasing existing charges or introducing new ones, subject to the outcome of the Fair Funding Reform consultation.

Government Grant Income

5.7 As previously mentioned, the Fair Funding Review (FFR 2.0) is expected to significantly impact Hyndburn Borough Council, primarily through a reduction in

retained business rates income. The Council is working with LG Futures to model the potential financial implications of these changes.

5.8 In the standard scenario, a reduction of £1.75m is anticipated over the three-year multi-year period, phased with two-thirds of the reduction occurring in 2026/27 and the remaining third in 2027/28. A flat cash position is assumed for 2028/29.

In the optimistic scenario, the same phasing applies but with a reduced overall impact of £1.5m. The pessimistic scenario assumes a larger reduction of £2.0m over the same period.

5.9 A consultation response outlining the impact on Hyndburn and district councils more broadly was submitted in August. The Government is expected to publish early funding indications in November, followed by the provisional settlement and policy statement in December.

Income from Business Rates

5.10 Hyndburn Borough Council currently retains 40% of locally collected business rates and participates in the Lancashire Business Rates Pool, which allows for a more efficient distribution of growth and risk across participating authorities.

5.11 However, due to the funding reset outlined in the Fair Funding Review (FFR 2.0), the future of the pooling arrangement remains uncertain. Any assumptions regarding future business rates income, including potential reductions, have already been incorporated into the funding scenarios detailed above.

Income from Council Tax

5.12 The main area of income over which the Council has direct control is Council Tax. As the billing authority, Hyndburn Borough Council is forecasting to collect a total of £52.748m in Council Tax during the 2025/26 financial year. Of this, only £6.141m (11.64%) is retained by Hyndburn, with the remainder distributed to Lancashire County Council, the Lancashire Police and Crime Commissioner, and Lancashire Fire and Rescue Service as precepting authorities.

5.13 Increases in Council Tax income is driven by two key factors:

- **Changes in the Council Tax base:** Each year, the Council calculates its tax base, which reflects the number of chargeable domestic properties, adjusted for discounts (e.g. single person discount) and Council Tax Support. This figure is converted into Band D equivalents to standardise comparisons. Growth in the tax base can result from new housing developments or bringing empty properties back into use. For Hyndburn, growth has been modest in recent years, with an increase of just 0.31% in 2025/26.
- **Changes in the Council Tax rate:** Each year, the Council decides whether to increase the rate of Council Tax it charges. Central Government sets a referendum threshold, which limits how much councils can increase rates

without triggering a local vote. In recent years, this has been 2.99% for district councils like Hyndburn, and 4.99% for upper-tier and unitary authorities.

5.14 The assumptions to be used for changes in Council Tax income in the revenue budget are as set out below:

	Pessimistic	Standard	Optimistic
Growth in Council Tax Base	0.31%	0.66%	1.13%
Increase in Council Tax Rate	1.00%	2.99%	2.99%

Council Tax Base

5.15 Under the Council's draft Local Plan, it is estimated that an additional 201 domestic properties will be built each year. When converted to Band D equivalents, this equates to 146 properties, representing a 0.66% increase in the Council Tax Base. This assumption forms the basis of the standard scenario.

5.16 The Government has introduced new annual housebuilding targets for each borough, with Hyndburn's target set at 313 properties per year. This converts to approximately 250 Band D equivalents, resulting in a 1.13% increase in the Council Tax Base. This assumption underpins the optimistic scenario.

5.17 The pessimistic scenario reflects the growth provided in 2025/26 and assumes a modest growth rate of 0.31%, equating to 69 Band D equivalents or approximately 94 new domestic properties.

