BLACKPOOL COUNCIL

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

20TH JANUARY 2020

FINANCIAL PERFORMANCE MONITORING AS AT MONTH 7 2019/20

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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 7 months of 2019/20, i.e. the period to 31st October 2019, 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 Due to the General Election held on 12th December 2019, the last financial performance monitoring report considered by the Executive related to month 4 i.e. the period to 31st July 2019. Since that report the overall position has improved by £422k and the major changes relate to the following:

- Children's Services - the overspend has increased by £840k from £9,264k to £10,104k mainly due to ongoing pressures relating to Looked After Children (LAC). There has been an increase in LAC numbers and an adverse change in the mix of LAC placements combined with the cost of implementing the recommendations outlined in the Ofsted report published in December 2018.

- Strategic Leisure Assets - Strategic Leisure Assets is forecasting a further £1,135k pressure due to a reduction in the expected Winter Gardens income and a decision to accelerate repair work at the Tower. 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 2020 is now £11,330k.

- Contingencies and Reserves - a net improvement of £341k. At month 4, one-off budgets had been released as a consequence of a 1-year freeze on non-essential spend amounting to £1m and this was reported under Contingencies. Since then, £340k of this has remained in Contingencies whilst £660k is now reflected in other services as follows –

Resources	£250k
Community and Environment	£260k
Chief Executive	£100k
Communications & Regeneration	£ 50k

  (The £660k reflects the main movements in these services – see below)

  In addition, there is a release of **£1m** of Earmarked Revenue Reserves to compensate for the deficit on Working Balances at month 4.

- Communications and Regeneration – a worsening by £123k in Visitor Economy mainly due to increased event costs that currently are not expected to be covered by increased income.

- Adult Services – an improvement of £355k mainly due to complex cases, residential placements and vacant posts.

- Other – an improvement of £689k including £660k transferred from Contingencies (see above).

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 - Growth and Prosperity
- Appendix 3h - Community and Environmental Services
- Appendix 3i - Adult Services
- Appendix 3j - Children's Services
- Appendix 3k - Public Health
- Appendix 3l - 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 2019/20. 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 Growth and Prosperity now shown separately from 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 10th June 2019 to write-off all 2018/19 service variances but carry forward the 2018/19 underspend of £80k on Ward Budgets.

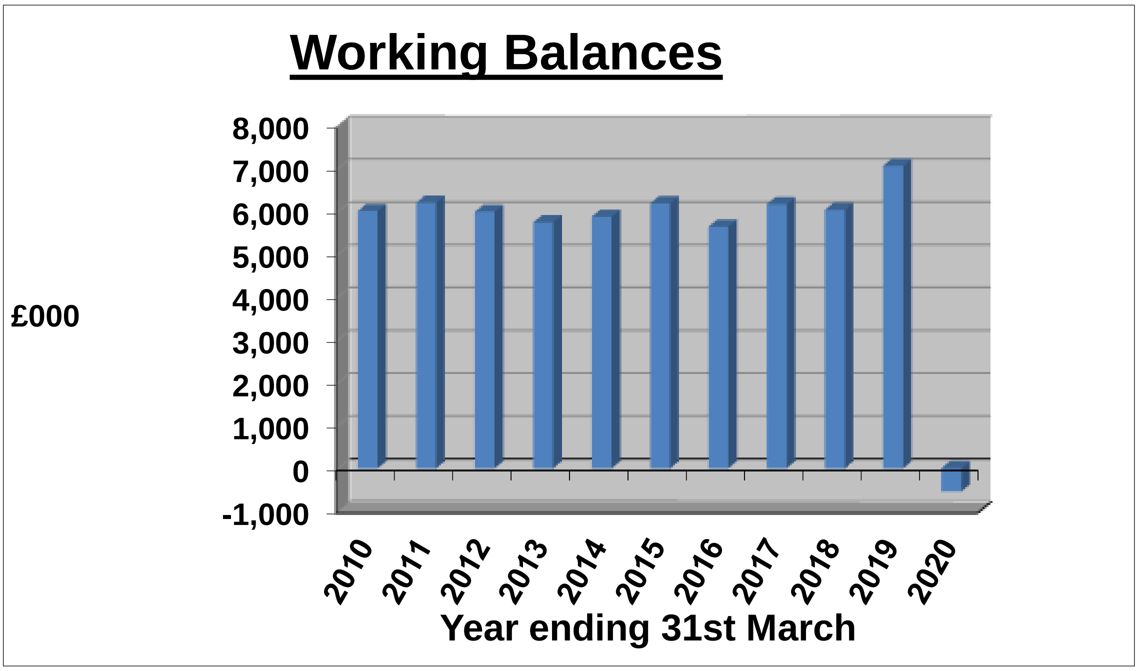
3.2 The impacts of directorates' revenue budget performance and progress in achieving planned savings fall upon the Council's working balances. The main areas accounting for the month 7 forecast overspend of **£7,606k** for 2019/20 are summarised below:-

