BLACKPOOL COUNCIL

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

on

18TH JUNE 2018

PROVISIONAL OUTTURN 2017/2018

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1. Introduction

1.1 The purposes of this report are to show i) a comparison of General Fund Revenue Account expenditure in the year ended 31st March 2018 with the approved budget and ii) a statement of Capital Expenditure in the year ended 31st March 2018 with sources of funding. The figures are provisional in that they are subject to external audit and any final accounting adjustments. The final figures will be incorporated within the Statement of Accounts for 2017/2018, which is the subject of a separate report to the Audit Committee on 30th July 2018 in order to comply with the statutory deadline required by the Accounts and Audit (England) Regulations 2015.

2. Provisional Revenue Outturn 2017/2018

2.1 The Provisional Revenue Outturn for 2017/2018 (before allowing for changes to working balances) is £127,898,000 compared with the approved budget of £125,766,000 – a net increase of £2,132,000. The summary figures are shown at Appendix 1.

2.2 The year-end variance position for each directorate is set out in Appendices 2a to 2i and is summarised as follows:-

Directorate	2017/2018 Variance £000	Reference Appendix
Chief Executive	(4)	2a
Governance & Partnership Services	152	2b
Ward Budgets	(312)	2c
Resources	(119)	2d
Places	201	2e
Community & Environmental Services	(1)	2f
Adult Services	(660)	2g
Children's Services	3,018	2h
Public Health	-	2i
Total	**2,275**	

2.3 The main reasons for this net service overspend / (underspends) are:-

Service	Reasons	£000
Children's Services	Children's Social Care overspent by £5,863k, mainly due to a significant increase in the Looked After Children (LAC) 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 latter half of the financial year and by the end of March 2018 LAC numbers had reached **529**. Given these pressures in Children's Social Care would impact adversely on the Council's key financial performance an in-year solution was approved by the Executive on 5th February 2018 to provide time for the Director of Children's Services' plans to gain traction. Following a review of reserves, the Executive approved the full use of the Basic Needs Funding reserve to reduce the social care overspend to £3,358k. A net shortfall of £167k on the Education Services Grant due to the loss of funding arising from the grant ceasing from September 2017 and a small overspend in the Education division resulted in total pressures of £3,543k for the financial year. These overspends were partially offset by staffing and supplies and services underspends in the Early Help and Business Support & Resources divisions of £414k and £112k respectively.	3,018

Places	The Places Directorate overspend of £201k largely comprises Prudential borrowing costs of £62k relating to the Central Leisure Quarter development coupled with income shortfalls of £95k in Print Services and £30k in Illuminations. Other small under and overspends increased this to the £201k reported.	201
Governance & Partnership Services	Governance and Partnership Services overspent mainly due to a £171k shortfall in income within Customer Care and Life Events. This was offset by small surpluses in Democratic Governance and Corporate Legal Services due to income exceeding budget.	152
Community & Environmental Services	The Community and Environmental Services budget has basically broken even for 17/18 with offsetting under and overspends across its constituent services. Business Services reported an overspend of £143k due to budgeted savings being delivered in other service areas, whilst Leisure and Catering faced a pressure of £88k on income targets. These pressures were offset by additional scheme income in Highways and Traffic Management Services of £100k and Street Cleansing and Waste of £65k plus small underspends in other service areas resulting from vacancy savings and additional income generation.	(1)
Chief Executive	Various slight under and overspends across the constituent services resulted in this outturn position.	(4)
Resources	Property Services overspent by £87k due to the current pace of property rationalisation, demolition delays to redundant properties and pressure from rental income within the Central Business District. The other Resources divisions underspent by £206k mainly due to staffing vacancies and supplies and services savings.	(119)
Ward Budgets	Scheme commitments of £312k are being carried forward into 2018/19.	(312)
Adult Services	Adult Commissioning Placements underspent by £409k 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 were mainly due to staffing vacancies.	(660)
Total		**2,275**

