BLACKPOOL COUNCIL

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

13 MARCH 2017

FINANCIAL PERFORMANCE MONITORING AS AT MONTH 10 2016/17

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1. Introduction

1.1 This report is the standard monthly financial performance monitoring report, which sets out the summary revenue budget position for the Council and its individual directorates for the first 10 months of 2016/17, i.e. the period to 31 January 2017, together with an outlook for the remainder of the year. The report is complemented with an assessment of performance to date of balances and reserves, income collection, the Council's latest Capital Programme and statements relating to Cash Flow Summary and Balance Sheet Summary.

2. Report Format

2.1 Separate reports have been prepared for each of the Council's core areas of responsibility:

- Appendix 3a - Chief Executive
- Appendix 3b - Governance and Partnership Services
- Appendix 3b/c - Ward Budgets
- Appendix 3d - Resources
- Appendix 3e - Places
- Appendix 3f - Strategic Leisure Assets
- Appendix 3g - Community and Environmental Services
- Appendix 3h - Adult Services
- Appendix 3i - Children's Services
- Appendix 3j - Public Health
- Appendix 3k - Budgets Outside the Cash Limit.

These incorporate summary financial statements which continue to be prepared on a full accruals basis and focus on the forecast revenue outturns for 2016/17. There is an accompanying narrative to explain any areas of significant variance from budget and to highlight any areas of potential pressure along with action plans agreed with service managers to address them.

2.2 The combined effect of the directorates' financial performances is aggregated in a summary financial statement at Appendix 1 which mirrors the Council's Revenue Budget Book and reflects the disestablishment of the Deputy Chief Executive's Directorate with teams moving to other directorates. This summary allows proactive month-on-month monitoring of the Council's forecast working balances to be undertaken to ensure appropriate and prudent levels are maintained. Appendix 2 highlights on a 12-month rolling basis those services which trip the designated overspending reporting threshold.

3. Directorates' Budget Performance

3.1 As a supportive measure to give services every chance to deliver a break-even budget, the Executive agreed at its meeting on 23 May 2016 to write-off all service overspends and carry forward the 2015/16 underspends of £279k on Ward Budgets (£246k), Governance and Partnership Services (£19k) and Community and Environmental Services (£14k).

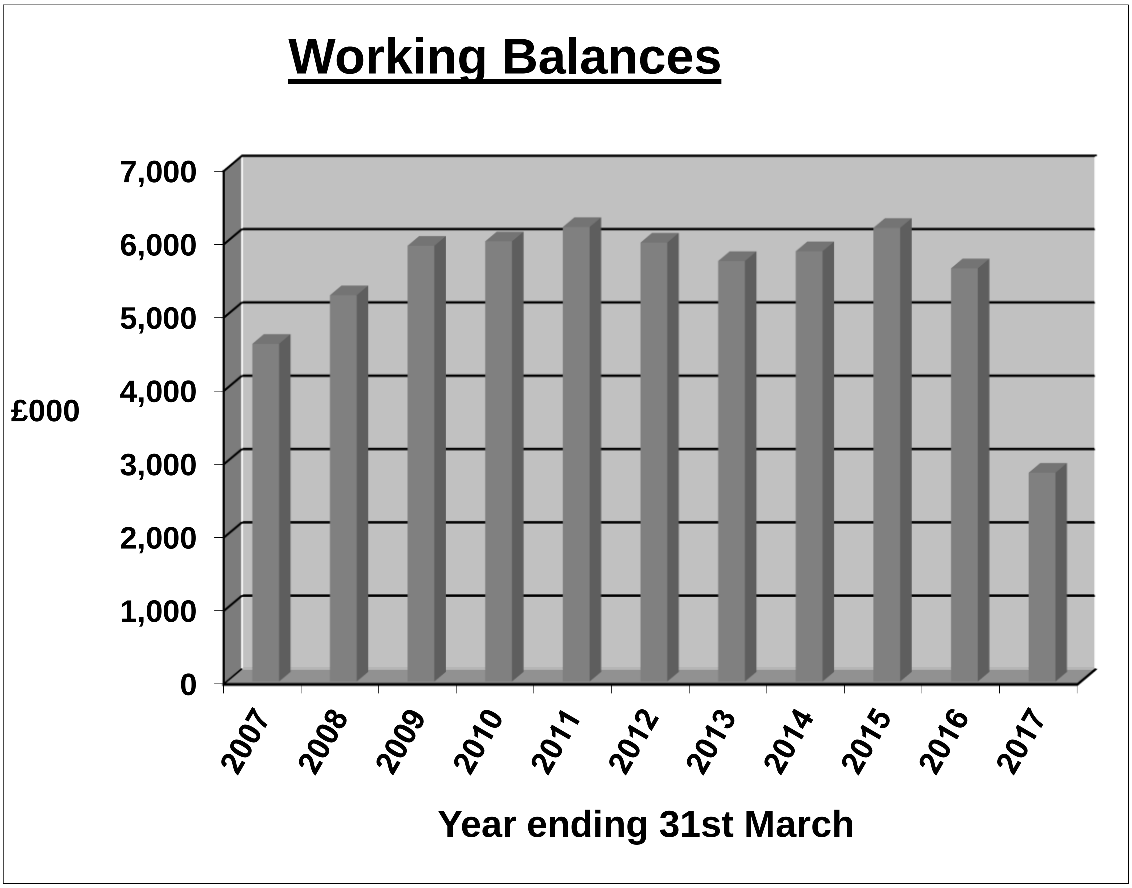
3.2 The impacts of directorates' revenue budget performance and progress in achieving planned savings fall upon the Council's working balances. The main areas accounting for the month 10 forecast overspend of £2,788k for 2016/17 are summarised below:-

