BLACKPOOL COUNCIL

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

23 MARCH 2020

FINANCIAL PERFORMANCE MONITORING AS AT MONTH 10 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 10 months of 2019/20, i.e. the period to 31st January 2020, 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 - 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 10 forecast overspend of **£7,010k** for 2019/20 are summarised below:-

Directorate	Service	Forecast Variance £000
Children's Services	An overspend of £11,904k is forecast. Children's Social Care is forecast to overspend by £11,605k, 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 £6,999k. In addition to this, an amount of £4,606k 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	11,904

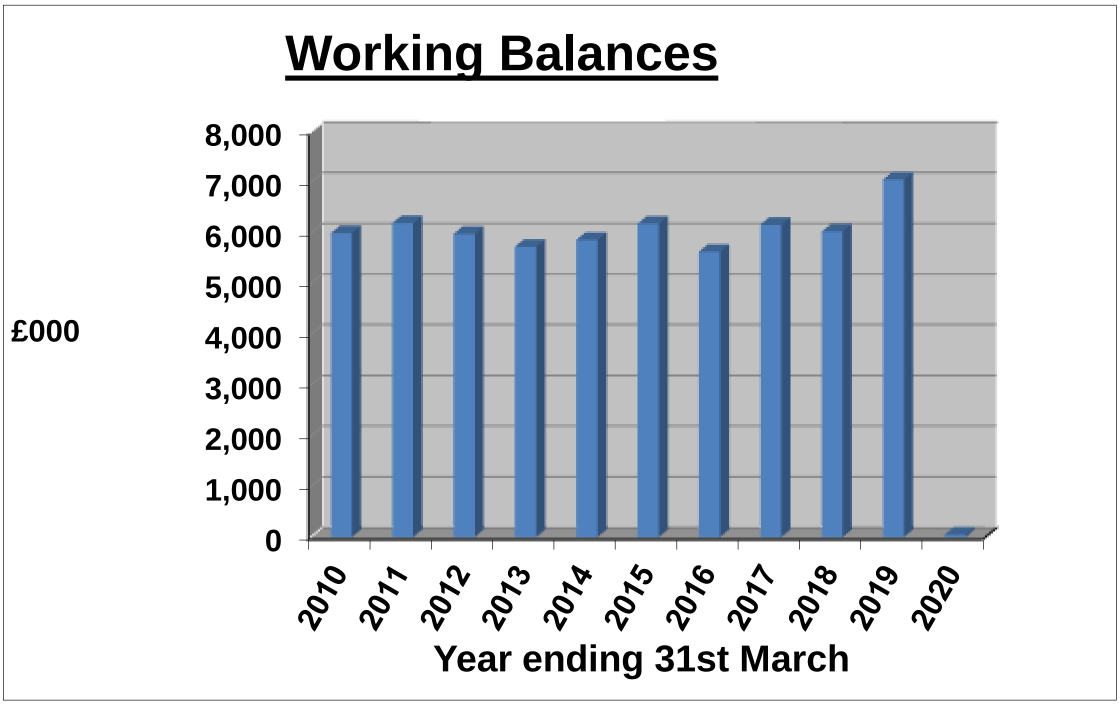
	long-term reduction in the number of cases open to Children's Social Care at any one time and through the year. It will also reduce the number of children on child protection plans or in the care of the Local Authority. By January 2020 LAC numbers stand at **627**. There are overspends in Education of £749k, 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 £450k in Early Help for Children and Families and Business Support and Resources.	
Governance and Partnership Services	An overspend of £281k is forecast. Corporate Legal Services is expecting a £289k overspend on Children's Counsel fees due to an increasing caseload and the need to use external legal firms. Life Events and Customer Care is forecasting a pressure of £264k due to pressure on income relating to cremations and the Registrars Service, increased costs relating to repairs, security and risk assessments and increased Coroner's costs. These are offset by a forecast underspend on Ward budgets of £250k and savings in Democratic Governance of £22k due to vacant posts, increased income and an additional Audit fee relating to the 2018/19 Financial Accounts.	281
Budgets Outside the Cash Limit	An overspend of £261k is forecast. Concessionary Fares is forecast to overspend by £812k due to an under provision in 2018/19 (based on external forecasts) combined with subsequent price increases. Parking Services is £694k 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 £1,211k, 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.	261
Communications and Regeneration	An overspend of £87k is forecast. Visitor Economy is expecting a £327k 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 £140k which mainly relates to a one-off release of reserves in Adult Learning. Planning is expecting an underspend of £100k due to	87