2.4 The financial outturn for budgets 'outside the cash limit' is detailed at Appendix 2j and shows an aggregate overspending of £452,000. The main reasons for this are:-

Service	Reasons	£000
Parking Services	An overspend of £690k arose in Parking Services, mainly due to "on-street" parking schemes not being feasible, a loss of parking spaces, prudential borrowing costs and the operation of the free parking scheme during December.	690
Previous Years' Pension Liability/Land Charges/Housing Benefits/Council Tax and NNDR Cost of Collection/Corporate Subscriptions	Council Tax and NNDR Cost of Collection overspend of £43k is due to a reduction in costs recovered on Council Tax collection. Previous Years' Pension Liability overspend of £48k is due to a reduction in contributions from schools due to schools converting to Academies.	92
Concessionary Fares	Concessionary fares were over budget due to an increase in bus and tram patronage which has been partly met.	25
Subsidiary Companies	This underspend has resulted from a saving on Prudential borrowing costs as borrowings on historic capital schemes have been repaid.	(94)
Treasury Management	Treasury Management has a favourable position due to cash flow management.	(105)
New Homes Bonus	This underspend is due to the additional income resulting from the final NHB allocation.	(156)
Total		**452**

3. Treatment of Revenue Budget Variances

3.1 As part of the year-end process an analysis of budget variances is undertaken in order to determine the treatment of under/overspendings on service budgets. The conventional Cash Limited Budgeting approach requires that:-

- underspendings are carried forward in full and are then available to supplement the following year's service budget;
- overspendings are similarly carried forward but must as far as possible be recovered in the following financial year (where an extended period is required, this must be on the basis of a recovery plan with a timetable not exceeding 3 years and approved by the Executive); and
- any windfall gains, as determined by the Director of Resources and arising from events outside the control of the service, are added to the Council's general working balances.

3.2 However, having considered the Provisional Revenue Outturn 2017/2018 in detail and the financial outlook and consulted Corporate Leadership Team colleagues, it is recommended that:-

- the underspending of £312,000, in respect of the scheme commitments, on Ward Budgets is carried forward to 2018/2019 in full;

- the following under and overspendings are to be written off:

Directorate	£000
Chief Executive	(4)
Governance & Partnership Services	152
Resources	(119)
Places	201
Community & Environmental Services	(1)
Adult Services	(660)
Children's Services	3,018
Total	**2,587**

This will allow services to enter the new financial year in a balanced position and give directorates a realistic chance of meeting their budget savings for what will be the 8th consecutive year of material budget cuts.

4. Provisional Capital Outturn 2017/2018

4.1. This section sets out the level of expenditure incurred by the Council on its 2017/2018 Capital Programme. It provides a breakdown of expenditure by service in addition to providing a proposal on how the Capital Programme for 2017/2018 should be financed.

4.2. The total capital expenditure for the year was £40,532,257. This is summarised as follows with an analysis of spend by individual scheme available at Appendix 3:-

Directorate	£
Place	23,546,353
Community & Environmental Services	8,388,445
Resources	3,983,849
Adult Services	2,538,519
Children's Services	2,073,397
Governance & Regulatory Services	1,694
Total	**40,532,257**

4.3 CIPFA's Prudential Code of Practice requires the Council to set a range of indicators each year, one of which is to separately account for non-HRA and Housing Revenue Account expenditure incurred in the financial year. Total capital spend in 2017/2018 of £40,532,257 is split between non-HRA of £32,525,925 and Housing Revenue Account of £8,006,332.

4.4 The original Capital Programme for 2017/2018 was set at £23.078m whilst the amount actually spent in-year was approaching double this. This is mainly due to new approvals given for schemes during the year and the large brought forward budget from previous years.

