BLACKPOOL COUNCIL

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

5TH FEBRUARY 2018

FINANCIAL PERFORMANCE MONITORING AS AT MONTH 9 2017/18

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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 9 months of 2017/18, i.e. the period to 31st December 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.

1.2 The report for the first 8 months of 2017/18, i.e. the period to 30th November 2017, was to be presented to this same meeting of the Executive. Therefore, as this more up-to-date report is available at the same time, the month 8 report will not now be presented.

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 2017/18. 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. 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 19th June 2017 to write-off all service overspends and carry forward the 2016/17 underspend of £287k on Ward Budgets.

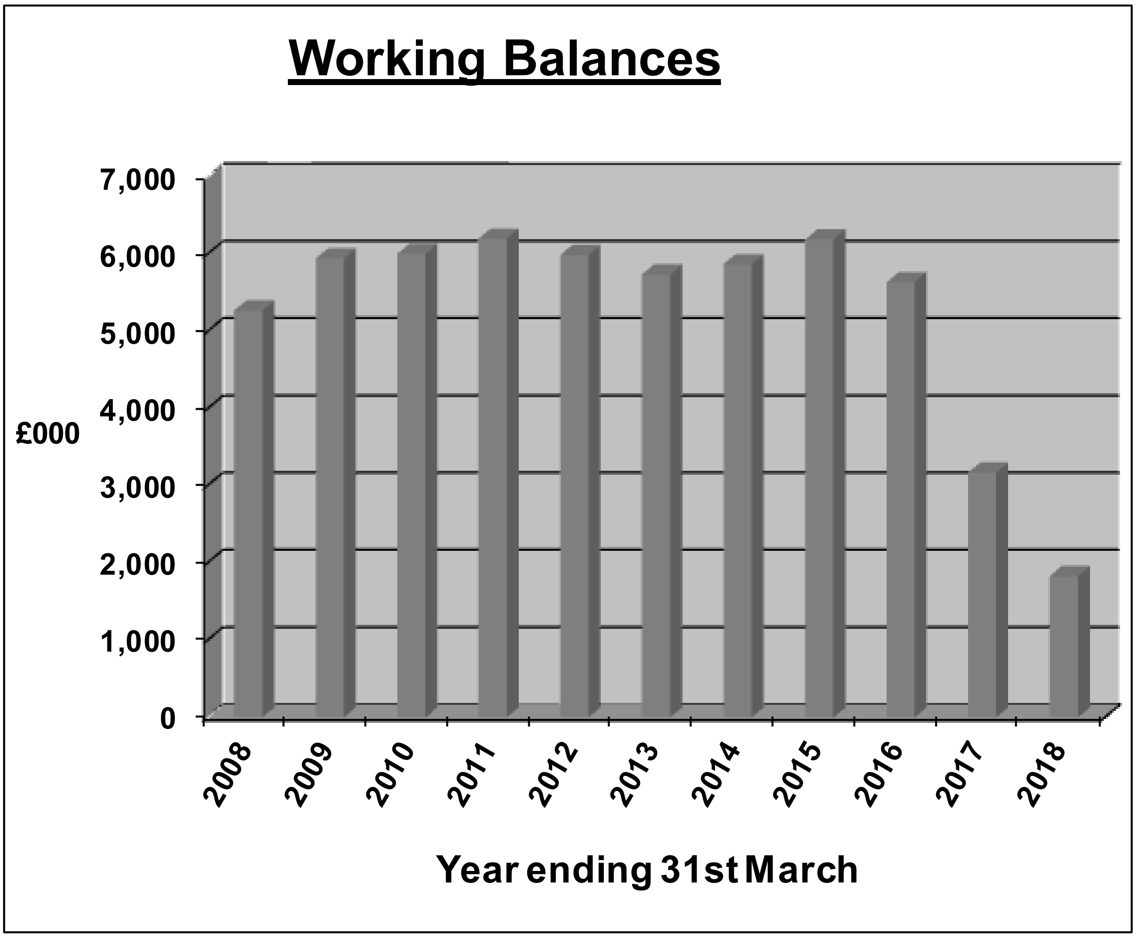
3.2 The impacts of directorates' revenue budget performance and progress in achieving planned savings fall upon the Council's working balances. The main areas accounting for the month 9 forecast overspend of £4,338k for 2017/18 are summarised below:-

