

BLACKPOOL COUNCIL
REPORT
of the
DIRECTOR OF RESOURCES
to the
EXECUTIVE
10 SEPTEMBER 2018

FINANCIAL PERFORMANCE MONITORING AS AT MONTH 3 2018/19

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 3 months of 2018/19, i.e. the period to 30th June 2018, 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 - Communications and Regeneration
- 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 2018/19. 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 with Places now re-designated as Communications and Regeneration. 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 18th June 2018 to write-off all 2017/18 service variances but carry forward the 2017/18 underspend of £312k on Ward Budgets.

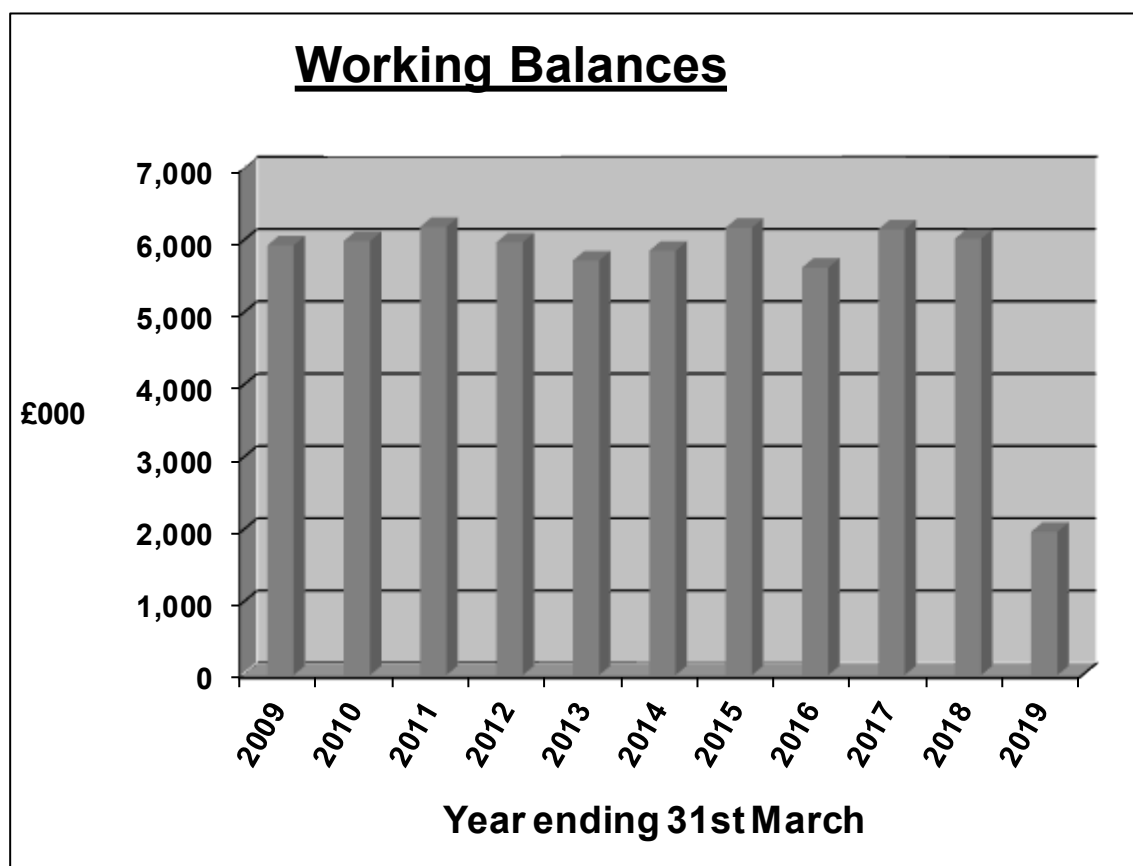
3.2 The impacts of directorates' revenue budget performance and progress in achieving planned savings fall upon the Council's working balances. The main areas accounting for the month 3 forecast overspend of £4,051k for 2018/19 are summarised below:-