	increased income.	
Growth & Prosperity	An overspend of £4,397k is forecast. There are a number of projects planned to be delivered in this area and based on most recent forecasts, the service is expecting to have a pressure of £4,397k. The 'Cash Limited Budgeting' policy allows for overspends to be carried forward if there is a plan in place to deliver. The accounting mechanism is that the overspend is to be funded from Earmarked Reserves in 2019/20 and recovered in 2020/21. An income target transferred to Growth & Prosperity during the year from the Business Loans Fund of £1.9m, part of which was to contribute to post-Ofsted costs of £1,188k falling on Children's Services, was to be derived from increased income from investment properties. Due to the complex nature of these projects delays have arisen which will now result in an in-year overspend. Whilst this is disappointing it is not a result of a failure of projects or even an unexpected shortfall in income but rather a question of timing. All projects that were to contribute to the target are still proceeding well and should deliver beyond the target if taken over the 2 year period from 2019/20 to 2020/21. The target over these 2 years is £12.1m. The income is made up of a number of key projects as follows:- • Blackpool Central – the land deal has now been agreed and because this took a few months longer than originally anticipated the initial receipt of £4.5m is not now likely to be received until after 2019/20. • Housing Sites – including Ryscar Way and Blackpool Road have been delayed. The planning process is taking longer than planned. Ryscar Way terms are agreed and will now deliver a significant receipt which will be reported separately to the Executive. Marketing for Blackpool Road has commenced although as planning consent has not yet been achieved we have not invited final bids, but have an indication of values from discussions with developers. Once planning is achieved we are expecting capital receipts including Ryscar Way of c. £10m. • Several projects yield revenue funding for the Council including for example the ATOS building in Lytham, town centre shops and the Houndshill Shopping Centre. In all, these projects bring some £2.5m of revenue annually. The total income that is scheduled to arise from all these over the 2 years in question is in the order of £17m – well above the target and as such Growth and Prosperity is confident that the target will be met. A number of avenues are being explored to enable the use of capital receipts to fund revenue and we are confident that these will be achieved. In addition, there are a number of other smaller projects in the pipeline that will yield further	Net nil