Directorate	**Service**	**Forecast Variance £000**
Children's Services	An overspend of £5,186k is forecast. Children's Social Care is forecast to overspend by £5,432k, £3,993k is due to increases in the numbers by over 15% in the last year to 511 and average placement cost of Looked After Children (LAC), £645k is due to a shortfall in meeting the challenging 2016/17 Priority Led Budgeting (PLB) savings target of £1,222k arising from the ongoing implementation of the review recommendations and £289k is due to legal and court costs and other miscellaneous overspends of £505k across the division. There are overspends in Lifelong Learning and Schools of £49k due to increased demand and the Education Services Grant of £83k due to the anticipated loss of funding arising from in-year academy conversions. These are mitigated by savings of £357k in Early Help for Children and Families. A number of solutions to try and mitigate the above pressures are being implemented. Developments include the introduction of an 'edge of care' model through the reconfiguration of Argosy children's home based on a model established in Blackburn and the creation of the Vulnerable Adolescent Hub which will enable young people to be more effectively helped. The Council's Internal Audit department is currently reviewing the governance and due diligence in relation to statutory work. A financial impact assessment is also underway. A re-modelling of the Council's Early Help offer, based on a model used in Leeds, is being considered. The Leeds model delivers a rapid response service to reduce the levels of need for Social Care. The scoping and financial impact of the PAUSE project, which looks at reducing multiple	5,186

