Finance Review
Torbay Council

9-10 November 2016

Summary Feedback Report

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1. Executive Summary

This Finance Review was commissioned as a result of a recommendation in the September 2016 review of progress against the council's original Corporate Peer Challenge (CPC). During the original CPC in November 2015 the LGA peer team made a set of recommendations, including several relating to the financial sustainability of the council. The review of progress commented favourably upon the range of actions the council had taken but challenged its 4-year efficiency plan in terms of its realism, robustness and deliverability and recommended an external perspective be sought. The fact that the council addressed the recommendation so quickly by undertaking the Finance Review within six weeks of the follow-up review was a very positive response.

At the time of this Finance Review in November 2016 the council was out to consultation on a proposed budget for 2017/18, from our review the short term savings proposals within it appear to be deliverable and robust. We found a high level of confidence in the deliverability of the overall budget proposals amongst the Mayor, the members we met with, senior managers and the council's own finance team. There are, as one might expect, differences of opinion amongst stakeholders about some of the proposals, but this is normal and will no doubt be addressed during the consultation. Furthermore, the council is well advanced in planning for its budget proposals for 2018/19 and making plans for 2019/20. In the view of the LGA peer team this is very encouraging, compares favourably with the position in a number of similar authorities.

This is not to say that the delivery of the budget will not be challenging. There are of course a whole range of issues to tackle and address that will require political and managerial leadership and will to see through. In some areas it will require different or additional capacity and most importantly pace. These will be themes that we will return to in this report but importantly we found that the majority of stakeholders are now aware of this, intent on addressing it. Through the setting up a Transformation Team and taking further steps to resource it at an appropriate level, the council is demonstrating that it is tackling these key issues. This was in contrast to the awareness at the time of the original CPC and as such is a strong sign of progress and positive intent.

In terms of that awareness, the LGA team through discussions with both officers and members, found concerns about the council's low level of reserve balances which they and we believe should not diminish further. The proposal in the review of reserves report is to maintain a balance in the Comprehensive Spending Review reserve of at least £2m, we consider that this is prudent and appropriate given the range of potential uncertainties and risks we shall refer to. Furthermore the LGA Team would also suggest that the current proposal to use up to £1.3m of reserves in the 2017/18 budget could and should be avoided – we believe the council has the financial capacity to do so and it sends out a far more positive message about effective financial leadership and stewardship.

Torbay's Children's Services is in intervention. This is well documented and impacts negatively upon the outcomes for children within Torbay. It also impacts upon the performance and costs of the service. The council has appointed a new interim Director of Children's Services who is in the process of developing the council's plan to improve the service and deliver financial savings over the medium term. We found a high level of confidence amongst the council's senior management team in the emerging plan. Again this is refreshing and a marked difference a year on from the original CPC. However, Torbay's financial stability hangs crucially on the successful implementation of the plan, and progress needs to be monitored closely as this is one of the key risk areas.

The council was an early adopter of health and social care integration and has rightly received national acclaim. In terms of financial sustainability and risk it is well documented that the health economy across Devon is under severe pressure and also subject to intervention. In such a context the council (along with the CCG) has placed nearly all of its social care resource - staff and finances within an Independent Care Organisation (ICO) which includes a financial risk share agreement. There is significant and increasing risk in the ICO arising from pressure across the social care and health economy, in addition to the risk in respect of children's services, this is a key financial risk for the council. In the view of the LGA team the council should seek to maximise its financial security by renegotiating and possibly capping its financial exposure under the risk share agreement. If the current trajectory of spend continues it will fundamentally undermine the sustainability of the council.

A key recommendation of the CPC a year ago was to implement a transformation programme. We are pleased to report that a plan is in place and we concur with the council's decision to increase strategic financial and commercial leadership expertise and capacity. Having a deliverable plan of course is not the same as delivering it and the council needs to focus on this in the period ahead. The need for an adequately resourced and trained dedicated programme management presence and for additional knowledge and capacity in areas such as finance and commercial skills has been recognised and now needs to be followed through.