Directorate	**Service**	**Forecast Variance £000**
Children's Services	An overspend of £10,104k is forecast. Children's Social Care is forecast to overspend by £10,059k, due to ongoing pressures relating to Looked After Children (LAC). When budgets were set, £3,570k was earmarked to cover the forecast overspend. Since that time, there has been an increase in LAC numbers and an adverse change in the mix of LAC placements, resulting in an additional pressure of £5,584k. In addition to this, an amount of £4,475k is included in the forecast relating to the Directorate's Ofsted Improvement Plan, which is being implemented following the recommendations outlined in the Ofsted report published in December 2018. This figure includes the cost of a number of ongoing interventions which were put in place immediately following the review, but also reflects the outcome of a detailed evaluation of the service model, which has taken place in the early part of the current financial year and which has resulted in the introduction of a new staffing structure for the longer term. The new structure represents a fundamental shift in the management of Children's Social Care in Blackpool – a shift from managing the problems to addressing the source of them. It proposes additional capacity to enable social workers to spend more time with children and families to build better relationships, have more effective interventions, building on the strengths within each family and thereby preventing escalation. Independent analysis suggests that the approach should result in a	10,104

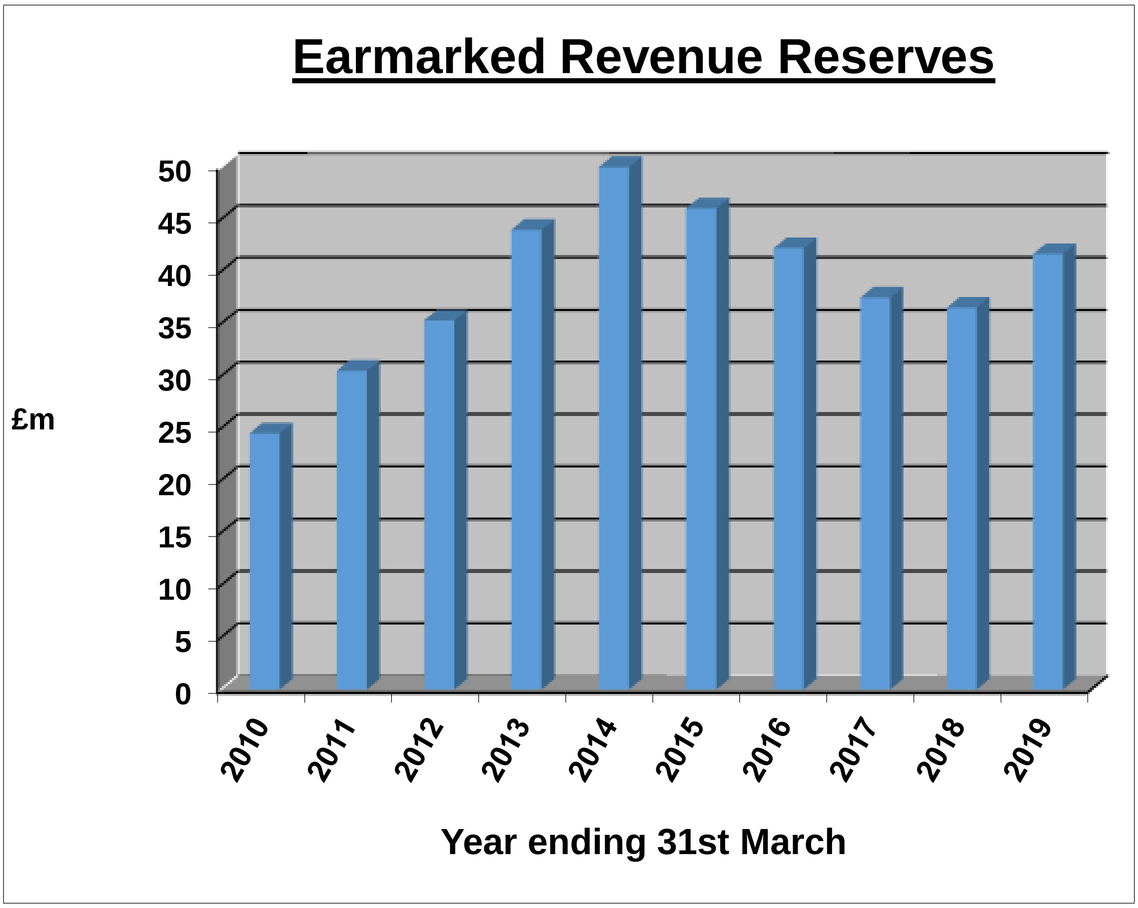
	long-term reduction in the number of cases open to Children's Social Care at any one time and through the year. It will also reduce the number of children on child protection plans or in the care of the Local Authority. By October 2019 LAC numbers stand at **606**. There are overspends in Education of £431k, primarily relating to the Special Educational Needs (SEN) Transport Service which is partly due to demand pressures and partly due to the savings target of £320k that was applied in 2017/18 but not achieved. There are underspends totalling £386k in Early Help for Children and Families and Business Support and Resources.	
Budgets Outside the Cash Limit	An overspend of £565k is forecast. Parking Services is £759k 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. Concessionary Fares is forecast to overspend by £700k due to an under provision in 2018/19 (based on external forecasts). Treasury Management is forecasting an underspend of £860k, primarily due to the Council currently using temporary and long-term borrowing to finance Prudentially-funded capital expenditure. The Business Loans Fund now has a savings target of £2,700k and there is some slippage in the loans being made to date. The cost to the Council of supporting the Subsidiary Companies is an underspend of £31k due to an expected reduction in charges mainly relating to debt management.	565