Directorate	Service	Forecast Variance £000
Children's Services	An overspend of £4,187k is forecast. Children's Social Care is forecast to overspend by £3,425k, due to ongoing demand pressures relating to Looked After Children (LAC). When budgets were set, LAC numbers were around 530. By June 2018 they have reached 554 . Early in the financial year a review of each individual LAC placement was carried out and a plan put in place for every child, which included stepping young people down into lower cost placements, and discharging them from care to be resettled at home with their families, wherever this was appropriate and safe. These plans were reflected in detailed budget forecasts which resulted in an anticipated overspend at the beginning of the financial year of £2.2m. This increase has undoubtedly placed the budget under further pressure, but the breakdown of a number of existing placements has also contributed significantly to the higher forecast overspend. Additional costs for the financial year attributable to children with complex needs being moved into more expensive placement categories, requiring additional support or being unable to step down as early as planned, amount to more than £700k. Work is ongoing to reduce both LAC numbers and placement costs. All new admissions into care require Senior Service Manager approval. There is now a Commissioning role in place, the purpose of which is to scrutinise and challenge the cost of the most expensive external placements, and work is underway to review the sufficiency of placement provision across the town, which is monitored through a monthly meeting chaired by the Director of Children's Services. The current overspend forecast does not anticipate any	4,187

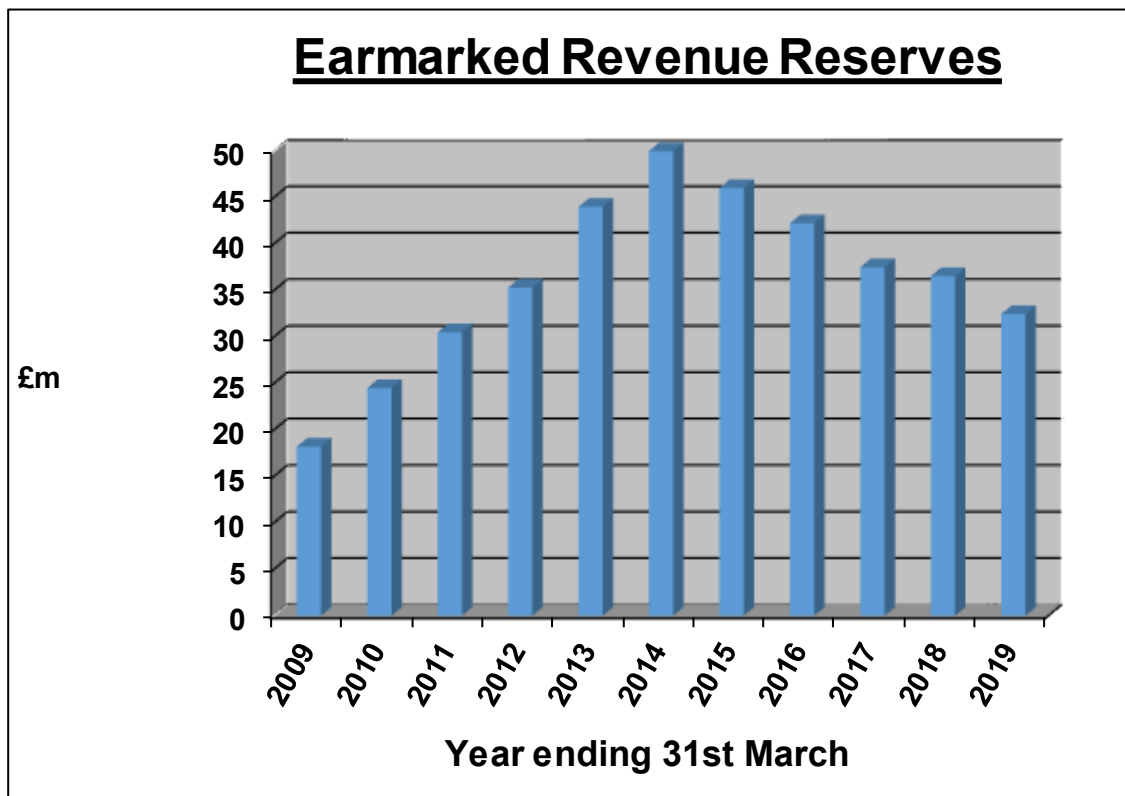
	<p>further increase in LAC numbers. Although some new admissions into care are inevitable, the assumption is that the management measures being put in place will enable the service to maintain numbers at or below current levels for the remainder of the financial year. There are overspends in Education of £844k relating to the Special Educational Needs (SEN) Transport Service which are partly due to demand pressures and partly due to the savings target of £320k that was applied in 2017/18 but not achieved.</p>	
Budgets Outside the Cash Limit	<p>An overspend of £358k is forecast. Parking Services is £587k down mainly due to 'on-street parking' schemes not being feasible, loss of parking spaces, prudential borrowing costs, increased business rates and reduced income from staff parking. Treasury Management is forecasting an underspend of £50k. The Council is currently using temporary and long-term borrowing to finance Prudentially-funded capital expenditure and the resultant saving offsets the Business Loans Fund which now has a savings target of £2,250k. The cost to the Council of supporting the Subsidiary Companies is an underspend of £179k due to the reducing balance payback of Prudentially-borrowed schemes.</p>	358
Communications and Regeneration	<p>An overspend of £59k is forecast. Visitor Economy is expecting a £59k overspend due to increased monitoring costs and reduced income from CCTV combined with delayed income in Illuminations.</p>	59
Community and Environmental Services	<p>An overspend of £2k is forecast. Leisure and Catering is forecasting a £134k overspend due to income pressures and the cost of Breakfast provisions. These are offset by additional savings and income across the Directorate. 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 2018/19.</p>	2
Strategic Leisure Assets	<p>Strategic Leisure Assets is forecasting a £1,394k 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 2019 is £8,138k. 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.</p>	Net nil

