

BLACKPOOL COUNCIL
REPORT
of the
DIRECTOR OF RESOURCES
to the
EXECUTIVE
on
6 FEBRUARY 2017

GENERAL FUND REVENUE BUDGET 2017/18

1. Purpose

- 1.1 The purpose of this report is to determine the overall level of net expenditure to be included in the General Fund Revenue Budget for 2017/18 and to identify a budget savings plan that will ensure a balanced Budget.

2. Context

- 2.1 Local government in England is now six and a half years into a period of public sector austerity, which will continue until at least 2019/20 per the Autumn Statement of 2015.
- 2.2 The current Medium Term Financial Sustainability Strategy (MTFSS) covering the period 2016/17 – 2021/22 was approved by Executive on 12th September 2016 and presented a financial outlook, an assessment of risks and indication of the Council's challenges over these 6 years. Whilst Central Government funding does decline over this period, the unprecedented opportunity to accept a Government offer of guaranteed funding to 2019/20 presented the Council with greater certainty than ever before to be able to prepare a medium-term budget that allowed for flexibility and informed risk-taking.
- 2.3 The key principles of the approved MTFSS are that:
- the statutory obligation to balance the Council's budget in each year of the period
 - resourcing services in line with Council priorities
 - embedding a culture of value for money and efficiency savings in all activities
 - keeping Council Tax levels as low as possible
 - maximising the level and resilience of the resources of cash, assets and people by attracting grants, generating additional income or creating partnering arrangements
 - ensuring significant risks are identified and mitigated where possible
 - ensuring financial reserves reflect the levels of business and risk
 - optimising capital spending freedoms.
- 2.4 Once the Revenue Budget for 2017/18 has been approved, work will commence on updating the Medium Term Financial Plan and Sustainability Strategy to maintain a rolling 3-year budget.

3. The Local Government Finance Settlement 2017/18

- 3.1 The Local Government Finance Settlement sets the amount of Central Government funding available to councils. The Secretary of State for the Department for Communities and Local Government announced the Provisional Local Government Finance Settlement for 2017/18 on 15th December 2016. The Final Settlement is expected to be announced in early February 2017.
- 3.2 The Settlement Funding Assessment (SFA) for Blackpool Council is split between resources received via Revenue Support Grant, an assessment of its share of Business Rates collectable plus a Top-up element from the 5th year of the Business Rates Retention Scheme. The Provisional SFA amounts to £69,646,000 in 2017/18. This compares with the Settlement Funding Assessment in 2016/17 of £75,845,000.

4. Other Funding 2017/18

- 4.1 There are several other significant components of Central Government funding, some of which have been rolled into the Settlement Funding Assessment and some which remain separate specific grants:

4.2 New Homes Bonus Grant

The 2017/18 New Homes Bonus allocations and details of the consultation on the future of the scheme have now been announced. This funding takes the form of an unringfenced grant which is distributed between local authorities based upon the net growth in housing provision within their areas. The number of years that the scheme will be based upon (currently 6 years in 2016/17) will reduce to 5 years in 2017/18 and 4 years from 2018/19 onwards. The scheme will now also only reward growth in homes above 0.4% per annum.

The 5-year cumulative figure for 2017/18 has been confirmed as £838,749 with an in-year element of £178,145.

4.3 Adult Social Care Support Grant

The changes to the New Homes Bonus Scheme have allowed the Government to remove £241m from the Scheme's previously announced funding for 2017/18. This funding has been diverted to the new Adult Social Care Support Grant. This funding is to be distributed based on the adult social care relative needs formula and is for 2017/18 only.

The Adult Social Care Support Grant for Blackpool has been notified as an allocation of £900,000.

4.4 Housing Benefit (HB) Admin Grant

The Housing Benefit subsidy scheme is the means by which local authorities claim subsidy from the DWP towards the cost of administering HB in their local areas. Benefit schemes of rent rebates for tenants of a local authority and rent allowances for private tenants are provided for by the Social Security Contributions and Benefits Act 1992 and the Social Security Administration Act 1992 (as amended). Claimants obtain these benefits either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and HB to the DWP. Eligibility for, and the amount of, HB is determined in all cases solely by the local authority. The Council received Housing Benefit Admin Subsidy grant in 2016/17 of £1,007,000 and this will be reduced by 10% to £909,000 in 2017/18.