Directorate	Service	Forecast Variance £000
Children's Services	An overspend of £5,413k is forecast. Children's Social Care is forecast to overspend by £5,298k, mainly due to a significant increase in the numbers since budgets were set with a peak of 549 at the end of May 2017. Since then numbers had been reducing, however demand and complexity of cases increased during the last three months worsening the position by £1.27m. By the end of December LAC numbers have reached **539**. There are overspends in Education of £304k predominately relating to the Special Educational Needs (SEN) Transport Service and is partly due to demand pressures and the savings target which is forecast not to be achieved and the Education Services Grant of £185k due to the loss of funding arising from the grant ceasing from September 2017 although this is partly offset by a transitional grant and the charging of retained education functions to the Dedicated Schools Grant (DSG). A number of solutions to try and mitigate the cost pressures around LAC are being implemented. A procedure has been introduced whereby all new admissions into care must be approved by the Senior Service Manager and, in those cases where the child is 12 years or over, by the Director of Children's Services. A new Commissioning role has been created, the purpose of which will be to scrutinise and challenge the cost of the most expensive external placements and review the options for stepping children down into more affordable provision. The post was appointed to during August 2017. The Independent Placement Overview Panel now meets on a weekly basis and an additional	5,413

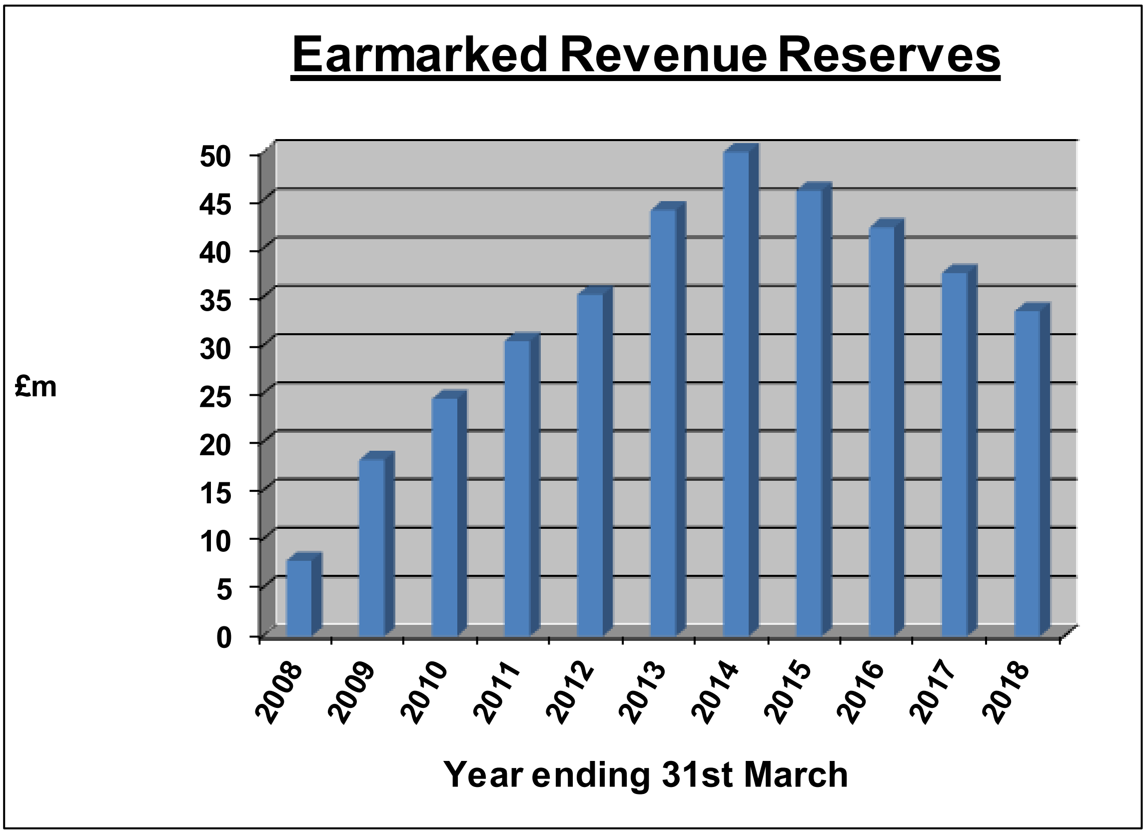
	Panel has been introduced for the short-term to review placements for LAC who are 16 years or over. It is anticipated that a number of children will successfully step down from residential settings to supported accommodation placements resulting in savings which are assumed in the forecast. Other developments include the recent introduction of an 'edge of care' model through the reconfiguration of Argosy children's home and the Blackpool Young People's Service which will enable young people to be more effectively helped to prevent the need for higher level service interventions. The PAUSE project, which seeks to reduce multiple removals of children at birth from families, is in the implementation stage and should ultimately help to reduce the number of new-born admissions into the care system.	
Budgets Outside the Cash Limit	An overspend of £801k is forecast. Parking Services is £716k down mainly due to the delay in implementing 'on-street parking' schemes, loss of parking spaces and prudential borrowing costs. The position has deteriorated due to on-street parking schemes no longer being feasible and the operation of the free parking scheme during December. Concessionary Fares are forecasting a pressure of £120k relating to a forecast increase in bus and tram patronage. Treasury Management is forecasting an overspend of £30k which is an improvement on month 7 by £486k. The Council is currently using temporary borrowing to finance Prudentially-funded capital expenditure and the resultant saving partially offsets the Business Loans Fund which has a savings target of £1,800k The cost to the Council of supporting the Subsidiary Companies is an underspend of £65k due to the reducing balance payback of prudentially-borrowed schemes and savings on the cost of historic pension payments.	801