A theme emerging from the CPC was the fact that the council needs to more effectively manage its arrangements with partners and/or providers of services where its financial resources are tied up so that it ensures best value from its investment. The council has significant funding assigned to such bodies; the ICO has already been mentioned, but there is also TOR2, the TDA and others besides. We know that the council is beginning to revisit these arrangements. In our view the council would be wise to review its arrangements and commercial benefits derived from the whole range of its arms-length bodies in order to optimise the benefits for the council, and ensure that effective governance arrangements, performance and financial monitoring is in place. In particular, the council should push ahead urgently in reviewing its relationship with TOR2 now and seek to reduce costs, improve customer satisfaction and drive dividends. The council should then follow suit with all of the others.

We know that the council is aware of the need to improve its commercial acumen and capacity to drive efficiencies - this will clearly have benefits in terms of financial sustainability. It is in the midst of addressing this more systematically and in the view of the team this should become ‘business as usual’ not just a separate and distinct programme as it currently exists within the transformation plan. As such the council should look to drive income, and where appropriate achieve commercial market rates, right across its services and asset portfolio, for example beach huts, car parks etc.

Finally, we began to form a view that both across the council and its partners there may be the potential to review and centralise its commissioning, procurement and contract management functions. This could further help drive efficiencies and in line with the comments above improve, streamline and gain better intelligence and control over contracts.

2. Key recommendations

There are a range of suggestions and observations within the main section of the report that will inform some ‘quick wins’ and practical actions, in addition to the conversations onsite, many of which provided ideas and examples of practice from other organisations. The following are the LGA team’s key recommendations to the council:

- Review the proposals within the2017/18 budget to use £1.3m of reserves in order to achieve a balanced budget by taking into account the technical advice offered by the LGA team

- The council has improved its financial documentation significantly through the production of the “Fit for the Future Document” and it is good that the budget consultation share the whole budget, rather than focusing in incremental changes. There are 2 points the team would suggest for further improvement:

    - Ensuring greater consistency and “read across” between the various documents so the overall position is clear and can be tracked

    - Summarising the proposed savings, possibly in an appendix “Fit for the Future” to make the proposals more accessible.

- Monitor the children’s improvement plan and ensure that through its delivery it achieves the financial targets necessary to help ensure the council’s financial stability in the medium term

- Review the risk share agreement in respect of the ICO with a view to capping the existing and potential future financial burdens falling to the council in respect of this

- Review the arrangements for each of the council's arm's length organisations and specifically ensure that:

    - the governance arrangements the council has in place are effective and appropriate and its representatives on the respective boards are 'job competent'

    - each of the contractual/partnership arrangement is systematically reviewed (prioritised and done at pace) and the targets in the council's MTFP is helped to be delivered through this

- Ensure an effective business case and framework for decisions is in place in respect of the Investment fund plans to ensure it exploits all benefits

- Prioritise the Transformation Plans programmes and projects and ensure there is sufficient capacity to deliver these – focus hard on benefits realisation

- Look to drive income, and where appropriate achieve commercial market rates, right across the council's services and asset portfolio

- Consider reviewing (and centralising) commissioning, procurement and contract management functions to help drive efficiencies and improve, streamline and gain better intelligence and control over contracts

3. Summary of the LGA Finance Review approach

Scope, focus and the team

The team was specifically assembled to help the council address the recommendation from the review in September which suggested an external perspective be sought in respect of the council's 4-year efficiency plan and to specifically focus on:

- testing the robustness of the proposals to achieve a balanced budget in 2017/18

- providing challenge and testing the realism and robustness of the council's medium terms financial plans i.e. 2018 -20 and beyond

The make-up of the team reflected the council's requirements and the focus of the review. It included the lead finance peer and LGA programme manager from the original CPC as well as the lead regional LGA officer and its national advisor on finance and productivity. They were:

- Chris West – Executive Director of Resources, Coventry City Council
- Alan Finch – Principal Advisor (Finance & Productivity) Local Government Association (LGA)
- Andy Bates – Principal Advisor (South West) LGA

- Paul Clarke – Programme Manager, LGA

The purpose of peer review

It is important to stress that this was not an inspection. Peer reviews and challenges are improvement-focussed and tailored to meet individual councils' needs. They are designed to complement and add value to a council's own performance and improvement focus. The peer team used their experience and knowledge of local government to reflect on the information presented to them by people they met, things they saw and material that they read.