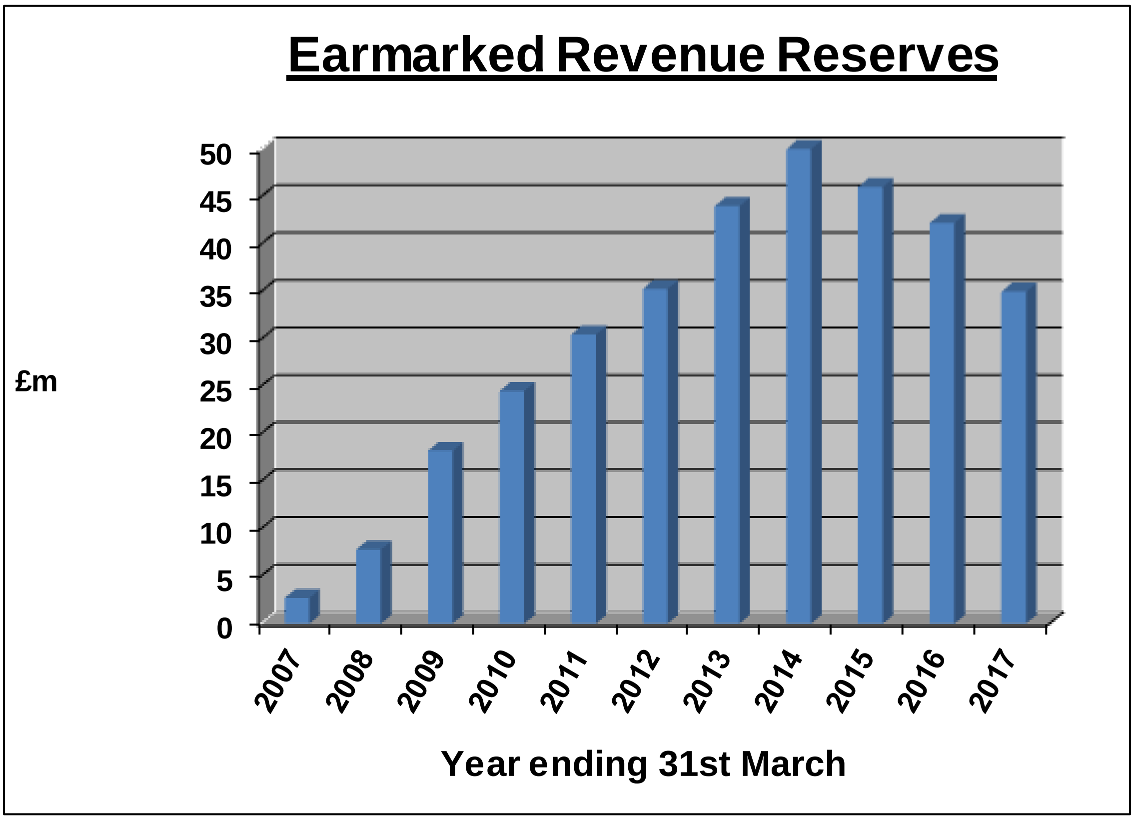
	removals of children at birth from families, was reported in January 2017. If the project is implemented, the financial savings have been modelled and are substantial. Now that the division's internal reviews are nearing completion, a refocus of the Children's Commissioning Team has commenced, in an attempt to drive down placement costs. A new system (introduced in February 2017) requires all new admissions into the care system to be approved by the Social Care Senior Service Manager. Additionally, the Independent Placement Overview panel has increased the frequency of its meetings from February 2017 to scrutinise and challenge the cost of the most expensive external placements.	
Places	An overspend of £595k is forecast. The Illuminations service is forecasting an overspend of £250k due to increased costs and poorer than expected income. Print Services is forecasting an overspend of £100k due to an income pressure that is currently under review. Other pressures are mainly due to prudential borrowing and reduced income.	595
Resources	An overspend of £71k is forecast. Property Services is forecasting a £158k overspend based on the current pace of property rationalisation and pressure from rental income within the Central Business District. This has been mitigated by net savings in other areas of the Directorate.	71
Strategic Leisure Assets	Strategic Leisure Assets is forecasting a £668k pressure. In accordance with the original decision for this programme by the Executive on 7 February 2011, the projected overspend on Strategic Leisure Assets will be carried forward and transferred to Earmarked Reserves. The forecast accumulative deficit as at 31st March 2017 is £5,479k. This incorporates the increased debt financing costs associated with the former Tower Lounge development and essential Tower steel structure renewal, together with increased marketing costs and revised income profile and the application of a composite rate to prudential borrowing. The Leisure Assets portfolio is currently forecast to break-even, in-year, during 2021/22	Net nil
Community and Environmental Services	An underspend of £58k is forecast. This is mainly due to cost pressures offset by income savings. The £856k PFI Grant is no longer available and is being considered along with Lancashire County Council in the review of the operation of the recycling plants with the risk being covered against the specific Waste PFI reserve.	(58)
Governance and Partnership Services	An underspend of £98k is forecast. This is due to a combination of service demand and a forecast underspend on Wards.	(98)