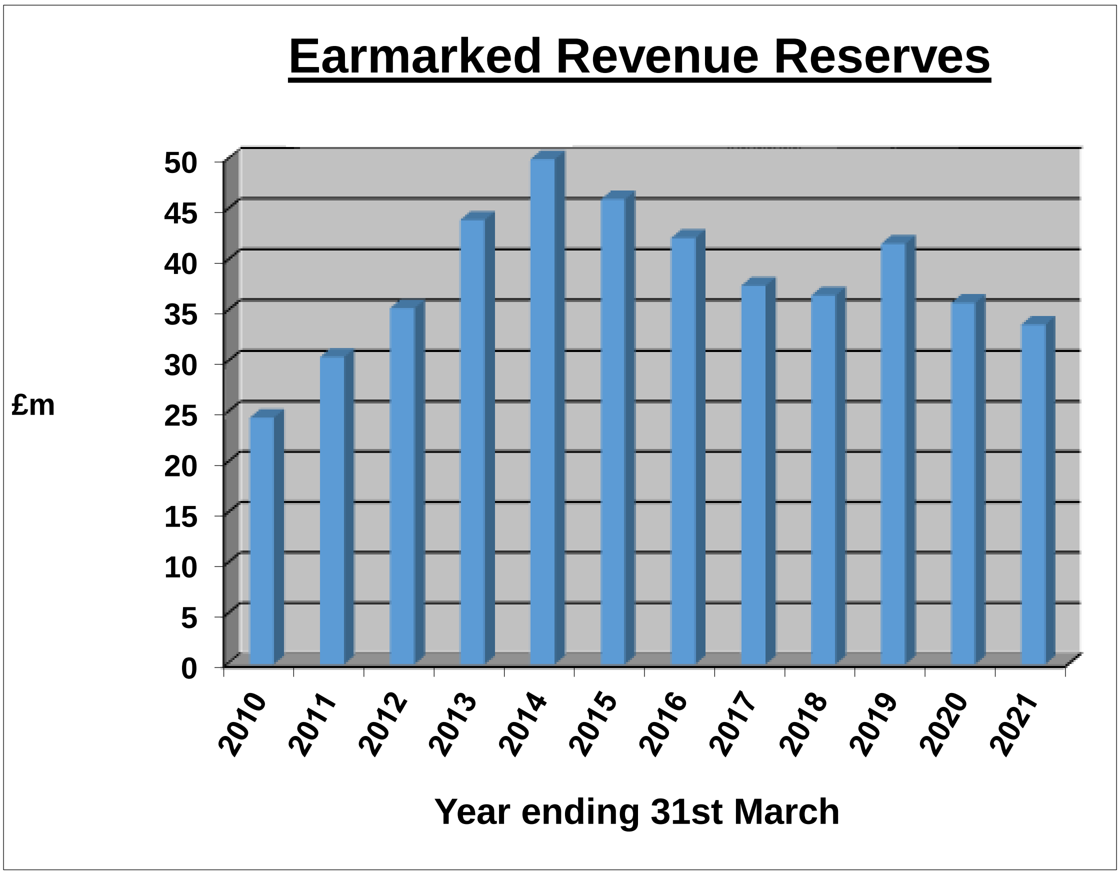
	income and provide for additional contingency. There have also been other regeneration and non-General Fund financial benefits attributable to Growth and Prosperity initiatives such as job creation and improved business rate yield.	
Strategic Leisure Assets	Strategic Leisure Assets is forecasting a £4,040k 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 £12,611k. This incorporates the increased debt financing costs associated with essential Tower steel structure renewal and the Conference Centre, accelerated repair work at the Tower including the Tower Illuminations and other unplanned maintenance, together with increased marketing and insurance costs and a revised income profile including an expected reduction across the portfolio. The Leisure Assets portfolio projected financial outturn position has deteriorated during the period by £1.1m. A number of factors have contributed to the revised position, which include: • The loss of a major, Chinese May Dance Festival sponsorship income stream at the Winter Gardens, which affects 2018/19 results written off in the current financial year, and a loss of anticipated revenue in financial year 2019/20. The total impact associated with this loss of income is £1.1m however, a proportion of this had previously been taken into account in the current financial year forecasts. A review of risk associated with transactions of this nature is currently taking place with the Board of Directors and management team of the Winter Gardens operating company, and although the full bearing of this issue is accounted for within the current projection, efforts to recover the position are ongoing. • Blackpool Tower and Madame Tussauds continue to perform well however, there have been some essential repairs and maintenance required in the period which have a direct cost impact in addition to lost patronage, as a result of asset down time. This work includes essential repairs to the Tower lift steel infrastructure which forms part of an ongoing programme of steel work, and in addition, crucial works to the Tower Ballroom ceiling were required to be undertaken in order to safeguard the Grade I Listed structure. • Blackpool Tower lift operation has also been hampered by excessive and prolonged wind speeds throughout the year which has also had a financial impact in the form of lost revenue.	Net nil

	• A one-off restructuring cost at Blackpool Tower is also taken into account in the current projected outturn. It is anticipated this will have a positive financial impact in future periods. • The new development at the Tower, "Fifth Floor", in the area previously known as Jungle Jim opened ahead of schedule and provided a positive contribution to financial performance. In addition to the above, a restructure of Golden Mile rental income, required as part of the impending Blackpool Central development, has resulted in a reduction in achievable rents and this is also reflected in the currently forecast outturn position. In light of the performance deterioration in the current financial year, the Leisure Assets medium-term financial plan is under continuous review.	
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 £481k is forecast. Adult Social Care is forecast to underspend by £274k due to vacant posts. Adult Commissioning Placements is forecast to underspend by £237k mainly due to one-off monies, non-residential income, nursing placements and Direct Payment recoveries. Other net overspends totalling £30k are mainly due to Care and Support and Adult Safeguarding.	(481)
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 £589k is forecast. ICT is forecasting a £250k underspend due to the release of ICT investment funding which will be deferred by one year. Property Services is forecasting a £106k underspend mainly due to increased income from various Council properties. Savings in Benefits, Procurement and Projects, Risk Services and Accountancy totalling £233k relate to vacancies and additional income generation.	(589)
Contingencies and Reserves	A review of Contingencies and Reserves and a release in part to General Fund of £592k. 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. A further £1,921k is expected in respect of a contribution from Reserves/Contingencies.	(3,853)
Total		**7,010**