The process is not designed to provide a technical assessment or due diligence on financial matters. Neither is it intended to provide prescriptive recommendations. The peer review process intends to provide feedback, observations and insights from experienced practitioners that will help validate, reality check and further develop the council's current plans, proposals and evolving thinking about the future.

The peer review process

The LGA team prepared for the review by considering a range of documents and information in order to ensure they were familiar with the council and the challenges it is facing. The team then spent two days onsite at the council, during which they:

- Spoke to more than 35 people including a range of council staff, the Mayor and councillors
- Gathered information and views from more than 14 meetings and additional research and reading.
- Collectively spent more than 70 hours to determine their findings.

This report provides a summary of the team's findings. It builds on the initial feedback provided by the peer team at the end of their on-site visit (9-10 November 2016). In presenting feedback to the council, they have done so as fellow local government officers, not as professional consultants, auditors or inspectors.

By its nature, the review is a snapshot in time. We appreciate that some of the feedback may be about areas the council is already addressing and progressing.

4. Main Feedback

In November 2015 Torbay's Corporate Peer Challenge made a range of recommendations with the aim of helping the council to improve. The main focus of the recommendations related to leadership, change and transformation, capacity and financial sustainability. In November 2015 the peer team felt the council had a tendency for introspection, were somewhat at a loss in determining a plan for its longer term financial sustainability, lacked capacity, had some serious performance issues most especially in children's services, had begun to believe that it was not financially viable and that it was in a worse position than most other councils. As such it was very important that the council responded proactively to the recommendations.

In the follow up review we undertook in September 2016 we reported that the council had indeed attended to the recommendations from the original CPC but that it still needed to improve the prioritisation and pace of doing so and the same is true in terms of this review too. However, they had clearly begun to address issues, could demonstrate some positive results and further demonstrated intentt to build capacity and through this improve the pace of delivery - it will be vitally important it does so.

One of the residual concerns in terms of finances from the September review was the then apparent disconnect between the savings required and the projected budget position for 2017/18 and into the medium term. As a consequence we recommended an urgent review of this. Again the council responded positively to this challenge and this report, arising from our on-site activity in November 2016, plus other work the council has commissioned through CIPFA in relation to their financial resilience will provide useful feedback and recommendations to inform the council as it prepares and agrees its 2017/18 budget and revises its medium term financial plans.

In preparation for this Financial Review we read a range of papers including the impressive budget consultation document for 2017/18, which clearly reflects the council's corporate plan and we are pleased to report that all stakeholders we spoke to have confidence in respect of the overall budget proposals and we do too. Indeed it was refreshing to see this and in particularly noteworthy was the positivity from within the finance team themselves about how they worked proactively with spending departments – it creates the impression of a collective will to address issues. Leading politicians also expressed their satisfaction with this. Clearly there are and will be political differences of opinion about proposals and priorities, but this is normal and not as significant as it could be at this stage. As such we believe the 2017/18 budget proposals are robust. We did feel though that the summary financial information provided could be more easily understood if a straightforward summary of savings was appended, which we understand was immediately addressed by the Council. Indeed we did not always find it an easy read across between the 2017/18 budget proposals, the council's adopted 4-year efficiency plan and its rolling MTFP. This was a message from the original CPC and one we repeat here - present the information in a more straightforward and consistent way.

In the short term we were encouraged to see that the council is intent on ensuring that its level of reserves available to support its bottom line (the so called "Comprehensive Spending Review Reserve") remains above at least £2m. This is prudent and appropriate and we would endorse this. Of late and for various reasons the council has relied on reserves to fund the consequences of poor performance, most notably within children's services. It is now rightly intent on moving away from such a culture and to reflect this a clear message from the LGA team is to seek to ensure the £1.3m of reserves it is proposing to use to fund the 2017/18 budget is avoided. We have offered suggestions to the council about various ways this might be done, including the way the council's capital programme is potentially funded, by not purely relying on revenue to do so.

