

BLACKPOOL COUNCIL
REPORT
of the
DIRECTOR OF RESOURCES
to the
EXECUTIVE
on
8TH FEBRUARY 2016

GENERAL FUND REVENUE BUDGET 2016/17

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 2016/17 and to identify a budget savings plan that will ensure a balanced Budget.

2. Context

- 2.1 Local government in England is now five and a half years into a period of public sector austerity, which will continue until at least 2019/20 per the Provisional Local Government Finance Settlement of 17th December 2015.
- 2.2 The current Medium Term Financial Strategy (MTFS) covering the period 2015/16 – 2017/18 was approved by Executive on 19th January 2015 and presented a financial outlook, an assessment of risks and indication of the Council's challenges over these 3 years.
- 2.3 The key principles of the approved Medium Term Financial Strategy are that:
- the statutory obligation to balance the Council's budgets 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 resources whether through grants, creating additional income or partnering opportunities
 - ensuring significant risks are identified and mitigated where possible
 - ensuring financial reserves reflect levels of business and risk
 - optimising capital spending freedoms.
- 2.4 Once the Revenue Budget for 2016/17 has been approved, work will commence on an updated Medium Term Financial Plan and Strategy for the 6-year period 2016/17 – 2021/22 and incorporating the 4-year Settlement offer.

3. The Local Government Finance Settlement 2016/17

- 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 announced the Provisional Local Government Finance Settlement for 2016/17 on 17th December 2015. The Final Settlement is expected to be announced in early February 2016.
- 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 4th year of the Business Rates Retention Scheme. The Provisional Settlement Funding Assessment amounts to £75,845,000 in 2016/17. This compares with the Settlement Funding Assessment in 2015/16 of £82,151,000 (or more comparable adjusted 2015/16 Settlement Funding Assessment of £84,298,000) which excluded some grants such as the Care Act that are now included in the 2016/17 Settlement Funding Assessment.

4. Other Funding 2016/17

- 4.1 There are several other significant components of central government funding, some of which have been rolled into the Settlement Funding Assessment and some which remain separate specific grants:

4.2 Council Tax Freeze Compensation 2015/16

The Government introduced this scheme with effect from 2011/12 for those local authorities prepared to freeze their Council Tax level in that year. This incentive at varying levels has continued during the following financial years and the offer of a 1.0% (£617,000) equivalent council tax increase was made for 2015/16 with the intention of rolling into the Settlement Funding Assessment baseline in subsequent years.

Ministers have agreed that the funding for the 2015/16 freeze grant scheme is included in the spending review baseline for future years, so that there will not be a 'cliff edge' effect on council finances. Funding for 2011/12, 2013/14 and 2014/15 freeze grants is already in the main local government settlement total for future years.

4.3 New Homes Bonus Grant

As a stimulus to the provision of new homes the Government announced in February 2011 the introduction of a New Homes Bonus funding component. 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 6-year cumulative figure for 2016/17 has been confirmed as £1.7m, though the in-year element is only £252,456.

The terms of this grant are now subject to consultation.

4.4 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 towards the cost of administering Housing Benefit 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 Housing Benefit to the Department for Work and Pensions. Eligibility for, and the amount of, Housing Benefit is determined in all cases solely by the local authority. The Council received Housing Benefit Admin Subsidy grant in 2015/16 of £1.232m and this will be reduced by 19% to £1.001m in 2016/17.

4.5 Public Health Grant

The transfer of Public Health services and their responsibility to local government from April 2013 brought with it ringfenced grant funding. The allocation for 2015/2016 was £17,946,000; this was increased part-year by £1,551,000 due to the transfer of Children's 0-5 health commissioning to local authorities from the Department of Health in October 2015. As a result of the Government consultation in August 2015 on an in-year cut, the 2015/16 grant was cut by £1,207,200, resulting in an adjusted allocation of £18,289,700. The grant allocation for 2016/17 is due to be announced at the end of January.

4.6 Better Care Fund

The Comprehensive Spending Review 2015 confirmed that the Better Care Fund will continue into 2016/17 and beyond – with a mandated minimum of £3.9bn nationally. This funding must be deployed locally on health and social care through pooled budget arrangements between local authority and clinical commissioning groups. In 2015/16 Blackpool's Health and Wellbeing Board approved a pooled budget of £15.23m. Officers from the Council and the Clinical Commissioning Group are currently discussing the schemes to be included in the pool for 2016/17 and these plans will be approved by the Health and Wellbeing Board in April 2016.

4.7 Care Act

In 2015/16 the Council received a separate ringfenced grant of £1.146m in order to cover the costs of implementing the Care Act 2014. This funding has been rolled into the Local Government Finance Settlement in 2016/17 and is therefore subject to the reductions incorporated within the Settlement announced in December 2015.