4.5 Public Health Grant

The transfer of Public Health services and their responsibility to local government from April 2013

brought with it ringfenced grant funding.

The Chancellor's Autumn Statement in 2016 confirmed that local government funding for Public Health would be reduced by an average 3.9 per cent in real terms per annum over the five years to 2020. This equates to a reduction in cash terms of 9.6 per cent over the full period.

Blackpool's allocation for 2016/2017 was £19,392,000 which will be reduced to £18,914,000 for 2017/18.

4.6 Better Care Fund

The Comprehensive Spending Review 2015 confirmed that the Better Care Fund will continue into 2016/17 and beyond – with a mandated minimum of £3.9bn nationally in 2016/17. Following the announcement of the Improved Better Care Fund (IBCF) the national minimums are increasing by £105 million in 2017/18, £800 million in 2018/19 and £1.5 billion in 2019/20. The allocation of this funding takes into account local authorities' ability to raise income from the social care precept on Council Tax with the more deprived areas receiving a bigger proportion of the IBCF. This funding must be deployed locally on health and social care through pooled budget arrangements between local authority and clinical commissioning groups. In 2016/17 Blackpool's Health and Wellbeing Board approved a pooled budget of £18.9m. Officers from the Council and Blackpool Clinical Commissioning Group are currently discussing the schemes to be included in the pool for 2017/18 and these plans will be signed off by the Health and Wellbeing Board in April 2017.

4.7 Dedicated Schools Grant (DSG)

The Dedicated Schools Grant (DSG) is paid in support of the local authority's schools budget. It is the main source of income for the schools budget, Early Years and High Needs pupils. Local authorities are responsible for determining the split of the grant between central expenditure and the Individual Schools Budget (ISB) in conjunction with local schools forums. Local authorities are responsible for allocating the ISB to individual schools in accordance with the local schools' funding formula. The DSG in 2016/17 prior to Academy Recoupment was £104.5m and the allocation for 2017/18 is £106.5m. The increase is mainly due to Post-16 funding and the retained duties element of the Education Services Grant (ESG) being rolled into the 2017/18 DSG.

The Government has also announced that it is proposing to introduce a national funding formula for schools, which will replace the existing local formulae run by each local authority for allocating budgets to schools by 2019/20. The Department for Education has published illustrations of the levels of funding, at individual school and local authority level, that might be generated by the proposed formula. The illustrations show that Blackpool schools as a whole would see an overall increase of more than 4 per cent compared to current levels of funding, with the majority of schools gaining under the proposed formula. Only nine schools would see decreases, with some of these being relatively marginal. Of the nine schools, five are already receiving protection in Blackpool's formula through the minimum funding guarantee mechanism. The rest are predominantly small schools with relatively low levels of deprivation – this is because the new formula proposes to reduce the lump sum payable to each school, with an increase in factors for additional needs, including deprivation and low attainment, as compared to Blackpool's current formula.

It is proposed that the minimum funding guarantee will continue to protect annual losses for schools at no more than 1.5 per cent per pupil under the new arrangements, and gains have been capped at 3 per cent in the illustrations. The cap and floor protections mean that the overall increase in funding for Blackpool would be limited to just over 2 per cent in the first year.

The re-distribution of funding between local authorities will take place in 2018/19, but councils will continue to operate local formulae to allocate budgets to their schools, through what is known as a

“soft” national formula. The “hard” formula, whereby each school’s budget will be set by Central Government, will be introduced in 2019/20.