Overall we felt that there was more optimism and perspective about the council's long term financial position than at the time of the CPC, although this was not universally the case. Indeed given the range of issues that are raised in this report that could, as one stakeholder told us 'potentially blow our budget off course', it will be an important acid test for the council going forward to be both proactive and firm in its financial stewardship and to manage spend within agreed budgets and not relying on reserves to balance revenue budgets. Furthermore the council, in the view of the LGA team, is well on its way to addressing the forecasted £5m savings required for 2018/19 and, providing the transformation plan savings are fully delivered, is equally in a relatively strong position for the period of the MTFP. There are clearly a number of caveats to this assertion not least of which is the likelihood of achieving all of the savings in the transformation plan and we comment on this and other areas the council may wish to address later in the body of this report.

Shortly after we completed the desk review of the council's 4-year efficiency plan in August 2016 we were made aware that planned for savings of circa £2m from children services could not be relied upon. What we know from our discussions with the new interim Director of Children's services that an improvement plan is in development which will primarily focus upon improving the outcomes for children in Torbay and in turn this should drive financial savings. It is too early to be categorically positive about the new arrangements - they are fledgling. However, the tone, language and energy is materially different now and as we understand following our latest visit the plan has now materialised and there will be new saving targets in place for children's services. However, as highlighted in the executive summary of this report, the council's financial stability is highly dependent upon this plan being delivered upon and the financial benefits realised – so progress needs to be monitored closely at a corporate level.

The council was ground breaking in its approach to health and social care integration. Conceptually the arrangement for positioning health and social care provision within the ICO is very positive and progressive. However at the time of writing the level of deficit that the health economy across Devon was carrying was, as one stakeholder described it, 'frightening'. Under the existing arrangement the council is carrying a 9% risk share arrangement with a health system that is massively overspent. If the trajectory of overspending in health was to continue and the risk share agreement to remain intact, it would have a catastrophic impact upon the financial sustainability of the council. As such the level of existing risk being carried by the council in the view of the LGA team requires urgent attention. We would urge the council to have a focussed conversation with its partners and central government in respect of the balance of risk financially being carried by Torbay Council viewed against the opportunities (potentially of national significance) in respect of health outcomes derived from the ICO arrangement. At this stage the best advice from the LGA team is that the council should seek to maximise its financial security by renegotiating and possibly capping its financial exposure under the risk share agreement.

In terms of integration the council needs to continue to embed public health as a core council function. This means further maximising its potential to support other council and ICO initiatives, and recognising that it cannot be protected artificially from the financial challenges facing Torbay.

The council has responded very positively to the CPC's recommendations in respect of transformation. It has appointed a senior officer with their own team to lead this, has developed a programme and built resources around this to enable delivery. All of this is significant progress compared to a year ago. The projects that the council is now developing, including the development of a housing company and setting up an investment fund, are evidence of the authority's desire to be innovative in addressing its challenges, albeit that in some of these areas there is still a sense that the council is not always clear about exactly what it seeks to achieve from these initiatives. It is therefore important that clear business cases are presented to members which reduce the scope for misunderstanding.

Systemically therefore the council is on a journey of improvement and the LGA's follow up report a year on from the original CPC highlights the many achievements as well as the remaining challenges the council faces. Specifically in terms of this report and the Torbay's Transformation Programme the LGA team feel that by reprioritising the projects in the plan, in terms of their significance and by bringing some of these forward more quickly than currently scheduled this will 'flush out' what is realistic and deliverable. Aligned to this is the notion of matching this prioritisation and pace with the skills and experience to further ensure delivery. The programme will benefit from additional financial and commercial know-how and we know that the council is intent on addressing this.

We have made the council aware of a range of projects and approaches that other councils across the country are adopting in terms of commercialisation so it can learn from good practice adopted elsewhere.

To ensure the delivery of its transformation programme the council utilises a RAG rating system to monitor progress. The council is content with this and will need to continue to ensure that this accurately reflects the risks of project delivery so that undeliverable projects are not retained in the programme.

In the executive summary we made reference to governance. We have previously questioned the council's own governance arrangements in respect of pace and to an extent prioritisation. The change in focus of the Policy Development Groups to allow for executive decision making appears a step in the right direction in terms of pace and the political will of the executive lead for housing to push for the council's housing company likewise in terms of prioritisation. That same approach and rigour needs to be applied to the various external arrangements the council has in place. We felt strongly that several of the arrangements the council has entered into would benefit from three things;

- Firstly, ensuring for the present that those representing the council on various external bodies are appropriately skilled to do so. We are agnostic about whether these are councillors, officers or nominated experts. However, we are clear they must have the necessary skills and competence to represent the council as effectively as possible given these are multi million pound ventures – it would be wise for the council to revisit the criteria it adopts and base this on competence to undertake the role.