4.8 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 split of the grant between central expenditure and the Individual Schools Budget (ISB) in conjunction with local schools forums. Local authorities are responsible for allocating the Individual Schools Budget to individual schools in accordance with the local schools' funding formula. The

Dedicated Schools Grant in 2015/16, prior to Academy Recoupment, was £102.838m and the allocation for 2016/17 is £104.481m. This increase is due to £1.9m of Nursery Grants being rolled into the 2016/17 Dedicated Schools Grant, although this has been slightly offset by a fall in pupil numbers and reduced schools block allocation.

4.9 Education Services Grant

From April 2013 the education functions provided by local authorities have been funded by the Education Services Grant (ESG). The Council will receive £77 per pupil in 2016/17 in relation to the pupils in schools maintained by it and £289 and £327 per place in pupil referral units and special schools respectively. It also receives £15 for each pupil in all schools and academies in respect of responsibilities retained for every pupil within the boundary for retained statutory duties such as Strategic Planning for the Education Service and Internal Audit. It is estimated that Blackpool Council will receive £794,000 in 2016/17 (£964,000 in 2015/16), dependent upon the conversion and timing of its schools into academies.

- 4.10 The Government announced that the Spending Power calculation that had been published in previous years has been amended to exclude funding that is not directly controlled by local government and this calculation is now known as Core Spending Power. The Better Care Fund and Public Health Grant allocations have now been removed from these figures.

The calculation now only includes the Settlement Funding Assessment, Council Tax, the eventual improved Better Care Fund from 2017/18 and New Homes Bonus.

Core Spending Power	2015/16 Adjusted	2016/17
	£m	£m
Settlement Funding Assessment (SFA)	84.3	75.8
Council Tax Requirement	45.5	46.6
Potential additional Council Tax from Adult Social Care flexibility	-	0.9
Proposed Improved Better Care Fund	-	-
New Homes Bonus	1.6	1.7
Total	131.4	125.0
Change in Provisional Revenue Spending Power		-6.4
Percentage Change		-4.9%

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

5. Revenue Budget 2015/16– Projected Outturn

- 5.1 The summary at Appendix 1 shows the projected 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 £2,663,000 will be taken from working balances as at 31st March 2016.

The main areas of budgetary variance are set out below:

	£000
Children's Services	2,715
Strategic Leisure Assets	1,306
Public Health	1,207
Concessionary Fares	572
Resources	494
Car Parking	316
Adult Services	205
Places	101
New Homes Bonus	(142)
Treasury Management	(1,231)
Other	(66)
Net Service Overspendings 2015/16	5,477
Net Adjustment to Contingencies / Reserves	(2,814)
Net Overspending 2015/16	2,663

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. 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 31st March 2016 will be recovered in the following year 2016/17, but this will be revisited and reviewed at Provisional Outturn.

6. Cash Limited Revenue Budget 2016/17

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 2016/17 is £122,999,000 (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:-

- pay levels to rise on average by 1% for the period from 1st April 2016 to 31st March 2017
- the payment of annual increments
- voluntary 5 days' unpaid leave on average to continue
- a non-pay inflation contingency, based on individual contract price increases
- the latest estimates of Settlement Funding Assessment
- interest rates to rise slowly from 2017/18 but to remain at low levels
- consideration of previous year's financial performance
- the Council fulfils its statutory obligation to balance its Budget.

7. Budget Gap 2016/17 and Methodology for Delivering – Priority Led Budgeting

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

	£m
Cash reduction in Government Settlement year-on-year	8.1
Pay award and annual increments	3.5
Non-pay inflation based on individual contract price increases	5.3
Service developments and demand pressures	8.2
Budget Gap 2016/17	25.1

7.2 Priority Led Budgeting

In anticipation of the financial challenges ahead, preparations began in May 2012 to formulate a framework that aligned the Council's reducing resources to its service priorities to deliver a strategic financial plan over the next 3-year period.

First, a stocktake of the Council's services was undertaken and all service areas identified along with their 'controllable' budgets.

Secondly and in addition to the Council's decreed vision, values and priorities, 12 specific Priority Actions were identified by Cabinet Members across the themes of Health and Wellbeing, Streets and Transport, Regeneration and Urban Development, Tourism and Culture, Housing, and Crime and Community Safety.

Thirdly, a range of categories was agreed that could then be assigned to each service line based upon the Priority Actions and consideration by each respective portfolio holder and chief officer, namely:

- category 1 – protected service, minimal savings required
- category 2 – non-statutory income generating service, % target applied to gross income
- category 3 – a highly desirable service, base efficiency savings target applied, typically 5%
- category 4 – a less highly desirable service, a higher efficiency savings target applied of at least 10%
- category 5 – a non-priority service to be terminated in year 1 or phased over years 1 – 3.