Adult Services	An underspend of £10k is forecast. Care and Support is forecast to overspend by £29k. Adult Commissioning Placements are forecasting an overspend of £19k. Underspends totalling £66k are due to vacant posts in the Directorate.	(10)
Governance and Partnership Services	An underspend of £57k is forecast. This is due to continuing pressure on income relating to the cremators within Life Events and Customer Care of £100k offset by a forecast underspend on Ward budgets of £157k.	(57)
Resources	An underspend of £88k is forecast. Property Services is forecasting a £68k overspend and Risk Services are forecasting an overspend of £16k. These are offset by savings of £174k across the Directorate relating to vacancies and income generation.	(88)
Contingencies and Reserves	Review of Contingencies and Reserves and calculated release in part to General Fund.	(400)
Total		4,051

3.3 The graph below 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 on the next page:



4. Children's Services

- 4.1 It is apparent even at this early stage of the financial year that the demand pressures being met by Children's Services are once again the primary challenge facing the Council in its attempt to balance its Budget in-year, all other services showing an aggregated net underspend of £136k.
- 4.2 This is not a local problem. *Children and Young People Now* identified in June that based upon RA data for 2018/19, i.e. local authorities' submitted annual budgets rather than forecast outturns, local authority spending on children's services is rising at a faster rate than any other council service area with expenditure expected to rise by £542m (6.8%) of which expenditure on looked after children is rising by £350m (9.1%). However, whilst spend on children's social care nationally represents 18% of total local authority spend (excluding Education and Police), in Blackpool this proportion is much greater at 25%.
- 4.3 A Newton Europe Report *Making Sense Understanding the Drivers of Variation in Spend on Children's Services* of June 2018 and commissioned by the Local Government Association appraised the drivers of variation in spend on children's services and concluded that approximately half of the variation in spend seen nationally was due to factors largely outside the control of councils, namely deprivation, 0 – 25 population, amount of disposable household income, levels of unemployment and crime.
- 4.4 The All Party Parliamentary Group for Children published a report in July 2018 entitled *Storing Up Trouble A postcode lottery of children's social care*, in which several recommendations were made that sought both interim and sustainable funding arrangements based upon level of need "to stabilise the crisis in early intervention services" and "to invest in early help and preventative services". This follows months of Government lobbying by the Local Government Association, Barnardo's, Action for Children, National Children's Bureau, The Children's Society, NSPCC and our own North West Portfolio Holders for Children's Services Network.

5. Directorate Budget Savings Performance

- 5.1 As at 30th June 2018 35% of the 2018/19 savings target has been delivered. The full-year forecast predicts that 26% (3% last month) will be achieved by the year-end, which takes into account anticipated pressures and savings.
- 5.2 The full-year effect of the non-recurrent savings and recurrent in-year pressures/savings in 2018/19 means that an additional 15% saving will be required in 2019/20 on top of 2018/19's target, the largest cause being the overspending in Children's Social Care mainly due to a significant increase in the numbers and complexity of looked after children since budgets were set.

6. Collection Rates

6.1 Council Tax

At the end of month 3 the amount collected for Council Tax (excluding Police and Fire precepts) was £14.3m and the collection rate was 26.2%. This compares to £13.1m and 25.8% at the same point in 2017/18. The amount collected has actually risen by £1.2m 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 28th January 2018 as part of the setting of the Council Tax Base for 2018/19.