4.8 Education Services Grant (ESG)

Since April 2013 the education functions provided by local authorities have been funded by the Education Services Grant with the Council receiving £791k in 2016/17. However, in the 2015 Spending Review, the Government announced that it would be cutting £600m from ESG, at a time when the total grant amounted to £820m. In November 2016, details were released of how this level of savings would be realised, summarised as follows:

- Retained ESG to be transferred into DSG from April 2017 at the same rate of £15 for all pupils in the local authority area.
- Academies to continue to receive general ESG at £77 per pupil until the end of the 2016/17 academic year.
- Local authorities to receive ESG transitional grant for the period April to August 2017 at a reduced rate of £66 per pupil pro rata.
- ESG to cease with effect from September 2017.

4.9 The Core Spending Power figures include the SFA, Council Tax, the Improved Better Care Fund, NHB, Transitional Grant, Rural Services Delivery Grant, and the Adult Social Care Support Grant. The table below shows Blackpool’s Core Spending Power for 2017/18.

Core Spending Power	2016/17	2017/18
	£m	£m
Settlement Funding Assessment (SFA)	75.8	69.6
Council Tax Requirement	47.4	48.8
Cumulative Adult Social Care Precept Flexibility	0.9	2.3
Improved Better Care Fund	-	1.0
New Homes Bonus	1.8	0.9
The 2017/18 Adult Social Care Support Grant	-	0.9
Total	125.9	123.5
Change in Provisional Revenue Spending Power		-2.4
Percentage Change		-1.9%

However, this calculation does not reflect inflationary and demand pressures (see 7.1) which are required to be self-funded.

5. Revenue Budget 2016/17 – Projected Outturn

5.1 The summary at Appendix 1 shows the projected revenue outturn as at month 9 for the current financial year.

5.2 Line 20 of this summary shows that it is now estimated that a sum of £2,803,000 will be taken from working balances as at 31st March 2017.

The main areas of budgetary variance are set out below:

	£000
Children’s Services	4,682
Strategic Leisure Assets	668
Places	595
Concessionary Fares	471

Parking Services	301
Governance and Partnership Services	102
Resources	54
Community and Environmental Services	(67)
Subsidiary Companies	(138)
Ward Budgets	(200)
Adult Services	(971)
Treasury Management	(1,203)
Other	(16)
Net Service Overspendings 2016/17	4,278
Net Adjustment to Contingencies / Reserves	(1,475)
Net Overspending 2016/17	2,803

5.3 The reasons for the overspendings are well documented in the Council's monthly Financial Performance Monitoring reports and recovery plans are all in place with the exception of Children's Services' which will be developed with the new director. The Tourism, Economy and Resources Scrutiny Committee continuously scrutinises overspending services to seek assurances that effective remedial action is being taken.

5.4 In accordance with previous convention any overspendings on service budgets as at 31st March will be recovered in the following year 2017/18, but this will need to be revisited and reviewed at Provisional Outturn in the context of the exceptional pressures faced by Children's Services in-year.

6. Cash Limited Revenue Budget 2017/18

6.1 There is a statutory requirement upon the Council to set a balanced budget:

- Section 100 of the Local Government Act 2002 requires local authorities to plan each year's revenue at a level sufficient to meet operating expenses and hence achieve a balanced budget.
- Section 114 of the Local Government Finance Act 1988 requires the chief finance officer of an authority to report to its Members and external auditor if it appears that the expenditure of the authority incurred (or proposed to incur) in a financial year is likely to exceed the resources available to meet that expenditure.

6.2 The cash limit upon the Revenue Budget for 2017/18 is £120,248,000 (line 21 of Appendix 1 summary). This represents the maximum sum of net expenditure which is sustainable within the resources available.

6.3 The Revenue Budget for next year includes the following key assumptions:-

- Internal pay levels to rise on average by 1% for the period from 1st April 2017 to 31st March 2018 and the payment of at least the National Living Wage to all contracted staff
- the payment of annual increments
- voluntary 5 days' unpaid leave on average to continue
- a non-pay inflation contingency, to address contractual commitments and valid non-pay pressures
- consideration of previous year's financial performance, in particular an uplift of £4.0m to upsize Children's Services to meet current activity levels.