4.5 It is recommended that this expenditure is funded from the following sources:-

Source	**£**
Prudential Borrowing	(4,045,176)
Government and Other Grants	22,634,187
Capital Receipts	3,014,947
Other Sources:	
- Revenue	8,644,818
- School contribution	42,859
- Modus	5,500,000
- Job Centre	1,638,426
- Foxhall Village	1,073,645
- United Utilities Contribution	263,429
- Lancashire County Council	1,142,896
- Blackpool Transport Services	6,893
- Enterprise Zone Growth Fund	615,333
Total	**40,532,257**

The Council has maximised all capital resources available to it during 2017/2018 and arrangements have been made to ensure that funding for re-profiled schemes is carried forward into 2018/2019.

5. Collection Rates

5.1 Council Tax (CT)

At the end of month 12 the amount collected for Council Tax (excluding Police and Fire precepts) was £46.4m and the collection rate was 91.3%. This compares to £43.5m and 90.0% at the same point in 2016/17. The amount collected has actually risen by £2.9m which is mainly due to increases in both the Council Tax rate and base combined with the improved collection rate.

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.

The level of Council Tax income is also affected by movements in the actual Council Tax Base compared to that used for the purposes of the 2017/2018 Budget. The base is affected by the Council Tax Reduction Scheme which is effectively applied as a discount and therefore subsequently reduces the tax base. Movements in the Council Tax Reduction Scheme impact on the income due.

As at 31st March 2018 the level of arrears has increased to £16.8m (compared to £15.0m in 2016/2017) and the provision for bad debts has increased to £6.5m (compared to £5.7m in 2016/2017). These reflect the current economic climate and the risks associated with the Council Tax Reduction Scheme. If the actual collection rate is higher than 97.5% then the excess will be available to reduce the Council Tax in future years. If it is lower than 97.5% then an increase in Council Tax will be required in future years to cover the shortfall. This would be in addition to any changes arising from the actual collection rates in previous years.

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. 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 12 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 £2.31m and the collection rate was 61.3%. This compares to £2.53m and 60.6% at the same point in 2016/17.

The underlying rate of collection of Council Tax Reduction Scheme was under greater pressure than 2016/17 due to accumulated arrears and limits on the amount that could be recovered from Attachment of Benefits

5.3 National Non-Domestic Rate (NNDR)

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 12 the amount collected for Business Rates was £47.6m and the collection rate was 95.6%. This compares to £50.7m and 93.9% at the same point in 2016/17. The increase of 1.7% compared to the previous year equates to £1.2m, 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 £4.3m, 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, 873 business rate summonses were issued in the 12 months to the end of March 2018.

The unaudited Business Rate cumulative deficit as at 31st March 2018 is £4.157m. The Council's share of this is £2.037m (49%).

As at 31st March 2018 the level of arrears has increased to £6.2m (compared to £6.0m in 2016/2017) and the provision for bad debts has increased to £2.5m (compared to £2.3m in 2016/2017). The level of write-offs and the provision for bad debts reflect the current economic climate and the volatility of these areas and justifies the level of earmarked reserves held by the authority. The appeals provision has increased to £10.0m in 2017/2018 (compared to £7.8m in 2016/2017) and is deemed necessary due to the volume of appeals still being submitted to the Valuation Office in respect of the 2010 Valuation List and to provide for appeals following the 2017 Revaluation. Following the introduction of the Check, Challenge and Appeal system by the Valuation Office no appeals have been received and the information available nationally is extremely limited. In the absence of data from the 2017 List the amount set aside has been based on the allowance of 4.77% made to the adjustment to the NNDR Multiplier as this represents the government's view as to the eventual impact of appeals on the 2017 List.