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%. The scheme was further amended from 1st April 2018 to provide additional support for low income groups of claimants (in receipt of Income Support, Income-Based Jobseekers Allowance or Income Related Employment Support Allowance) by amending the percentage reduction applied to their award from 27.11% to 13.56%. These have the effect of reducing the amount to be collected.

At the end of month 3 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 £0.65m and the collection rate was 18.8%. This compares to £0.66m and 17.9% at the same point in 2017/18.

The likely impact for 2018/19 is that the underlying rate of collection of Council Tax Reduction Scheme will be under greater pressure than 2017/18 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 3 the amount collected for Business Rates was £12.7m and the collection rate was 25.4%. This compares to £12.9m and 24.9% at the same point in 2017/18. The increase of 0.5% compared to the previous year equates to £0.4m, 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 £0.6m, offset by a compensating increase to the Non-Domestic Rate (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. 320 business rate summonses were issued in the 3 months to the end of June 2018.

The Business Rate cumulative deficit as at 31st March 2018 is £4,157k. The Council's share of this is £2,037k (49%) and reflects the level of successful appeals arising towards the end of the financial year and the provisions required following the revaluation in April 2017.

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 as approved by the Executive in February 2018. The month 3 report has traditionally included this data for comparative purposes. Future reports may show some changes in the capital programme, representing schemes that were approved after submission of the 2018/19 capital programme.

7.3 As at month 3 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 2018/19.

8.2 During the first 3 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 since 31st March 2018 due to the receipt of grant income from central government in advance of expenditure. The Council is predominantly using temporary borrowing to finance Prudentially-funded capital expenditure, though is switching to fixed Public Works Loan Board loans as and when opportune to do so (including £8m on 9th August 2018) and exploring the soon-to-launch first bond issue of the Municipal Bonds Agency. The take-up of loans from the Business Loans Fund is expected to continue steadily during 2018/19.

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 3. 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 3-month period there has been a reduction in short-term borrowing of £9.5m due to the receipt of grant income from central government in advance of expenditure. The Council is using temporary borrowing to fund the capital programme (£7.3m) and to fund the increase in long-term assets (£4.9m).

10. Conclusions and Recommendations

10.1 Over the 8-year period 2011/12 – 2018/19 cumulative Revenue Budget savings amounting to £143m have been required to be made by Blackpool Council. This is greater than the Council's annual Net Requirement Budget and even more starkly the compound effect over the same period amounts to £678m 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 befalling an authority with such recognised pockets of significant deprivation.

10.2 The Medium-Term Financial Sustainability Strategy 2016/17 – 2021/22 always identified last year, 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. Nonetheless, although the 2018/19 budget savings target is the lowest in 8 years, delivery of a balanced budget is proving difficult whilst demand pressures elsewhere continue to rise.

10.3 This report is the first formal financial monitoring report by directorate of the 2018/19 financial year. From the information currently available the Council is predicting a serious deterioration in its financial standing in comparison with Budget even after taking account of the virement of £2,000k from the Treasury Management Prudential Borrowing Reserve (£1,400k) and the Council Tax & NNDR Collection Fund Deficit Reserve (£600k) to Working Balances as approved by the Executive on 18th June 2018. Working balances are currently estimated to fall by £4,051k against the budgeted position over the year. This fall is in the context of the adjusted working balances at the start of the year of £6,034k.

10.4 As described in section 4 by far the Council's biggest financial risk and pressure is the demand growth in Children's Services without which the overall forecast outturn would be a break-even position. The Council can demonstrate that it has maintained working balances of circa £6m for the last 10 years (para 3.3); that its level of earmarked reserves has remained relatively stable for the last 3 years (para 3.4); and that its income collection is actually improving (section 6).

10.5 However, 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 2018/19 within this report contravenes one of the two specific conditions that excess spending does not:

1. exceed 1% (= £4.1m) 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 £32m of Earmarked Revenue Reserves and with 9 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. Revised service and financial plans are underway, including the review of non-essential spend and earmarked reserves and delays to filling non-front line vacancies.

10.6 The Executive is asked:

- i) to note the report;
- ii) to continue to lobby Government (HM Treasury, Ministry of Housing, Communities & Local Government and the Department for Education in particular) along with local authority peers, 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
- iii) 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