Governance and Partnership Services	An overspend of £77k is forecast. This is due to pressure on income relating to the cremators and Registrars Service, increased costs relating to repairs and security at the crematorium and increased Coroner's costs within Life Events and Customer Care of £297k. Corporate Legal Services is expecting a £20k overspend due to Children's Counsel fees. These are offset by a forecast underspend on Ward budgets of £200k and savings in Democratic Governance of £40k due to vacant posts and increased income.	77
Communications and Regeneration	An overspend of £60k is forecast. Visitor Economy is expecting a £299k overspend mainly due to increased event costs that currently are not expected to be covered by increased income. Economic Development is expecting an underspend of £139k which relates to a one-off release of reserves in Adult Learning and a vacant post. Planning is expecting an underspend of £100k due to increased income.	60

Growth & Prosperity	There are a number of projects planned to be delivered in this area and based on most recent forecasts, the service is expecting to break-even. An increased target transferred to Growth & Prosperity during the year from the Business Loans Fund to contribute to the Ofsted costs of £1,188k falling on Children's Services is to be derived from increased income from investment properties.	Net nil
Strategic Leisure Assets	Strategic Leisure Assets is forecasting a £2,759k 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 2020 is £11,330k. This incorporates the increased debt financing costs associated with essential Tower steel structure renewal and other unplanned maintenance, together with increased marketing and insurance costs and a revised income profile. The position has changed due to a reduction in the expected Winter Gardens income and a decision to accelerate repair work at the Tower.	Net nil
Chief Executive	An underspend of £100k is forecast. A release of reserves has produced £70k saving and the remaining £30k is mainly due to staff savings.	(100)
Adult Services	An underspend of £118k is forecast. Adult Commissioning Placements are forecasting an overspend of £5k mainly due to complex cases and residential placements. Net underspends totalling £123k are due to vacant posts in the Directorate.	(118)
Community and Environmental Services	An underspend of £500k is forecast. In-year pressures are expected to be offset by a combination of improved income and staff vacancies.	(500)
Resources	An underspend of £549k is forecast. ICT is forecasting a £250k underspend due to the release of ICT investment funding which will be deferred to future years. Property Services is forecasting a £115k underspend mainly due to increased income from various Council properties. Savings in Benefits, Procurement and Projects, Risk Services and Accountancy totalling £184k relate to vacancies and additional income generation.	(549)
Contingencies and Reserves	A review of Contingencies and Reserves and a release in part to General Fund of £593k. This section also assumes the release of £340k of one-off budgets across directorates as a consequence of a 1-year freeze on non-essential spend. The remaining £660k (of the **£1m**) is reflected in other services. In addition, there is a release of **£1m** of Earmarked Revenue Reserves to compensate for the deficit on Working Balances at month 4.	(1,933)
Total		**7,606**