- the latest estimates of Settlement Funding Assessment
- interest rates to rise slowly in 2017/18 but to remain at low levels
- the Council fulfils its statutory obligation to balance its Budget.

7. Budget Gap 2017/18 and Methodology for Delivering

7.1 The budget gap for the next financial year has resulted from the following:

	£m
Cash reduction in Government Settlement year-on-year	4.3
Pay award and annual increments	2.0
Non-pay inflation based on individual contract price increases	3.8
Service developments and demand pressures	8.6
Budget Gap 2017/18	18.7

7.2 Savings Programme (the 'Efficiency Plan')

Achieving savings of the scale demanded has required concerted action and consideration of a broad range of initiatives, whilst maintaining strong financial management and budgetary control, addressing any areas of overspending in a timely manner, maximising savings and ensuring value for money.

In a move away from the conventional approach of Priority-Led Budgeting, a Savings Programme constituting 7 thematic workstreams has been developed and finessed over the last few months:

- i) Technical savings – these covered areas such as debt and PFI restructurings, review of reserves and provisions, use of capital receipts & capital to revenue transfers and review of Council Tax Reduction Scheme.
- ii) Income generation and management – between 2014/15 and 2015/16 fees & charges income increased by £2.8m (or 7.9%) and will continue to be optimised along with returns on business loan investments, Growth & Prosperity initiatives and traded services.
- iii) Procurement and commissioning - maximising best value from the market place through an innovating commissioning regime to reduce third-party spend and deliver targeted social value.
- iv) Demand management and self-help initiatives such as the current Channel Shift project work.
- v) Transformational efficiency measures under the direction of the Chief Executive's Delivery Unit with a focus on 'upstream' prevention.
- vi) Structural reform:
 - internally with Council services being the provider of first choice
 - collaborating and partnering with the Council's own companies (as has already progressed significantly with the adoption of the Companies Governance Framework)
 - across the wider public sector including the local Public Sector Board, Combined Authority, Healthier Lancashire & South Cumbria and One Public Estate
 - with the private and voluntary sectors.
- vii) Service reductions and cuts, which were considered once i) – vi) had been exhausted.

This exercise has generated the necessary service budget target savings of **£18.7m** in 2017/18. These are listed at Appendix 2 along with the summary actions required to deliver them and have previously been considered by Executive on 15 December 2016 at the very start of the consultation process. As part of the consultation on the budget, a dedicated cross-party Budget Scrutiny Panel was established to undertake an in-depth scrutiny review of the proposals across the seven thematic workstreams that had been identified in the savings programme contained within the Medium-Term Financial Sustainability Strategy. The Panel met on the 20th December 2016 and its report is attached at Appendix 3.

In setting realistic budgets for the forthcoming year services will be expected to meet any additional service-specific pressures that may emerge within the cash limited budgeting regime.

8. Other Considerations

8.1 Staffing Implications

As part of the £18.7m savings target it is anticipated that in the year 2017/18 there will be 80 redundancies and in addition there are a further 70 employees in temporary contracts which will come to an end and up to 50 vacant posts will be deleted. These staffing reductions will come about as a result of services ceasing, reducing or being reconfigured and delivered differently.

Early retirements and voluntary redundancies have been encouraged in order to mitigate compulsory redundancies. In addition there is a high level of scrutiny and governance in relation to ongoing recruitment and retention to ensure that any natural wastage through staff turnover will be prioritised before any compulsory redundancies take place. Where jobs are replaced employees who are at risk or on notice have an opportunity to apply for these vacancies prior to them being advertised Council-wide.

In order to reduce the numbers of redundancies across the Council it is assumed that employees will continue to apply for voluntary unpaid leave and that the 5 days' unpaid leave on average continues

A variety of support is on offer to affected employees from a dedicated member of the Council's Employment Adviser team.

The costs of redundancies have been managed centrally through an earmarked reserve. This reserve has been depleted each year by approximately £2m to cover redundancy payments and associated pension strain if it is required. This reserve is forecast to fall to nil by March 2017 but will be replenished from the consequences of the Minimum Revenue Provision restructuring, which was approved as part of the 2016/17 Treasury Management Strategy.