Budgets Outside the Cash Limit	An underspend of £727k is forecast. Concessionary Fares are forecasting a pressure of £479k mainly due to increased bus patronage and the impact of fare increases. Parking Services is £301k down due to a stretched income target of £6,262k. The cost to the Council of supporting the Subsidiary Companies is an underspend of £138k due to the reducing balance payback of prudentially-borrowed schemes. Treasury Management has a £1,203k favourable position due to the ongoing temporary windfall from the short-term interest rates currently being paid to finance recent capital expenditure. New Homes Bonus is showing an underspend of £150k due to additional income resulting from the final allocation.	(727)
Adult Services	An underspend of £1,024k is forecast. Adult Safeguarding is forecasting an overspend of £137k as a result of additional legal and staffing costs, relating to Deprivation of Liberty (DoLs) case law, which is not covered by New Burdens funding of £82k and a pressure of £55k relating to the timing of a staffing restructure in Adults and Children's Safeguarding. These are mitigated by an underspend of £756k on Adult Commissioning Placements due to higher residential income and one-off savings. Other net savings are due to staffing.	(1,024)
Contingencies / Reserves	A further review of contingencies has enabled the release of an additional £350k on top of the previous £807k, but this view is taken at some risk that the Council does not experience equivalent claims/appeals in the last 2 months of the year.	(1,157)
Total		**2,788**

3.3 The graph on the following page shows the impact on the level of Council working balances in-year together with the last 10 years' year-end balances for comparison:



3.4 Whilst the Council maintains working balances to address any in-year volatilities, it also maintains a number of Earmarked Revenue Reserves for such longer-term commitments as future Private Finance Initiative payments and uncertainties within the new Localised Business Rate system. In order to present a complete picture of the Council's strong financial standing an equivalent graph to the above is shown below:



4. Directorate Budget Savings Performance

4.1 As at 31 January 2017 86% of the 2016/17 savings target has already been delivered. The full-year forecast predicts that 89% (89% last month) will be achieved by the year-end, which takes into account anticipated pressures and savings.

4.2 The full-year effect of the 2016/17 savings in 2017/18 amounts to 93% of the 2016/17 target which reflects any non-recurrent savings. This excludes any in-year pressures/savings.

5. Collection Rates

5.1 Council Tax

At the end of month 10 the amount collected for Council Tax (excluding Police and Fire precepts) was £40.8m and the collection rate was 84.4%. This compares to £38.8m and 85.3% at the same point in 2015/16. The reduction of 0.9% compared to the previous year equates to £0.4m. The amount collected has actually risen by £2.0m and the movement of £2.4m is mainly due to increases in both the Council Tax rate and base.

In the light of the reductions in discount and the introduction of the Local Council Tax Reduction Scheme the target collection rate is 97.5% over a 4-year collection period as approved on 25th January 2016 as part of the setting of the Council Tax Base for 2016/17.

5.2 Council Tax Reduction Scheme (CTRS)

The Council Tax Reduction Scheme was introduced on 1st April 2013. The Scheme ensures that support to pensioners continues at existing levels. Working-age claimants are means tested to establish entitlement and a percentage reduction (currently 27.11%) is applied at the end of the assessment to establish the level of support provided.

At the end of month 10 the amount collected (excluding Police and Fire precepts) in respect of the Council Tax Reduction Scheme and Council Tax for those who have to pay CTRS, either for the first time or in addition to a proportion of their Council Tax, was £2.36m and the collection rate was 55.2%. This compares to £2.44m and 57.6% at the same point in 2015/16 and is the principal cause of the overall collection rate deteriorating.

The likely impact for 2016/17 is that the underlying rate of collection of Council Tax Reduction Scheme will be under greater pressure than 2015/16 due to accumulated arrears and limits on the amount that can be recovered from Attachment of Benefits.

5.3 Business Rates

Prior to 1 April 2013, Business Rate income was collected by billing authorities on behalf of central government and then redistributed among all local authorities and police authorities as part of Formula Grant. From 1st April 2013 the income relating to Blackpool is shared between central government (50%), the Council (49%) and the Fire Authority (1%). Consequential adjustments were made to the Formula Grant equivalent.

At the end of month 10 the amount collected for Business Rates was £44.6m and the collection rate was 82.4%. This compares to £43.5m and 83.1% at the same point in 2015/16. The reduction of 0.7% compared to the previous year equates to £0.4m, though increases in both the Business Rate multiplier and base have made positive contributions of £1.5m. The Council's share of these is 49%.

From April 2014 Business Ratepayers have been entitled to elect to pay by 12 monthly instalments instead of over 10 months. This has allowed businesses more time to pay.

The audited Business Rate cumulative deficit as at 31st March 2016 is £4.58m. The Council's share of this is £2.24m (49%) and provision has been made for this.