3.3 The graph below shows the stark 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 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. Children's Services

4.1 It is apparent 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 show an aggregated net underspend of **£2,498k.**

4.2 This is not a local problem as catalogued in this same report throughout 2018/19. Indeed as recently as 27th August 2019 an analysis by the Local Government Association (LGA) reported that English local authorities had overspent by some £770m on children's social care during 2018/19 with a projection that this will double to £1.4bn next year.

4.3 The chair of the LGA Children and Young People Board was quoted that *"In order to keep children at most risk safe, councils up and down the country have been forced to find savings from non-statutory or discretionary budgets, which includes valuable early intervention and prevention support that can stop children and families reaching crisis point. This is not sustainable."*

The Council fully supports the LGA's take on the current position. Indeed, whilst spending 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 27%, implying by deduction that other services are receiving proportionately less funding as a result.

4.4 The forecast **£10.1m** overspend on Children's Social Care represents a variance of +32% on its gross budget of £31.2m. This pressure will be difficult enough to manage in-year using working balances and reserves but if repeated (as the trajectory of demand indicates) then without significant Government investment, as recommended by the Housing, Communities and Local Government Select Committee in its report on the funding of local authorities' children's services in May 2019, the position will become impossible to reconcile against available resource.

5. Directorate Budget Savings Performance

5.1 As at 31st October 2019 40% of the 2019/20 savings target has been delivered. The full-year forecast, which takes into account anticipated pressures and savings, predicts that 16% of the saving will be achieved by the year-end (19% last month).

6. Collection Rates

6.1 Council Tax

At the end of month 7 the amount collected for Council Tax (excluding Police and Fire precepts) was £34.4m and the collection rate was **60.6%.** This compares to £33.2m and 60.7% at the same point in 2018/19. 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 31st January 2019 as part of the setting of the Council Tax Base for 2019/20.

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 also 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%. From 1st April 2019 the scheme was further amended. At its meeting on 10th December 2018 the Executive approved the provision of additional support by amending the percentage from 27.11% to 13.56% for further low income groups of claimants or partners (in receipt of Jobseeker's Allowance Contribution Based, Main Phase Employment and Support Allowance and are in the Work Related Activity Group, Maximum Universal Credit and neither employed, self-employed or in receipt of any other income which is taken into account when calculating their Universal Credit award such as an Occupational Pension or other unearned income and Universal Credit which includes either the limited capability for work and/or work-related activity). Other claimants will continue to have a 27.11% reduction applied to their award and all applicants who were protected and paid 13.56% under the previous scheme will continue to pay 13.56% when they move to Universal Credit. These have the effect of reducing the amount to be collected.

At the end of month 7 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 £1.62m and the collection rate was **45.5%.** This compares to £1.53m and 44.0% at the same point in 2018/19.

The likely impact for 2019/20 is that the underlying rate of collection of Council Tax Reduction Scheme will be under greater pressure than 2018/19 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 to 31st March 2019 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.

On 13th December 2018 the Ministry of Housing, Communities and Local Government (MHCLG) approved the establishment of a Lancashire-wide 75% Business Rate Pilot Pool (including Blackpool) in 2019/20 to share risk and reward. As part of this, the 50% rate retention scheme increases to 75% and authorities in the pool will forego Revenue Support Grant. The value of the Revenue Support Grant was taken into account when revised business rate tariffs and top-ups for the pilot authorities were set. The Government also increased the Safety Net from 92.5% to 95% for the new pilot pools. Consequently, from 1st April 2019 the income relating to Blackpool is shared between central government (25%), the Council (73.5%) and the Fire Authority (1.5%).