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, including a projection to 31st March 2021, is shown on the next page:



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 **£4,894k.**

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."*

We fully support 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 **£11.6m** overspend on Children's Social Care represents a variance of +37% on its gross budget of £31.2m. This pressure will be difficult enough to manage in-year using working balances and reserves. In order to deliver and on a sustainable footing, the 2020/21 Revenue Budget proposes unprecedented investment in the service with £4.3m to address the additional staffing requirement, some 30% more children's social worker staffing than 12 months ago, and £10.1m to address the demographic demand pressures of children in need and the increasing intensity of care required – a total recurrent investment of **£14.4m**. The upshot of this is that by next year Children's Social Care will represent 33% of the Council's revenue spend compared with 17% a decade earlier.

5. Collection Rates

5.1 Council Tax

At the end of month 10 the amount collected for Council Tax (excluding Police and Fire precepts) was £48.9m and the collection rate was **86.1%.** This compares to £47.3m and 86.4% at the same point in 2018/19. The amount collected has actually risen by £1.6m 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.

5.2 Council Tax Reduction Scheme (CTRS)

The Council Tax Reduction Scheme was introduced on 1st April 2013. The Scheme ensures that support to pensioners continues at existing levels. Working-age claimants are means-tested to establish entitlement and a percentage reduction (currently 27.11%) is applied at the end of the assessment to establish the level of support provided. From 1st April 2017 the scheme was amended so that certain vulnerable groups would have the 27.11% reduced to 13.56%. 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 10 the amount collected (excluding Police and Fire precepts) in respect of the Council Tax Reduction Scheme and Council Tax for those who have to pay CTRS, either for the first time or in addition to a proportion of their Council Tax, was £2.31m and the collection rate was **61.9%.** This compares to £2.19m and 62.3% 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.

5.3 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 10 the amount collected for Business Rates was £40.5m and the collection rate was **83.4%.** This compares to £41.6m and 83.1% 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, 820 business rate summonses were issued in the 10 months to the end of January 2020.

The Business Rate cumulative deficit as at 31st March 2019 was £2,310k. The Council's share of this is £1,132k (49%).

6. Capital Monitoring Performance

6.1 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.

6.2 The report includes the capital programme as approved by the Executive in February 2019. The month 10 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.

6.3 As at month 10 an overspend of £1.8m 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 £1.8m reflects the current ‘best case scenario’ subject to ongoing negotiations with the administrators.

7. Summary Cash Flow Statement

7.1 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.

7.2 During the first 10 months of the year, the Council’s net cashflow has resulted in fluctuations in short-term net investment/borrowing balances. However, as a result of the purchase of the Houndshill Shopping Centre, short-term borrowing increased significantly in November 2019. 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. No further take up of loans from the Business Loans Fund is expected during 2019/20.

8. Summary Balance Sheet

8.1 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 10. 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.

8.2 Over the 10-month period there has been a decrease in cash and cash equivalents of £3.2m and an increase in short-term borrowing of £51.5m together with increased capital expenditure on Property, Plant and Equipment of £80.9m and Long-term Assets of £16.3m. This mainly relates to the purchase of the Houndshill Shopping Centre (£47.6m).

9. Conclusions and Recommendations

9.1 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.

9.2 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.

9.3 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.

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. Blackpool's allocation is £4.4m. This represents approximately 35% 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.

9.4 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 relatively healthy levels of Earmarked Revenue Reserves per CIPFA's Financial Resilience Index but with little time remaining of the financial year officers are still working continuously to improve the position such that service overspendings are no more than the working balances available. Revised service and financial plans are underway, including the review of technical accounting treatments such as the MRP policy, non-essential spend and earmarked reserves plus delays to filling non-front line vacancies. Next year's budget has been formulated to protect Children's Social Care and reinstate working balances in-part in anticipation of the next Spending Review.

9.5 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 agree that the Growth and Prosperity overspend is to be funded from Earmarked Reserves in 2019/20 and recovered in 2020/21 under the 'Cash Limited Budgeting' regime;

iv) 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 Growth and Prosperity, Strategic Leisure Assets, Concessionary Fares and Parking Services.

Steve Thompson
Director of Resources