The estimated annual increase in Council Tax income, before any changes to the tax rate, is:

- Pessimistic (0.31%) – £19,076
- Standard (0.66%) – £40,363
- Optimistic (1.13%) – £69,115

Council Tax Rate

5.18 The table below shows the current Council Tax charges per annum for each Council Tax band and the annual increase on each band for 1.00%, 2.99% and 2.99%:

Council Tax Band	2025/26 Charge	Increase of 1.00%	Increase of 2.99%	Increase of 2.99%
Band AA	153.59	155.13	158.18	158.18
Band A	184.31	186.15	189.82	189.82
Band B	215.02	217.17	221.45	221.45
Band C	245.74	248.20	253.09	253.09
Band D	276.46	279.22	284.73	284.73
Band E	337.90	341.28	348.00	348.00
Band F	399.33	403.32	411.27	411.27

Band G	460.77	465.38	474.55	474.55
Band H	552.92	558.45	569.45	569.45

5.19 The total changes in Council Tax income for each of the increases in the table above, before any growth in the Council Tax base are:

- Increase of 1.00% - £61,170 additional income
- Increase of 2.99% - £183,288 additional income
- Increase of 2.99% - £183,288 additional income.

Total Council Tax Income

5.20 The table below shows the overall Council Tax Income which would be assumed under the three scenarios:

	2025/26	Pessimistic	Standard	Optimistic
Hyndburn BC Council Tax Income	£6,127,200	£6,207,600	£6,290,900	£6,381,700
Increase in Council Tax Income from 2025/26		£ 80,400	£ 163,700	£ 254,500

The assumptions mentioned above will be used initially and adjusted as appropriate once more certain information becomes available.

6. Revenue Budget Timetable

6.1 The Council's budget-setting timetable is influenced by the approval schedules of major Council Tax precepting authorities, such as Lancashire County Council. Hyndburn Borough Council's draft budget will be presented to Cabinet on 18th February 2026, with final approval scheduled for the Council meeting on 26th February 2026.

6.2 The timetable set out below ensures that the Council will meet its legal budget setting deadlines:

Action	Date
Process for the development of the budget report presented to Cabinet	10 Sept 2025
Finance Cabinet Working Group	02 Oct 2025
Initial Medium Term Financial Strategy report presented to Cabinet	22 Oct 2025
Finance Cabinet Working Group	04 Nov 2025
Provisional Finance Settlement expected to be published by Central Government (date to be confirmed)	Nov 2025
Finance Cabinet Working Group	02 Dec 2025
Council Tax Base Setting report approved by Cabinet	21 Jan 2026
Finance Cabinet Working Group	13 Jan 2026

Final Finance Settlement expected to be published by Central Government (date to be confirmed)	Feb 2025
Draft Medium Term Financial Strategy & Revenue Budget reports presented to Resources Overview and Scrutiny Committee	16 Feb 2026
Draft Medium Term Financial Strategy & Revenue Budget reports presented to Cabinet	18 Feb 2026
Final Medium Term Financial Strategy & Revenue Budget reports agreed by full Council	26 Feb 2026

7. Capital Budget Timetable

7.1 At the same Council meeting in February 2026, the Capital Programme for 2026/27 will be approved by the Full Council.

7.2 The timetable for the development of the Capital Programme is set out below:

Action	Date
Process for the development of the budget report presented to Cabinet	10 Sept 2025
Capital Programme bidding process begins	27 Aug 2025
Deadline for submission of Capital Programme bids	30 Sept 2025
Finance Cabinet Working Group	02 Oct 2025
Finance Cabinet Working Group	04 Nov 2025
Finance Cabinet Working Group	02 Dec 2025
Finance Cabinet Working Group	13 Jan 2026
Draft Capital Budget report presented to Resources Overview and Scrutiny Committee	16 Feb 2026
Draft Capital Budget report presented to Cabinet	18 Feb 2026
Final Capital Budget report approved by full Council	26 Feb 2026

8. Alternative Options Considered and Reasons for Rejection

Not applicable. This report is for information purposes only.

9. Consultations

None applicable in this instance.

10. Implications

Financial implications (including any future financial commitments for the Council)	As outlined in the report.
Legal and human rights implications	Not Applicable
Assessment of risk	Not Applicable

Equality and diversity implications A <u>Customer First Analysis</u> should be completed in relation to policy decisions and should be attached as an appendix to the report.	Not Applicable
---	----------------

11. Local Government (Access to Information) Act 1985:

12. List of Background Papers

General Fund – Revenue Budget, Council Tax Levels and Capital Programme 2024/25 – Council 27th February 2025

13. Freedom of Information

The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.