Places	An overspend of £298k is forecast. Growing Places has a pressure of £164k mainly due to the prudential borrowing charge relating to Bonny Street. Visitor Economy is expecting a £129k overspend. This is mainly due to reduced income particularly in Print Services. A review of Print Services is underway.	298
Resources	An overspend of £147k is forecast. Property Services is forecasting a £86k overspend based on the current pace of property rationalisation, demolition delays to redundant properties and pressure from rental income within the Central Business District. Revenues and Exchequer Services is forecasting a £85k overspend due to a service restructure and income pressure.	147

Strategic Leisure Assets	Strategic Leisure Assets is forecasting a £1,174k pressure. In accordance with the original decision for this programme by the Executive on 7th February 2011, the projected overspend on Strategic Leisure Assets will be carried forward and transferred to Earmarked Reserves. The forecast cumulative deficit as at 31st March 2018 is £6,603k. This incorporates the increased debt financing costs associated with both the former Tower Lounge development and essential Tower steel structure renewal, together with increased marketing and insurance costs and revised income profile. The Leisure Assets portfolio is currently forecast to break-even, in-year, during 2021/22.	Net nil
Community and Environmental Services	An underspend of £3k is forecast. Leisure and Catering is forecasting a £109k overspend due to income pressures and Street Cleansing and Waste is forecasting a £18k overspend due to pressures on disposal costs and income at the Household Waste Recycling Centre (HWRC). These are mainly offset by funding from Reserves and additional income. 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 in 2017/18.	(3)
Governance and Partnership Services	An underspend of £220k is forecast. This is due to a combination of income and maintenance pressures within Registrars and Cremation Services and a forecast underspend on Wards.	(220)
Adult Services	An underspend of £598k is forecast. Adult Commissioning Placements are forecasting an underspend of £250k as a result of releasing one-off income and unallocated accruals, offset by in-year planned slippage of the Housing Related Support savings target. The remaining underspends are mainly due to staffing.	(598)
Contingencies /Reserves	Review of Contingencies and Reserves and calculated release in part to General Fund. The Contingency line includes corporate savings that are managed centrally e.g. £1.5m Procurement saving. Corporate Leadership Team are reviewing all services and savings targets which includes a review of all vacant posts, discretionary spend and how some services are delivered to drive out this forecast underspend.	(1,500)
Total		**4,338**