6. Reserves and Provisions

6.1 In accordance with Local Authority Accounting Panel (LAAP) Bulletin No. 99 the Council's reserves and provisions are continuously reviewed for relevance, appropriateness and materiality. The establishment, use and closure of reserves and provisions require the specific authorisation of the Director of Resources and auditable records are maintained to that effect. Members are asked to note that the level of earmarked reserves has decreased from £37.5m to £36.8m during 2017/2018 with those reserves summarised and shown in the table overleaf:-

Earmarked Reserves	2017/2018	2016/2017
	£000	£000
Collection Fund Deficit Reserve (Council Tax & NNDR)	13,459	13,910
Public/Private Partnerships	6,064	7,548
Treasury Management – Prudential borrowing	2,251	2,668
Transformation Reserve	425	1,944
Museum Reserve	875	1,252
Insurances	1,100	850
Potential Pay Liabilities	488	284
Other Reserves	12,157	9,045
Total Earmarked Reserves	**36,819**	**37,501**

6.2 The Strategic Leisure Assets cumulative overspend of £5,429,000 brought forward from 2016/2017 is included within earmarked reserves along with the 2017/2018 in-year overspend of £1,315,000. It is forecast that the portfolio will break-even, in-year, during 2021/2022 when it will then start to repay the overspend. This is in line with the Medium Term Financial Plan.

6.3. The year-end balances of the Housing Revenue Account (HRA) are £5,870,000 which is £259,000 less than originally forecast for 2017/2018.

6.4. Maintained schools' balances (which lie outside the control of the Council) decreased by £211,000 in 2017/2018 to £2.1m. A £321,000 reduction was due to academy conversions with the remaining maintained schools adding £110,000 from their reserves. £25,000 is also held in an earmarked reserve in relation to unspent Dedicated Schools Grant.

7. General Fund Working Balances

7.1 The Council's Revenue Budget for 2017/18 set a target level of General Fund working balances of around £6m. It is deemed appropriate to maintain this target level of £6m for working balances for the medium term. To do so would require an increase of £1.966m on the current balance of £4.034m.

7.2 A review of earmarked reserves has been undertaken. It is proposed that £1.4m is taken from the Treasury Management Prudential Borrowing Reserve and £0.6m from the Collection Fund Deficit Reserve (Council Tax & NNDR) and added to General Fund Working Balances, increasing them to £6,034,000 for the start of the 2018/19 financial year. The rationale behind utilising these two reserves is that the take up of borrowing to lend for business loans has been higher than planned in 2017/18 and in-year collection of Council Tax and NNDR out performed previous years. Therefore higher levels set aside for these reserves can be reduced accordingly with sufficient headroom to accommodate any further volatility in Prudential Borrowing and Council Tax and NNDR collection over the medium-term.

8. Conclusions and Recommendations

8.1 The Provisional Outturn for 2017/2018 shows the financial performance culminating with the Council's General Fund working balances standing at £4,034,000. As has been reported it has been a difficult year with Children's Services materially impacting upon the bottom line.

8.2 As the Council continues to manage the financial constraints placed upon it, the measures proposed within this report will reinstate some cushion for managing the risks that lie ahead in the next financial year, which the Medium Term Financial Sustainability Strategy has highlighted as a very difficult year to navigate.

8.3 The Executive is asked to:

- approve the provisional revenue outturn for 2017/2018 and in so doing to note that the figures are subject to external audit and final accounting adjustments (ref. paragraph 2.1);

- approve the recommendations regarding the treatment of specific service under / overspends as outlined (ref. paragraph 3.2);

- approve the provisional capital outturn for 2017/2018 and methods of scheme funding as outlined (ref. paragraphs 4.2 and 4.5);

- note the Prudential Indicator (ref. paragraph 4.3);

- note the levels of the earmarked reserves including those for the Housing Revenue Account and maintained schools (ref. paragraphs 6.1, 6.3 and 6.4); and

- approve the recommendation that £1.4m is taken from the Treasury Management Prudential Borrowing Reserve and £0.6m from the Collection Fund Deficit Reserve (Council Tax & NNDR) and added to General Fund Working Balances, increasing them to £6,034,000 for the start of the 2018/19 financial year (ref. paragraph 7.2).

Steve Thompson
Director of Resources
3rd May 2018