

BLACKPOOL COUNCIL
REPORT
of the
DIRECTOR OF RESOURCES
to the
EXECUTIVE
on
9TH FEBRUARY 2015

GENERAL FUND REVENUE BUDGET 2015/16

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 2015/16 and to identify a budget savings plan that will ensure a balanced Budget.

2. Context

- 2.1 Local government in England is now four and a half years into a period of public sector austerity, which is certain to continue beyond the General Election in May and in all probability beyond 2017/18 per the Autumn Statement of 3rd December 2014.
- 2.2 A refreshed Medium Term Financial Strategy 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 newly 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.

3. The Local Government Finance Settlement 2015/16

- 3.1 The Local Government Finance Settlement sets the amount of central government funding available to councils. The Minister for Local Government announced the Provisional Local Government Finance Settlement for 2015/16 on 18th December 2014. The Final Settlement is expected to be announced in early February 2015.

3.2 The Settlement Funding Assessment (SFA) for an authority is split between resources received via Revenue Support Grant and an assessment of Blackpool's share of Business Rates collectable plus a Top-Up element from the 3rd year of the Business Rates Retention Scheme. The Provisional Settlement Funding Assessment SFA amounts to £82,151,000 in 2015/16. This compares with the Settlement Funding Assessment of £95,561,000 in 2014/15, which excluded some grants such as the Council Tax Freeze Compensation for 2014/15 that are now included in the 2015/16 Settlement Funding Assessment.

4. Other Funding 2015/16

4.1 In addition to the Settlement Funding Assessment there are several other significant components of central government funding which have been provisionally notified to the Council – Council Tax Freeze Compensation 2015/16, New Homes Bonus Grant, Education Services Grant and Public Health Grant:

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% (£617k) equivalent council tax increase has been made for 2015/16 with the intention of rolling into the baseline in subsequent 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 cumulative figure for 2015/16 has been confirmed as £1.4m, though the in-year element is only £18,900.

4.4 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 £87 per pupil in 2015/16 in relation to the pupils in schools maintained by it and it also receives £15 for each pupil in all schools and academies in respect of responsibilities retained for every pupil within the boundary. It is estimated that Blackpool Council will receive £964k in 2015/16 (£1.32m in 2014/15), dependent upon the conversion and timing of its schools into academies.

4.5 Public Health Grant

The transfer of Public Health services and responsibility to local government from April 2013 brought with it ringfenced grant funding, which has remained at £17,946,000 in 2015/16.

4.6 The Government continues to use the term "spending power" as the measure of a local authority's financial resources where confirmed and hence a measure for inter-year comparisons:

Provisional Spending Power	2015/16	2014-15 Adjusted
	£m	£m
Settlement Funding Assessment (SFA)	82.2	97.3
Council Tax Requirement	45.6	45.4
Public Health Grant	17.9	17.9

Better Care Fund	12.4	6.1
Local Council Tax Support and Housing Benefit Admin Subsidy	1.6	1.7
New Homes Bonus	1.4	1.4
Adult Social Care New Burdens	1.0	1.0
Indicative Council Tax Freeze Grant 2015-16	0.6	-
SFA adjustment re Section 31 Grant for Business Rates Initiatives	0.6	0.5
Other	0.4	0.5
Total	163.7	171.8
Change in Provisional Revenue Spending Power 2015-16	-8.1	
Percentage Change	-4.7%	

5. Revenue Budget 2014/15 – Projected Outturn

- 5.1 The summary at Appendix 1 shows the projected revenue outturn for the current financial year.
- 5.2 Line 21 of this summary shows that it is now estimated that a sum of £714,000 will be taken from working balances at 31st March 2015.

The main areas of budgetary variance are set out below:

	£000
Children's Services	1,567
Community and Environmental Services	897
Car Parking	712
Adult Services	364
Strategic Leisure Assets	333
Concessionary Fares	274
Deputy Chief Executive	(41)
Area Forums and Ward Budgets	(400)
Treasury Management	(1,678)
Other	85
Net Service Overspendings 2014/15	2,113
Net Adjustment to Contingencies / Reserves	(1,399)
Net Overspending 2014/15	714

- 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 Finance and Audit Committee continuously scrutinises overspending services to seek assurances that effective remedial action is being taken.
- 5.4 It is expected that in accordance with previous convention any overspendings on service budgets as at 31st March will be recovered in the following year 2015/16, but this will be revisited at Provisional Outturn.

6. Cash Limited Revenue Budget 2015/16

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 2015/16 is £127,712,000 (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 2.2% for the period from 1st January 2015 until 31st March 2016
- payment of annual increments
- voluntary 5 days' unpaid leave on average to continue
- general non-pay inflation to rise by 1.5% in 2015/16 (2.0% for business rates)
- latest estimates of Settlement Funding Assessment
- Council Tax increase assumed frozen
- interest rates to rise slowly from early 2016 but to remain at low levels
- the Council fulfils the statutory obligation to balance its Budget.

