BLACKPOOL COUNCIL

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

on

5 FEBRUARY 2018

GENERAL FUND REVENUE BUDGET 2018/19

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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 2018/19 and to identify a budget savings plan that will ensure a balanced Budget.

2. Context

2.1 Local government in England is now seven 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 12 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 Medium Term Financial Sustainability Strategy 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 2018/19 has been approved, work will commence on updating the Medium Term Financial Plan to maintain a rolling 3-year budget.

3. The Local Government Finance Settlement 2018/19

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 (as was formerly named) announced the Provisional Local Government Finance Settlement for 2018/19 on 19 December 2017. The Final Settlement is expected to be announced in early February 2018.

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 6th year of the Business Rates Retention Scheme. The Provisional SFA amounts to £66,200,000 in 2018/19. This compares with the Settlement Funding Assessment in 2017/18 of £69,646,000. However, the Ministry of Housing, Communities and Local Government (MHCLG) contacted local authorities on 18 January 2018 to advise that the VOA had published their final revised data on the change in rateable value between rating lists for 2010 and 2017. The MHCLG confirmed that they only used provisional data – from October 2017 – for the change in rateable values that were used at Provisional Settlement and in the existing Revaluation calculator. They will therefore be amending the tariffs and top-ups published in the Provisional Local Government Finance Settlement and these amendments will be included as part of the Final Settlement.

4. Other Funding 2018/19

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

4.2 New Homes Bonus (NHB) Grant

The 2018/19 New Homes Bonus allocations and details of the consultation on the future of the scheme has 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 5 years in 2017/18) will reduce to 4 years from 2018/19 onwards. The scheme also only rewards growth in homes above 0.4% per annum.

The 4-year cumulative figure for 2018/19 has been confirmed as £464,551 with an in-year element of £15,050.

4.3 Housing Benefit (HB) Admin Grant

The Housing Benefit subsidy scheme is the means by which local authorities claim subsidy from the Department for Work and Pensions (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 2017/18 of £908,000 and this will be reduced by 11% to £810,000 in 2018/19.

4.4 Public Health Grant

The transfer of Public Health services and their responsibility to local government from April 2013 brought with it ringfenced grant funding.

On 21 December 2017 the Secretary of State issued details of the Public Health allocations for 2018/19. The total amount of £3.215bn is in line with what had previously been announced as part of the Spending Review 2015, which represents a cash reduction of -2.6%. With current CPI of 3.1% the reduction for 2018/19 is -5.5% effectively in real terms.

Blackpool's allocation for 2017/2018 was £18,914,000 which will be reduced to £18,428,000 for 2018/19.

4.5 Better Care Fund (BCF)

The Better Care Fund is a programme spanning both the NHS and local government which seeks to join-up health and care services, so that people can manage their own health and wellbeing, and live independently in their communities for as long as possible.

The BCF has been created to improve the lives of some of the most vulnerable people in our society, placing them at the centre of their care and support, and providing them integrated health and social care services, resulting in an improved experience and better quality of life.

In March 2017 NHS England, the Department for Health and the Department for Communities and Local Government published the 2017/19 Integration and BCF planning requirements. Under the Mandate, NHS England is required to ring-fence £3.58 billion for 2017/18 rising to £3.65 billion in 2018/19 within its overall allocation to Clinical Commissioning Groups (CCGs) to establish the BCF. For 2017/18 the remainder of the £5.128 billion fund was made up of the £431 million Disabled Facilities Grant (DFG) and a new £1.115 billion grant allocation to local authorities to fund adult social care, first announced in the 2015 Spending Review: the Improved Better Care Fund (iBCF). The Spring Budget 2017 included a significant increase in iBCF allocations. For 2018/19 the remainder of the £5.617 billion fund will be made up of the £468 million DFG and £1.499 billion iBCF grant to local authorities.

Blackpool's Health and Wellbeing Board has approved a pooled budget of £25.1m in 2017/18 rising to £27.3m in 2018/19.

4.6 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 allocation of the grant in consultation with local schools forums. Local authorities are responsible for allocating the Schools Block of the grant to individual schools in accordance with the local schools' funding formula. The DSG in 2017/18 prior to Academy Recoupment was £106.5m and the provisional allocation for 2018/19 is £108.8m whose further allocation has been approved by the Blackpool Schools Forum on 16 January 2018. The increase is mainly due to the introduction of national formulas for the Schools Block and the High Needs block, both of which have resulted in increased allocations for Blackpool, and the full year effect of the entitlement to 30 hours of childcare for working parents within the Early Years block.