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 financial standing an equivalent graph to that of working balances is shown below:



4. Directorate Budget Savings Performance

4.1 As at 31st December 2017 65% of the 2017/18 savings target has been delivered. The full-year forecast predicts that 77% (78% 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 2017/18 savings in 2018/19 amounts to 71% of the 2017/18 target which reflects the non-recurrent savings and recurrent in-year pressures/savings, the largest being the overspending in Children's Social Care. This overspend is mainly due to a significant increase in the numbers and complexity of looked after children since budgets were set.

5. Proposed In-year Mitigation for Children's Services

5.1 The financial position of Children's Services is unsustainable and impacting adversely on the Council's key financial performance conditions. There is a requirement to find an in-year solution that buys time for the Director of Children's Services' plans to gain traction. A review of reserves has highlighted that Education Basic Needs funding would provide the best solution, though the capital to revenue transfer would need to be technically managed:

- Basic Needs Funding is a Central Government grant devolved to local authorities for the provision of sufficient school places
- there is a current balance of £2,505k with no further demand in the current year, which is expected to be topped up in 2018/19
- over the last 10 years the Council has front-loaded £3,280k of its own funding plus land for the purposes of providing sufficient school places
- Basic Needs Funding is an unringfenced grant in local authorities' gift how to deploy
- its deployment to Children's Social Care would keep the funding within Children's Services

It is recommended that the full balance of £2,505k is applied in-year.

6. Collection Rates

6.1 Council Tax

At the end of month 9 the amount collected for Council Tax (excluding Police and Fire precepts) was £38.9m and the collection rate was 76.5%. This compares to £36.7m and 76.1% at the same point in 2016/17. The amount collected has actually risen by £2.2m which 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 still 97.5% over a 4-year collection period as approved on 27th January 2017 as part of the setting of the Council Tax Base for 2017/18.

6.2 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. From 1st April 2017 the scheme was amended so that certain vulnerable groups would have the 27.11% reduced to 13.56%. This has the effect of reducing the amount to be collected.

At the end of month 9 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 £1.90m and the collection rate was 50.4%. This compares to £2.09m and 48.4% at the same point in 2016/17.

The likely impact for 2017/18 is that the underlying rate of collection of Council Tax Reduction Scheme will be under greater pressure than 2016/17 due to accumulated arrears and limits on the amount that can be recovered from Attachment of Benefits.

6.3 Business Rates

Prior to 1st 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 9 the amount collected for Business Rates was £38.0m and the collection rate was 75.0%. This compares to £40.2m and 73.8% at the same point in 2016/17. The increase of 1.2% compared to the previous year equates to £0.9m, though changes in both the Business Rate multiplier and base (due to the Revaluation in April 2017 and other movements) have made negative contributions of £3.1m, offset by a compensating increase to the NDR Top-up amount. The Council's share of business rate yield continues at 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. However, over 650 business rate summonses were issued in the 9 months to the end of December.

The audited Business Rate cumulative surplus as at 31st March 2017 is £785k. The Council's share of this is £385k (49%).

7. Capital Monitoring Performance

7.1 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.

7.2 The report includes the capital programme at month 9. The figures have changed significantly from month 3 as this represented the programme approved by the Executive in February 2017. Since that date a number of additional schemes have been approved and are now included.

7.3 As at month 9 an overall nil variance on capital schemes is anticipated.

8. Summary Cash Flow Statement

8.1 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 2017/18.