The budget also assumes that the level of council tax will remain unchanged and as a result the Council will qualify for the Council Tax Freeze Compensation 2015/16 in full (see paragraph 4.2).

7. Budget Gap 2015/16 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	13.6
Pay award and annual increments	4.0
Non-pay inflation @ 1.5% (2% for business rates)	2.4
Service developments and demand pressures	5.2
Budget Gap 2015/16	25.2

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.

The outcome of this exercise has generated the necessary service budget target savings of **£25.2m** in 2015/16. These are listed at appendix 2 along with the summary actions required to deliver them. 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

It is anticipated that in the year 2015/16 further reductions of approximately 300 posts will be required, bringing the staffing establishment to approximately 2,160 full-time equivalents. These staffing reductions will come about as a result of services ceasing, reducing or being reconfigured and delivered differently. Early retirements and voluntary redundancies are being encouraged if they are viable and 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. In addition, it was used to fund the gap in terms and conditions changes that were proposed in 2014/15 and which following consultation were not implemented. This reserve is forecast to fall to £3.7m by March 2015 and it is highly unlikely that its replenishment can be afforded so other options will need to be considered beyond 2015/16 including the option of applying for a Capitalisation Directive for future staff termination costs.

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 2015/16.

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 into early 2016. 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 Equalities Analysis

The Council has a statutory responsibility under Equality law, known as the “Public Sector Duty”, to examine and analyse the impacts on equality issues on all related decisions. This is set within the context of the Council’s overarching requirement under Equality law, as a designated public authority, to have “due regard” to the need to:

- eliminate discrimination, harassment, victimisation and other prohibited conduct
- advance equality of opportunity
- foster good relations between different (defined) groups.

A summary of the Council’s equalities analyses of the consequences of the proposed budget savings on services and their users is attached at appendix 3.

9. Voluntary Sector Grants and Subscriptions

- 9.1 The Council commissions work with the voluntary sector to the value of approximately £4.5 million each year and last year announced its intention to move to this model of working with the sector. This meant the cessation of the grant-giving process which used to be in place and had a value of approximately £400,000 per year. To ease the transition to a commissioning approach the Council put in place a 12 month period of financial and sector support for those voluntary sector organisations that had previously been in receipt of grant. That transition fund ceases this year and will create a saving of £244,000 in the year 2015/16.

10. Capital Expenditure

- 10.1 The Council’s Capital Programme for 2015/16 – 2017/18 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.
- 10.2 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.

¹ *Income & Debt Recovery Strategy 2014-2017*

10.3 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.

11. Working Balances and Reserves

11.1 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.

11.2 The proposed budget for 2015/16 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 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, Finance & Audit Committee and the 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, monthly reports on progress in achieving savings have been reported to Cabinet Members.

11.3 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.

11.4 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 £25.2m it is not realistic to assume that this target can be achieved in one step by the end of 2015/16, 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.

12. Capping

- 12.1 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 the 18th December as part of the Provisional Local Government Settlement it was announced that a council tax referendum principle of 2% would apply for 2015/16.
- 12.2 The council tax freeze implied by the revenue budget outlined in this report will not invoke such a referendum.

13. Medium Term Financial Prospects

- 13.1 Medium term prospects are overshadowed by the continuing cutbacks in public sector spending. This was described in detail in the Medium Term Financial Strategy which was approved by the Executive on the 19th January 2015.
- 13.2 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 and Revenue Support Grant. Indicative forecasts of these plus expected service pressures suggest that budget gaps of £19.7m and £12.7m will be required in 2016/17 and 2017/18 respectively.

14. Recommendations

The Executive is asked:

- (1) To recommend to Council the level of net expenditure for the draft General Fund Revenue Budget 2015/16 of £127,712,000 (reference paragraph 6.2)
- (2) To recommend to Council a level of budget savings of £25.2m (reference paragraph 7.1 and 7.2 and appendix 2)
- (3) To recommend to Council that the Chief Executive be authorised to take any necessary steps to ensure all staffing savings are achieved (reference paragraph 8.1)
- (4) To recommend to Council that the target level of working balances remains at £6m (reference paragraph 11.4)
- (5) To note the position regarding support for the voluntary sector (reference paragraph 9.1)
- (6) To note that the Finance and Audit Committee will be formally consulting the Trade Unions and Business Ratepayers on the proposals on the morning of 13th February 2015
- (7) To refer this report and any comments arising from the meetings outlined at (reference paragraph 14.6) above for consideration and comment to a Joint Meeting of the Scrutiny Committee and Finance and Audit Committee on the afternoon of 13th February 2015
- (8) To consider any further facts and information which subsequently come to light and report the details to the meeting of the Executive on 23rd February 2015

Mr Steve Thompson
Director of Resources
23rd January 2015