4.7 Education Services Grant (ESG)

Up to and including financial year 2016/17, education functions provided by local authorities were funded from the Education Services Grant (ESG). For 2016/17 the Council received £77 per pupil in relation to the pupils in schools maintained by the authority (general funding allocation) and £15 for each pupil in all schools and academies in respect of responsibilities retained for every pupil within the Blackpool boundary (retained duties allocation). From 1st April 2017 the ESG ceased. The general funding allocation was replaced by transition funding at a rate of £20 per pupil between April and August 2017, and a new School Improvement grant from September 2017 onwards, and the retained duties allocation became part of the Dedicated Schools Grant.

4.8 Core Spending Power

The Core Spending Power figures include the SFA, Council Tax, the Improved Better Care Fund, NHB, Transitional Grant (not applicable), Rural Services Delivery Grant (not applicable), and the Adult Social Care Support Grant. The table underneath shows Blackpool's Core Spending Power for 2018/19:

Core Spending Power	**2017/18**	**2018/19**
	£m	**£m**
Settlement Funding Assessment (SFA)	69.7	66.2
Compensation for under-indexing the business rates multiplier	0.6	1.0
Council Tax Requirement	48.4	50.2
Cumulative Adult Social Care Precept Flexibility	2.4	4.0
Improved Better Care Fund	5.4	7.6
New Homes Bonus	0.9	0.5
2017/18 Adult Social Care Support Grant	0.9	0.0
Total	**128.3**	**129.5**
Change in Provisional Revenue Spending Power		1.2
Percentage Change		+0.94%

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

5. Revenue Budget 2017/18 – Projected Outturn

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

5.2 Line 21 of this summary shows that it is now estimated that a sum of £1,833,000 will be taken from working balances as at 31st March 2018.

The main areas of budgetary variance are set out below:

	£000
Children's Services	2,908
Strategic Leisure Assets	1,174
Parking Services	716
Places	298
Resources	147
Concessionary Fares	120
Governance and Partnership Services	80
Ward Budgets	(300)
Adult Services	(598)
Other	(38)
Net Service Overspendings 2017/18	**4,507**
Net Adjustment from Contingencies / Reserves	**(2,674)**
Net Overspending 2017/18	**1,833**

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 most challenging being the required reduction in Looked After Children numbers in Children's Services. 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 31 March 2018 will be recovered in the following year 2018/19, 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 2018/19

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 2018/19 is £124,365,000 (line 22 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 2.0% for the period from 1st April 2018 to 31st March 2019 in line with the latest employer's pay offer 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 @ 2.2%
- the latest estimates of Settlement Funding Assessment
- interest rates to rise slowly in 2018/19 but to remain at low levels
- the Council fulfils its statutory obligation to balance its Budget.

7. Budget Gap 2018/19 and Methodology for Delivering

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

	£m
Reduction in Revenue Support Grant	4.8
Changes in Business Rates, Council Tax and Grants, e.g. Improved Better Care Fund	(7.5)
Pay awards, increments, NI and pensions	2.0
Non-pay inflation	4.2
Service developments and demand pressures	2.0
Budget Gap 2018/19	**5.5**

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 18 months:

i) Technical savings – these covered areas such as debt and PFI restructurings, review of reserves and provisions, use of capital receipts and capital to revenue transfers and review of Council Tax Reduction Scheme.

ii) Income generation and management – between 2015/16 and 2016/17 fees and charges income increased by £3.3m (or 8.5%) and will continue to be optimised along with returns on business loan investments, Growth and 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, 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 **£5.5m** in 2018/19. These are listed at Appendix 2 along with the summary actions required to deliver them and have previously been considered by Executive on 11th December 2017 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 and residual directorate targets that had been identified in the savings programme contained within the Medium-Term Financial Sustainability Strategy. The Panel met on the 12 December 2017 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 £5.5m savings target it is anticipated that in the year 2018/19 there will be 50 redundancies and in addition there are a further 20 employees in temporary contracts which will come to an end and up to 40 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 2018 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 £35bn in 2019/20, compared to the surplus of £10bn 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 & 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 2018/19. 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

The 2017/18 Budget increased the Loans fund to £100m. Loans are available to businesses across the Fylde coast and strongly linked to growing and safeguarding the local economy. The Council has approvals and expressions of interest totalling over £71m of loans as of 31st December 2017, of which £36m have been drawn down so far. These loans have created / safeguarded 937 jobs.

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 2018/19 – 2020/21 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 2018/19 is underpinned and reinforced by Council-wide risk management and robust budget setting and monitoring processes.