6. Capital Monitoring Performance

6.1 All active capital schemes have been included within Appendix 4. The purpose is to present the overall position of capital spend. The schemes are shown individually where total scheme budget is greater than £500k and grouped as "other schemes" otherwise. As in previous financial years the emphasis regarding capital monitoring will be on scheme variance rather than in-year progress since many schemes cross financial years such as the major housing developments. Therefore, some degree of flexibility for the management of slippage is necessary in order to balance the overall capital programme each year to the funding allocations available.

6.2 As at month 10 an overall nil variance on capital schemes is anticipated.

7. Summary Cash Flow Statement

7.1 As part of the reporting format for this financial year a summary cash flow statement is included at Appendix 5. This provides a comparison of the actual cash receipts and payments compared to forecast for 2016/17.

7.2 During the first 10 months of the year, the Council's net cashflow has resulted in fluctuations in short-term net investment/borrowing balances. However, overall temporary borrowing has decreased marginally since 31 March 2016 but it is anticipated that it will increase in February and March due to the expansion of the Business Loans Fund and as capital expenditure is incurred. The Council is currently using temporary borrowing to finance prudentially funded capital expenditure. While temporary investment rates and temporary borrowing rates are low the treasury team is delaying taking any new long-term borrowing to fund planned capital expenditure. The interest charged by Lancashire County Council on the Local Government Reorganisation Debt is lower than anticipated. As a result, the delay in taking new long-term borrowing and the lower interest charge from Lancashire County Council mean that a favourable credit variance is once again forecast for 2016/17.

8. Summary Balance Sheet

8.1 In order to provide a complete picture of the Council's financial performance, Appendix 6 provides a snapshot of the General Fund balance sheet as at the end of month 10. The key areas of focus are any significant movements in debtors, cash and cash equivalents, bank overdraft and creditors, as these impact upon the Council's performance in the critical areas of debt recovery, treasury management and Public Sector Payment Policy.

8.2 From 1st April 2016 local authorities were told that they must account for the Highways Network Asset in line with International Accounting Standard 16 *Property, Plant and Equipment*. The Highways Network Asset includes carriageways, footways, cycle paths, street furniture, traffic management and land and had been brought onto the balance sheet in previous months under Property, Plant and Equipment for 2016/17. However, on 14th November 2016, CIPFA took the decision to delay the implementation of the accounting for Highways Network Asset until 2017/18. Therefore, these amounts have now been removed from the balance sheet.

8.3 Over the 10-month period there has been an increase in spend on capital schemes included within Property, Plant and Equipment of £30.9m and a decrease in short-term borrowing of £15.6m, which in the main reflects the timing of the receipt of capital grants and the phasing of the capital programme. Long-term assets have increased by £6.0m due to the purchase of equity in Blackpool Housing Company and loans being issued to Blackpool Transport Services and Blackpool Housing Company.

9. Conclusion and Recommendations

9.1 There has been an improvement in the financial position compared to month 9 by £15k, however, the Council is still predicting a significant deterioration in the Council's financial standing in comparison with Budget. Working balances are estimated to fall by £2,788k against the budgeted position over the year. This fall is in the context of the audited working balances at the start of the year of £5,636k, a reduction of nearly half.

9.2 If this forecast position became the actual outturn, then in accordance with the Council's Financial Procedure Rules within its Constitution, the forecast revenue outturn 2016/17 within this report contravenes the second of the two specific conditions that excess spending does not:

1. exceed 1% (i.e. £4.3m) of the authority's total gross revenue expenditure; or

2. have the effect of reducing the authority's Working Balances below 50% of their normal target level (i.e. £3.0m).

In the context of £35.0m of Earmarked Revenue Reserves and with 2 months of the financial year remaining there should still be sufficient time to improve the position such that Working Balances of at least £3.0m are reached. Revised service and financial plans are underway to do so, including the freezing of non-essential spend and delays to filling non-front line vacancies.

9.3 In response to the financial position the Director of Resources is holding regular meetings with individual Directors to discuss the robustness and integrity of current year budget forecasts and the plans in place to deliver an in-year breakeven position.

9.4 The Executive is asked:

i) to note the report; and

ii) to require the respective Directors and Director of Resources to continue to closely monitor and manage financial and operational performances, specifically Children's Services, Strategic Leisure Assets and Places.

Steve Thompson
Director of Resources