8.2 Financial / Economic Context

Together with all other sectors of the national economy, the Council's finances have been affected by the measures being taken to recover from the economic downturn. The Chancellor announced as part of the Autumn Statement 2016 that the Government had abandoned its commitment to reduce public sector net borrowing to a surplus by the end of this Parliament. It is now planning for a deficit of £21.9bn in 2019/20, compared to the surplus of £10.4bn planned for at Budget 2016. The Chancellor stated that the Government is committed to the overall plans for departmental resource spending until 2019/20, which were set out at Spending Review 2015.

The effect of the economic climate continues to impact upon the ability to pay for some and make others more cautious in terms of personal spending. The overall effect will be to make collection of

income due to the Council, both council tax and fees and charges, more difficult. However, regeneration investment in the town together with its ever improving tourism offer is attracting growing 'staycation' numbers which are bolstering the town's tourism economy.

Interest Rates - The outlook for short-term interest rates is that they will continue at the present historically low levels with a possible slight upturn in 2017/18. Interest receivable on temporary investments will continue at modest levels and debt restructuring opportunities will be kept under continuous review to minimise interest payments.

8.3 Business Loans Fund

On the back of Wellbeing powers the 2009/10 budget established a targeted Business Support Loans Fund to safeguard and create jobs for Blackpool. The original £3m fund was subsequently supplemented to £8m and then to £10m and has been used over the last 8 years to help key businesses, provide assistance to bring empty properties in the heart of the town centre back into use and help Blackpool get through the recessionary period.

As at 31st December 2016 £7.2m of business loans had been defrayed, assisting 12 businesses to either create or safeguard 228 jobs, bringing back into use 4 buildings and an area of improved / new business floor space of 495m².

With a financial strategy strongly linked to the economy and maximising growth and opportunity across Blackpool whilst protecting services and capacity, as part of this year's budget process it is recommended to increase the fund to £100m with immediate effect to support further businesses including public sector partners. This will be met via borrowing through the Council's balance sheet and each application in excess of £499,000 will be considered by the Executive and as a confidential item where there is a commercial interest.

8.4 Equalities Analysis

The Council has a statutory responsibility under Equality law, known as the "Public Sector Duty", to examine and analyse the impacts on equality issues on all related decisions. This is set within the context of the Council's overarching requirement under Equality law, as a designated public authority, to have "due regard" to the need to:

- eliminate discrimination, harassment, victimisation and other prohibited conduct
- advance equality of opportunity
- foster good relations between different (defined) groups.

A summary of the Council's equalities analyses of the consequences of the proposed budget savings on services and their users is attached at appendix 4.

9. Capital Expenditure

9.1 The Council's Capital Programme for 2017/18 – 2019/20 is also to be considered in a separate report to this meeting. Debt financing costs for the capital programme have been included in the revenue budget on the basis of the indicative borrowing allocations received from Government and any Prudential borrowings.

9.2 The size and value of the capital programme is set in accordance with those allocations plus any available external grants, Prudential borrowing schemes (for which the costs are to be separately funded from service budgets), capital receipts and revenue contributions. Schemes being financed by Prudential borrowing continue to require specific approval of the Executive.

9.3 Future revenue costs of capital schemes will also have to be contained within existing bottom-line budgets, except where provision has specifically been agreed in advance.

10. Working Balances and Reserves

10.1 Section 25 of the Local Government Act 2003 imposes a duty upon the Council's statutory finance officer to report on the robustness of the estimates and the adequacy of reserves.