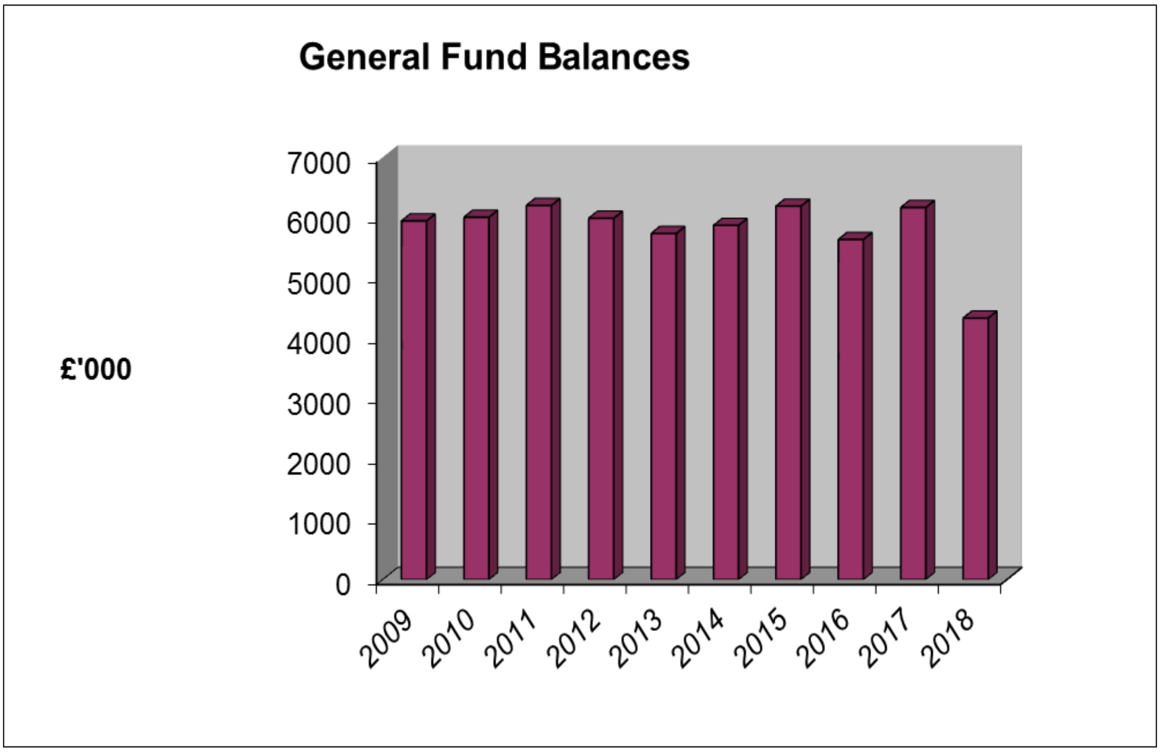
- Risk Management – Risk management processes are embedded across the Council. A strategic risk register is maintained and a Corporate Risk Management Group meets quarterly to review the risks contained in the register. The strategic risk register identifies the key risks facing services in the delivery 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 and 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 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 £5.5m 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 2017/18 with a view to reprioritising and 'unearmarking' sufficient reserves to replenish working balances to their target level in early 2018/19 should this be necessary.



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 19th December as part of the Provisional Local Government Settlement it was announced that an increased council tax referendum threshold of 3% would apply for 2018/19.

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 were changed for the period 2017/18 to 2019/20. Local authorities are 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 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 2018/19, a referendum will be triggered where Council Tax is increased by 6% or more above the authority's relevant basic amount of Council Tax for 2017/18 (i.e. 3% 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. It is difficult to forecast beyond 2019/20 when the current 4-year Settlement ends and the prospect of 75% Business Rates Retention adds more uncertainty to financial planning.

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 a best estimate of service pressures suggest a budget gap of £8.4m will be required to be met in 2019/20 and £6.5m in 2020/21.

12.3 It is the intention that the current Medium Term Financial Plan 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 2018/19 of £124,365,000 (ref. paragraph 6.2)

(2) To recommend to Council a level of budget savings of £5.5m (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 target level of working balances remains at £6m (ref. paragraph 10.4)

(5) To recommend a detailed review of earmarked reserves takes place at Provisional Outturn 2017/18 to reprioritise and unearmark funds to replenish working balances to their target level in 2018/19 should this be necessary (ref. paragraph 10.4)

(6) To consider the report of the Budget Scrutiny Review Panel as attached at Appendix 3 and consider any actions arising from that review.

(7) 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 9 February 2018

(8) To consider any further facts and information which subsequently come to light and report the details to the meeting of the Executive on 19 February 2018.

Mr S Thompson

Director of Resources

23 January 2018