A repeat of this exercise has generated the necessary service budget target savings of **£25.1m** in 2016/17. These are listed at Appendix 2 along with the summary actions required to deliver them. Appendix 2(a) lists the proposals already submitted to Executive on 23rd November 2015 as part of the Budget consultation process when the gap was forecast to be £20.0m. The Provisional Settlement brought an unexpected additional £5.1m of funding pressures as a result of further Government cuts to the Department for Communities & Local Government Departmental Expenditure Limit and front loading of these cuts over the 4-year Settlement period. Appendix 2(b) lists these further proposals which will be subject to a separate 3-month consultation.

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 original £20.0m savings target it is anticipated that in the year 2016/17 further reductions of approximately 200 employees and 50 temporary posts will be required. These staffing reductions will come about as a result of services ceasing, reducing or being reconfigured and delivered differently. In view of the tight timescale and the consultation process for the additional £5.1m savings target, a further assessment will be needed to see the impact that these additional savings will have on staffing.

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 to ensure that any natural wastage through staff turnover will be prioritised before any compulsory redundancies take place.

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 2016 but will be replenished from the consequences of the Minimum Revenue Provision restructuring, subject to approval of the 2016/17 Treasury Management Strategy.

The Council is working with a number of partners in the employment, training and development fields to ensure that any employee facing redundancy will be supported as much as possible to obtain future employment through the Council's redeployment process or with other employers.

In order to reduce the numbers of redundancies across the Council it is assumed in the proposed budget that the voluntary 5 days' unpaid leave on average continues during 2016/17 and for the foreseeable future.

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.

Income – whilst estimates vary, analysts expect this period of public spending constraint to last well beyond the current Parliament and the Council faces the prospect of further diminishing grant income from central government. This will place even greater importance on the ability of the Council to optimise the collection and generation of income efficiently and effectively.

The effect of the economic climate on residents will also reduce the ability to pay for some and make others generally more cautious in terms of personal spending. The overall effect will be to make collection of income due to the Council more difficult and potentially to reduce the level of income generated from such services as planning, car parking, and leisure and school meals.

The Council faces a significant challenge to maintain levels of Council Tax income following the introduction of the Welfare Reform Act and the impact of Universal Credit etc¹.

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 2017/18. 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 2009/10 budget established a targeted Business Support Loans Fund to safeguard and create jobs for Blackpool. The original £3m fund was subsequently supplemented to £8m and has been used over the last 7 years to help key businesses, provide assistance to bring empty properties in the heart of the town centre back into use and help Blackpool get through the recessionary period.

As at 31st December 2015 £6.6m of business loans had been defrayed, assisting 10 businesses to either create or safeguard 65 jobs, bringing back into use 4 buildings and an area of improved / new business floor space of 495m².

As part of this year's budget process it is recommended to increase the fund to £10m to support further businesses. This will be met via borrowing through the Council's balance sheet

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:

¹ *Income and Debt Recovery Strategy 2014-2017*

- 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 Equality Analysis of the consequences of the proposed budget savings on services and their users is attached at Appendix 3.