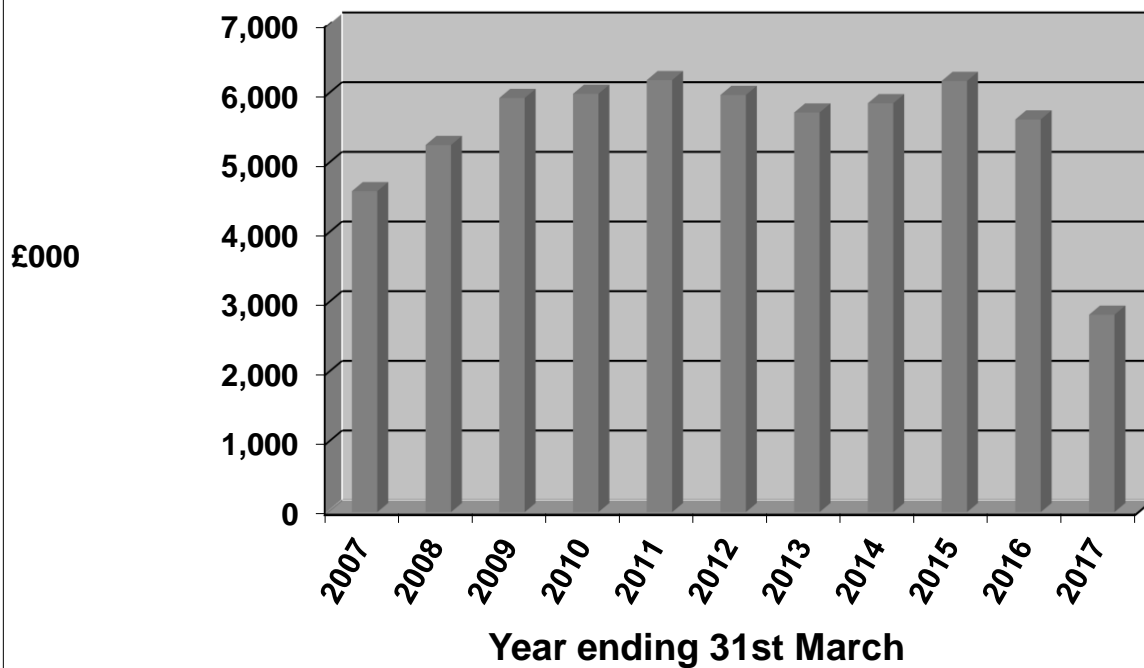
10.2 The proposed budget for 2017/18 is underpinned and reinforced by Council-wide risk management and robust budget setting and monitoring processes.

- Risk Management – Risk management processes are embedded across the Council. A strategic risk register is maintained and a Corporate Risk Management Group meets quarterly to review the risks contained in the register. The strategic risk register identifies the key risks facing services in the delivery of Council priorities and which are scrutinised regularly by the Audit Committee. In addition, the recommendation concerning the level of the general working balances included in this budget is itself a product of a risk-based assessment.
- Budget Setting – Accountancy staff work with budget holders to comprehensively review all budgets on an annual basis. The budgets set are cash limited. Instances of unavoidable growth, service demand pressures and new developments are identified and scrutinised as part of the budget process, together with other issues such as meeting new legislative requirements and statutory obligations.
- Budget Monitoring – Monitoring is carried out on a monthly basis with effect from month zero and highlights any significant variances and areas of risk, both for current and future years, with regular reports being presented to the Executive and Tourism, Economy & Resources Scrutiny Committee. This provides an opportunity to take action to mitigate such variances. Bearing in mind the importance of successfully delivering budget savings in the current financial year, detailed monthly reports on progress in achieving savings have been reported to the Corporate Leadership Team.

10.3 Under a Local Authority Accounting Panel Code of Practice (LAAP) issued in November 2008 the establishment of and transfers to/from reserves are subject to the approval of the Council's statutory finance officer. The Council's reserves are continuously reviewed to ensure that they remain at an appropriate level.