- Secondly, the council's finances are heavily tied up in TOR2, TDA, ICO and soon potentially the housing company – it is crucial that the council reviews the benefits and outcomes it is getting from these various arrangements. We have identified reviewing the risk share for the ICO, we also suggested at the original CPC that the VFM the council was gaining from TOR2 was insufficient and this requires dedicated time now to ensure significant improvement is made to the current arrangement. The same too will be true of the other arrangements including the TDA.

- Thirdly, the Council needs to ensure that it has effective financial and performance monitoring in place for all such relationships.

The council has decided to develop an Investment fund - at this stage it is £50m and we think that is sensible. It will be very important going forward to be clear about the council's ambitions for the fund – for example is this about a simple investment or is it about investment in Torbay the place and regeneration? In either case, the council must accept and manage the attendant risks. It will also be very important, since the intention is to finance the fund by prudential borrowing, to reflect upon the council's overall indebtedness. The council would be wise to give due consideration to the focus and benefits it seeks from the investment fund and ensure it understands the risks of various options before taking a final decision. We strongly recommend that the council review its investment fund arrangements to reflect that balance between debt and income and establish very clear investment criteria and consider separating the investment fund into different categories e.g. investment for revenue return and investment for regeneration, jobs etc.

Through the transformation programme we are aware that the council is seeking to develop its commercial income across elements of its assets base. This is consistent with what other councils are doing and we know that the council is also enlisting the external support of the LGA's Productivity Expert to specifically look at how they might do this across their entire asset base. There will clearly be a balance between what is or should be fundamentally public services and what are opportunities that could or should be explored to drive commercial income, examples of this might be beach huts, car parks etc.

We know that through the transformation programme the council is looking at how it might best apply digital solutions. Again this is positive but we felt that the council would benefit from adopting a more fundamental digital strategy which considers digital technology as an enabler of better, more efficient outcomes rather than simply a consequence of change. We felt that a more holistic approach to service re-design with 'digital' at its heart as a way of more effectively reforming services around a better customer offer and streamlining and managing demand should be looked at. The LGA is aware of a range of places that have made such changes and our advice to the council is to look at how others have sought to address this and apply what is most useful.

As highlighted in the Headline section we only spent 2 days on site and this wasn't a core area of our focus but we did pick up a sense that there might be the potential for the council and its partners to review its commissioning, procurement and contract management functions. These are currently scattered around the council and having relatively little impact on some areas of spend. Centralising these arrangements, and improving governance and control over procurement costs (e.g. through a procurement board) may bring significant savings and efficiencies.

The council has and continues to make significant strides to address its financial sustainability. Importantly it is seeking to achieve that 'end game' through designing and delivering better services for its communities, seeking efficiencies and becoming more commercially aware. Its MTFP appears relatively sound and should the programmes within the transformation programme deliver in full then this will both ensure sustainability and give greater opportunity for political choices around spend. A lot can change in the world of local government finances, notably planned changes in terms of business rates but at present we feel that the council's current assumptions are sensible ones. We have highlighted the main risks and the ways that they might be mitigated -essentially by driving things at pace, improving capacity and focusing on benefits realisation - will create clarity about finances. Overall though in the view of the LGA team at present Torbay Council has a clear plan for 2017/18, a credible plan for 2018/19 and a developing plan to manage the year (s) beyond this.

5. Next steps

We appreciate the council will want to reflect on these findings and suggestions with the senior managerial and political leadership in order to determine how the organisation wishes to take things forward.

As part of the peer review/challenge process, there is an offer of further activity to support this. The Local Government Association (LGA) is well placed to provide additional support, advice and guidance on a number of the areas for development and improvement and we would be happy to discuss this. Please liaise via Paul Clarke paul.clake@local.gov.uk or Andy Bates andy.bates@local.gov.uk

We will endeavour to provide additional information and signposting about the issues we have raised in this report to help inform ongoing consideration.