8.2 During the first 9 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 increased since 31st March 2017 mainly due to a £36.7m up-front payment to the Lancashire County Pension Fund and the early repayment of the £18.4m Local Government Reorganisation (LGR) Debt to Lancashire County Council. 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. As a result the delay in taking new long-term borrowing means that interest charges are lower than expected. In contrast, the take-up of loans from the recently expanded Business Loans Fund is slower than anticipated and this means that an adverse variance is currently forecast for 2017/18.

9. Summary Balance Sheet

9.1 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 9. 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.

9.2 Over the 9-month period there has been a reduction in other long-term liabilities of £18.4m. This reduction is due to the repayment of loan debt with Lancashire County Council relating to the Local Government Reorganisation of 1998. This debt has been replaced with short-term borrowing for the time being. The remaining increase in short-term borrowing of £25.2m and an increase in long-term borrowing of £7.1m reflects borrowing in advance at low interest rates to fund the capital programme (£27.9m) and to fund the increase in long-term assets (£19.3m). The increase in long-term assets is due to an increase in business loans granted and the purchase of shares in Blackpool Airport.

10. Conclusions and Recommendations

10.1 Over the period 2011/12 – 2017/18, the cumulative Budget savings amount to £137m which is now greater than the Council's annual Net Requirement Budget and even more starkly the compound effect over the 7-year period exceeds £1/2 billion of resource that has been removed from the Blackpool economy. This reflects one of the highest cuts per head of population across local authorities in England and in an environment of growing demands upon services as commensurate of an authority with such recognised pockets of significant deprivation.

10.2 The Medium-Term Financial Sustainability Strategy 2016/17 – 2021/22 always identified 2017/18 as the critical financial year to navigate, being the last of the very high Budget gap years to bridge and following 6 years of significant erosion of Government funding. This is now proving to be the case.

10.3 There is a worsening of the position compared to month 7 of £373k. Working balances are estimated to fall by £4,338k against the budgeted position over the year. This fall is in the context of the audited, adjusted working balances at the start of the year of £6,166k.

10.4 By far the Council's biggest financial risk and pressure is the demand growth in Children's Social Care. This is not unique to Blackpool – Local Government Association (LGA) research as recent as 9th August 2017 concluded that "Children's services are at breaking point (nationally) with 75% of councils overspending to keep vital protections in place". The review found that in 2015/16 councils surpassed their children's social care budgets by £605m in order to protect children at immediate risk of harm. 172,290 children in England and Wales were subject to child protection inquiries in 2015/16, compared to 71,800 in 2005/06 – a 140% increase in just 10 years. The equivalent figure for Blackpool is more than double this increase at 328%.

10.5 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 2017/18 within this report contravenes both the two specific conditions that excess spending does not:

1. exceed 1% (= £4.2m) 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 (= £3.0m).

In the context of £34m of Earmarked Revenue Reserves and with 3 months of the financial year remaining officers are working diligently and expeditiously to improve the position such that Working Balances of at least £3.0m are reached, but as we get closer to the year-end this does become more difficult. Revised service and financial plans are underway, including the review of non-essential spend and delays to filling non-front line vacancies.

10.6 The Executive is asked:

i) to note the report;

ii) to support the recommendation of the Director of Resources in paragraph 5.1 that £2,505k is vired from Education Basic Needs Funding and added to the Children's Services budget non-recurrently, this would have the effect of improving the forecast level of Working Balances from £1,828k to £4,333k;

iii) to continue to lobby Government (Ministry of Housing, Communities & Local Government and the Department for Education in particular) along with other local authorities facing similar pressures, the Local Government Association and the Association of Directors of Children's Services for more funding to cope with the mounting demand and new burdens presenting in Children's Services; and

iv) to require the respective directors and Director of Resources to continue to closely monitor and manage service financial and operational performances, specifically Children's Services, Strategic Leisure Assets and Parking Services.

Steve Thompson
Director of Resources

22nd January 2018