At the end of month 7 the amount collected for Business Rates was £29.1m and the collection rate was **59.2%.** This compares to £29.4m and 58.6% at the same point in 2018/19. Changes resulting from the introduction of new reliefs from 1st April 2019 are offset by S31 grants.

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, 629 business rate summonses were issued in the 7 months to the end of October 2019.

The Business Rate cumulative deficit as at 31st March 2019 was £2,310k. The Council's share of this is £1,132k (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 as approved by the Executive in February 2019. The month 7 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 2019/20 capital programme.

7.3 As at month 7 an overspend of £1.215m on capital schemes is anticipated. Following the announcement that Marcus Worthington and Company Limited and its subsidiary company, Hollinwood Homes Limited, have gone into administration, the Council is working with the appointed administrators, PWC, to develop options for the Foxhall Village scheme. The reported overspend of £1.215m reflects the current best estimate subject to ongoing negotiations with the administrators.

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 2019/20.

8.2 During the first 7 months of the year, the Council's net cashflow has resulted in fluctuations in short-term net investment/borrowing balances. However, overall these balances have decreased since 31st March 2019 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. The take up of loans from the Business Loans Fund is expected to continue steadily during 2019/20.

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 7. 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 7-month period there has been a decrease in cash and cash equivalents of £6.7m and an increase in short-term borrowing of £1.8m which mainly reflects the phasing of revenue grants and capital grants received in advance to fund the capital expenditure on Property, Plant and Equipment (£22.2m) and Long-term Assets (£15.5m).

10. Conclusions and Recommendations

10.1 Over the 9-year period 2011/12 – 2019/20 cumulative Revenue Budget savings amounting to £152m have been required to be made by Blackpool Council. This is greater than the Council's annual Net Requirement Budget of £124m and even more starkly the compound effect over the same period amounts to £830m 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 is still valid and has been used to successfully keep apace with and deliver budget savings plans year after year. However, in tandem the soaring demand for child protection services and the rising costs of providing care for looked after children are now creating a crippling burden that current levels of local taxation and Government funding cannot meet.

10.3 Over the last 9 years of Government funding cuts Blackpool Council has consistently:

- delivered its annual budget in line with statutory requirements
- maintained its working balances of circa £6m
- maintained its earmarked reserves at stable and appropriate levels, indeed increasing them in 2018/19 by £5m at the request of the external auditor to re-designate some provisions
- improved its income collection for the last 3 years in succession.

Most importantly and despite this backdrop it has consistently funded and delivered the ambitions of successive administrations.

However, as stated in the previous report to the Executive as at month 4, I still fear that the Council is now at a financial crossroads where the unavoidable costs of children's social care (71% of whose cost drivers fall outside the control of councils per recent LGA research) can only be met from:

- drastic service cuts elsewhere;
- one-off use of finite working balances and reserves; and/or
- significant additional external funding.

The Spending Round 2019 announced by the Chancellor of the Exchequer on 4th September included an additional £1bn for adult and children's social care in 2020/21. It is estimated that Blackpool's share would be £4.4m. This represents approximately 30% of the underlying pressure in Blackpool's Children's Social Care, even assuming that Adult Services continues to break even and requires no call against this.

10.4 If the 2019/20 forecast position became the actual outturn, then in accordance with the Council's Financial Procedure Rules within its Constitution the forecast revenue outturn 2019/20 within this report contravenes both of the two specific conditions that excess spending does not:

1. exceed 1% (= £4.5m) 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 £41m of Earmarked Revenue Reserves and with 5 months of the financial year remaining officers are working continuously to improve the position such that a positive level of Working Balances can be reached. Revised service and financial plans are underway, including the review of technical accounting treatments, non-essential spend and earmarked reserves plus delays to filling non-front line vacancies.

10.5 The Executive is asked:

i) to note the report;

ii) to continue to lobby Government (HM Treasury, Ministry of Housing, Communities and 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 significantly more funding to cope with the soaring demand and new burdens presenting in Children's Services;

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 but also Strategic Leisure Assets, Parking Services and Concessionary Fares, and to ensure the release of at least £1m of budgets across all directorates as a consequence of a 1-year freeze on non-essential spend and the release of £1m of Earmarked Revenue Reserves to compensate for the deficit on Working Balances as at month 4.

Steve Thompson
Director of Resources
7th January 2020