9. Capital Expenditure

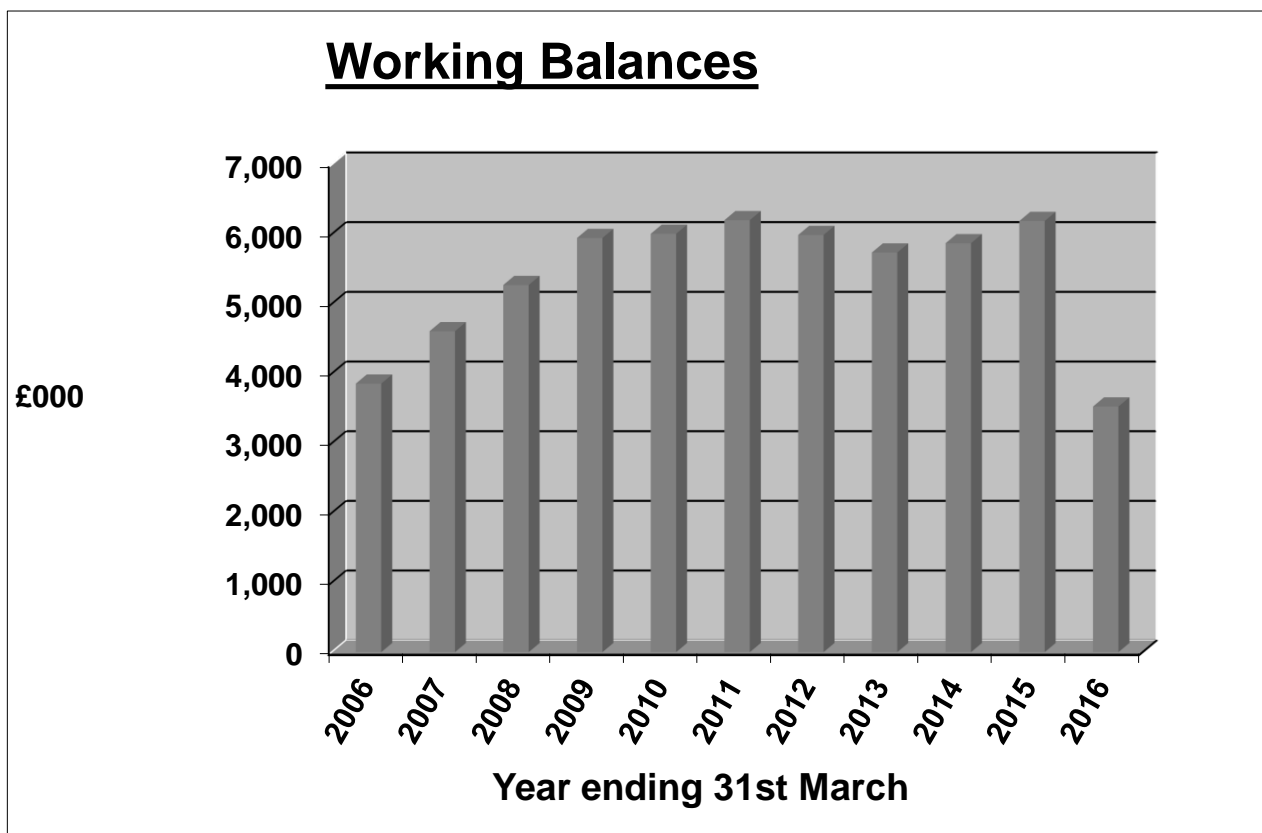
- 9.1 The Council's Capital Programme for 2016/17 – 2018/19 is also to be considered in a separate report to this meeting. Debt financing costs for the capital programme have been included in the revenue budget on the basis of the indicative borrowing allocations received from Government and any Prudential 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 2016/17 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. 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. Risk monitoring reports are also used to complement financial monitoring and such reports

are taken at least quarterly to the Corporate Leadership Team and Tourism, Economy and Resources Scrutiny Committee. This provides both a further indication of potential risk areas for the Council and an opportunity to take action to mitigate such risks. 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 4. In setting the proposed budget and savings programme of £25.1m it is not realistic to assume that this target can be achieved in one step by the end of 2016/17, but the aim is to do so over the next 3-year period and any and every windfall gain over that period will be considered for bolstering working balances.



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 17th December as part of the Provisional Local Government Settlement it was announced that a Council Tax Referendum Threshold of 2% would apply for 2016/17.
- 11.2 The Spending Review announced that for the rest of the current parliament local authorities responsible for Adult Social Care (“ASC authorities”) “will be given an additional 2% flexibility on their current Council Tax Referendum Threshold to be used entirely for Adult Social Care”. This flexibility is being 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 £929,000 raised through the 2% Council Tax increase on Adult Social Care - this compares with actual pressures of £3.7m.

12. Medium Term Financial Prospects

- 12.1 Medium term prospects are overshadowed by the continuing cutbacks in public sector spending. This was described in detail in the current Medium Term Financial Strategy which was approved by Executive on 19th January 2015.
- 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 Revenue Support Grant. Indicative forecasts of these plus expected service pressures suggest a budget gap of £15.9m will be required to be met in 2017/18.
- 12.3 An exercise is underway which will refresh the current Medium Term Financial Plan and Strategy over a 6-year period from 2016/17 to 2021/22.

13. Recommendations

The Executive is asked:

- (1) To recommend to the Council the level of net expenditure for the draft General Fund Revenue Budget 2016/17 of £122,999,000 (ref. paragraph 6.2).
- (2) To recommend to the Council a level of budget savings of £25.1m (ref. paragraph 7.1 and 7.2 and Appendices 2, 2a and 2b).
- (3) To recommend to the Council that formal consultation on the second tranche of budget saving proposals that total £5.1m takes place over the next 3 months (ref. paragraph 7.2 and Appendix 2b).
- (4) To recommend to the Council that the Chief Executive be authorised to take any necessary steps to ensure all staffing savings are achieved (ref. paragraph 8.1).
- (5) To recommend to the Council that the Business Loans Fund is increased from £8m to £10m (ref. paragraph 8.3).

- (6) To recommend to the Council that the target level of working balances remains at £6m (ref. paragraph 10.4).
- (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 12th February 2016.
- (8) To consider any further facts and information which subsequently come to light and report the details to the meeting of the Executive on 22nd February 2016.

Steve Thompson
Director of Resources
27th January 2016