10.4 In addition to the Council's general working balances a number of specific revenue reserves have been established to cover specific risks and uncertain commitments. Without these specific reserves the Council's general working balances would need to be set at a higher level. Taking into account specific reserves and the upsizing of the Children's Services budget in 2017/18, it is the opinion of the Council's statutory finance officer that the Council should continue to plan for a level of general working balances of **£6m**. This level is necessary in view of the scale of the Council's gross revenue budget and associated risks. An assessment of the significant risks and the steps which are being taken to mitigate these risks are set out in appendix 5. In setting the proposed budget and savings programme of £18.7m it is not realistic to assume that this target can be achieved via contributions from revenue budgets. It is therefore proposed that a detailed review of earmarked reserves will be undertaken at Provisional Outturn 2016/17 with a view to reprioritising and 'unearmarking' sufficient reserves to replenish working balances to their target level in early 2017/18.

Working Balances



11. Capping

- 11.1 Under schedule 5 of the Localism Act 2011 the Government introduced a requirement to hold a local referendum when proposed council tax increases are deemed excessive. On 15 December 2016 as part of the Provisional Local Government Settlement it was announced that a Council Tax referendum threshold of 2% would once again apply for 2017/18.
- 11.2 In 2016/17 the Social Care Precept on Council Tax was originally set at 2% per annum increase for the period 2016/17 to 2019/20. The terms of this precept have now been changed for the period 2017/18 to 2019/20. Local authorities will now be able to increase the Social Care Precept by up to 3% per annum in 2017/18 and 2018/19. However, authorities that go ahead with the 3% increase each year for 2017/18 and 2018/19 will not be able to make a further increase in 2019/20 (i.e. the total allowable increase over the three-year period remains at 6%). This flexibility is being offered in recognition of inflationary pressures such as the raising of the National Living Wage and demographic changes which are leading to growing demand for adult social care and increased pressure on council budgets. A requirement of this flexibility is that the Council spends the additional funds raised through the Adult Social Care council tax precept on Adult Social Care only.
- 11.3 Therefore, for upper tier authorities wishing to use the social care precept at the maximum in 2017/18, a referendum will be triggered where council tax is increased by 5% or more above the authority's relevant basic amount of council tax for 2016/17 (i.e. 2% referendum threshold + 3% social care precept).

12. Medium Term Financial Prospects

- 12.1 Medium term prospects are overshadowed by the continuing cutbacks in public sector spending which were described in detail in the current Medium Term Financial Sustainability Strategy which was approved by Executive on 12th September 2016. However, 2017/18 looks likely to be the last of the very difficult years so will be a key milestone to pass.

- 12.2 The most significant factors in terms of the Council's budgetary resources in the medium term are the amounts which will be received by way of localised business rates collection, council tax and residual Revenue Support Grant. Indicative forecasts of these plus expected service pressures suggest a budget gap of £4.8m will be required to be met in 2018/19 and £6.6m in 2019/20.
- 12.3 It is the intention that the current Medium Term Financial Plan and Sustainability Strategy will be refreshed over a rolling 3-year period.

13. Recommendations

The Executive is asked:

- (1) To recommend to Council the level of net expenditure for the draft General Fund Revenue Budget 2017/18 of £120,248,000 (ref. paragraph 6.2)
- (2) To recommend to Council a level of budget savings of £18.7m (ref. paragraphs 7.1 and 7.2 and Appendix 2)
- (3) To recommend to Council that the Chief Executive be authorised to take any necessary steps to ensure all staffing savings are achieved (ref. paragraph 8.1)
- (4) To recommend to Council that the business loans fund is increased from £10m to £100m with immediate effect (ref. paragraph 8.3)
- (5) To recommend to Council that the target level of working balances remains at £6m (ref. paragraph 10.4)
- (6) To recommend a detailed review of earmarked reserves takes place at Provisional Outturn 2016/17 to reprioritise and un earmark funds to replenish working balances to their target level in 2017/18 (ref. paragraph 10.4)
- (7) To consider the report of the Budget Scrutiny Review Panel as attached at Appendix 3 and consider any actions arising from that review.
- (8) To note that the Tourism, Economy and Resources Scrutiny Committee will be formally consulting the Trade Unions and Business Ratepayers on the proposals on the morning of 10 February 2017
- (9) To consider any further facts and information which subsequently come to light and report the details to the meeting of the Executive on 20 February 2017.

Mr S Thompson
Director of Resources
27th January 2017