

Finance Peer Challenge

Torbay Council

November 2018

Report of the Peer Review Team

1. Background

For some time now, Torbay Council has been concerned about its ability to balance its budgets in the face of challenging demand pressure, and the very significant grant reductions it has faced since 2010.

The Council had a Corporate Peer Challenge (CPC) in November 2015, with a follow up report in 2016. It also commissioned a separate Financial Resilience Review from CIPFA in November 2016. These exercises led to action plans and initiatives to help the Council manage its finances.

As well as being very aware of the challenges it faces, Torbay has been very effective so far in managing down its spend in the face of grants cuts, successfully delivering reductions of £76m since 2010, for which the Council should be commended.

Since 2005 the council has had a mayoral governance model. The current Directly Elected Mayor has been in office since 2011, having been re-elected in 2015. As a result of a referendum, following the elections in 2019 the Council will revert to a Cabinet/Leader Model. This means that whatever the outcome of the election, Torbay will have new political leadership in May 2019, following all out elections. The incoming administration will then have a four year term of office.

Following ongoing operational and financial issues with Children's Services (which are currently rated 'inadequate' by Ofsted) and a review of future options led by a government appointed Commissioner, from April this year Torbay's Children's Services have been managed by a single Director of Children's Services who is also the Director of Children's Services for Plymouth City Council. Ultimate statutory accountability and financial responsibility for Children's Services however remain with Torbay .

In 2017 Local Partnerships were engaged by the Council to review how services were delivered, which included consideration of local government re-organisation. Local Partnerships commenced their work with an options appraisal in May 2017 and in the preparation of this met with the Elected Mayor and senior politicians, senior officers, and potential partner organisations. They reviewed a wide range of key documentation from both Torbay and potential partners such as Devon County Council, Plymouth City Council and South Hams and West Devon District Councils. Initially a long list of options were explored, but with input from the Elected Mayor, Members and Officers a short list was agreed, which was considered in more detail and subjected to a high level qualitative and quantitative analysis. Following discussions with potential partners and with Government, local government re-organisation was not considered to be achievable by Local Partnerships and therefore their review focused upon strategic partnering possibilities.

Ultimately the Local Partnerships review demonstrated that the level of savings to be realised from a strategic partnering arrangement were not material in the context of the budget reductions faced by the Council. It was recognised that significant officer resources would be required to deliver a strategic partnering arrangement, for which there would be an opportunity cost, plus

the actual cost of implementation. The Local Partnerships Business Case did highlight two options in respect of opportunities to increase the level of income and therefore the level of resilience to the Council, namely;

1. Raise Council Tax to levels comparable in the rest of Devon, or
2. Create Town Councils across the entirety of Torbay, who have an ability to raise income through the precept mechanism, devolve certain services to them.

In the report to Council in September 2017, the Chief Executive gave clear and unequivocal advice to Members that the Council could not allow its collective focus and limited capacity to be distracted from delivering savings through the transformation programme. He recommended that the Council did not pursue a strategic partnering arrangement with any party at that time in order to focus upon the transformation programme, but he recommended that the Council should immediately undertake a Community Governance Review to consider the devolution of services to precepting Town Councils.

Since that time, the Council has commendably put significant effort into its transformation agenda, however despite this, the Council continues to face unprecedented financial challenges and an uncertain financial future. The current iteration of the Medium Term Resource Plan (MTRP) sets out that the Council needs to identify at least £11m per annum of savings/income generation by 2021/22.

This current Finance Peer Challenge has been commissioned by the Council and the LGA to help Torbay progress in meeting its financial challenges.

2. The brief.

A narrowly focused peer review to:

- identify the Council's current financial position and robustness of its efficiency plan;
- to identify specific actions to address the financial challenges for the longer-term
- including all future options to secure the long-term viability of services for the people of Torbay.

3. Peer challenge team

The team was as follows:

- Chris West - LGA Finance and Improvement Sustainability Adviser, former Director of Resources, Coventry City Council. Chris was a member of the 2015 Peer Review Group Team, and part of the follow up to that in 2016.
- Chris Buss – Treasurer Western Riverside Waste Authority, Former Director of Finance and Deputy Chief Executive- London Borough of Wandsworth
- Emily McGuinness - LGA Adviser - South West
- Andy Bates-Principal Adviser-LGA – in his role as regional lead for the South West

4. The Council's current financial position and robustness of its efficiency plan.

There can be no doubt that Torbay Council is in a very challenging financial challenging position. It has a significantly deprived population and has as a consequence, been dependent on Government grant, and hard hit by grant reductions since 2010. As a small Unitary it lacks economies of scale, the local economy is not booming and its geography brings particular challenges. Similar points can be made about other councils and therefore it must be emphasized that the challenges are not unique to Torbay, however equally the scale of challenge for Torbay Council should not be underestimated.

During 2018/19 a significant budgetary control issue has emerged in Torbay in Children's Services – which has been a continual issue in the authority for some years. At Quarter 2, the overspend on Children's was predicted to be £3.5m, but savings elsewhere reduced the corporate forecast to a £2.4m overspend. The management team had already taken proactive and appropriate action to try to contain the overall bottom line within budget, by introducing a moratorium on non-urgent spend and recruitment.

An overspend of this size in an authority with a net budget of £115m is a matter of concern, particularly with the low level of reserves, and this means that Torbay enter the 2019/20 budget round from behind the expected starting line.

There has never been a more challenging time for local authorities to make long term financial plans. As Torbay's MTRP spells out, the scale of

potential change nationally to the local authority finance system in 2020 is huge and it is extremely difficult for councils to predict what will happen. Key issues include:

- Details of the move to 75% business rate retention
- The outcome of the Fair Funding Review and the distribution of resources between Councils
- The future of Better Care Fund and Improved Better Care Fund
- The future of New Homes Bonus
- The future of ring fenced public health grant
- The degree of damping to be applied to the new system once introduced
- Future Council Tax Referendum Limits.

The impact of events in Northamptonshire, the increasing national pressure on Children's and Adult Social Care and the possible impact of Brexit only add to a very blurred planning horizon. Nationally, it is almost impossible to have any certainty beyond the end of 2019/20.

Against this context the Council has published a MTRP covering 2019/20 and the following 2 years, which is summarized in the following table:

Revenue Budget	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m
Estimated Sources of Finance (Revenue Support Grant, New Homes Bonus, National Non Domestic Rates, Council Tax & Collection Fund)	(112.0)	(111.1)	(108.8)	(108.4)
Investment Fund Net Income	(2.8)	(2.8)	(3.4)	(3.4)
Sources of Finance Including Investment Fund	(114.8)	(113.9)	(112.2)	(111.8)
Net Expenditure budget				
Net expenditure base budget brought forward	112.9	114.8	114.5	112.2
In year movements e.g. known changes and service investments	2.3	(0.7)	2.2	1.1
Inflation and pay award	1.9	1.8	2.0	2.0
Children's Services	3.0	3.3	0.5	0.5
Adult Social Care – Council Tax precept	1.8	0	0	0
Less approved service savings/income	(7.1)	(0.8)	0	0
Budget Proposals & Transformation	0	(4.5)	0	0
Total Net Expenditure budget	114.8	113.9	119.2	115.8
Additional Savings required <u>in year</u> to balance budget	0	0	(7.0)	(4.0)
Total Net expenditure budget after savings	114.8	113.9	112.2	111.8
Savings required – Cumulative position:	0	0	(7.0)	(11.0)
Savings Identified – October 2018	-	-	0	0
Balance of savings to be identified – October 2018	0	0	(7.0)	(11.0)

Table last updated 24 October 2018

The Council is consulting on proposals to balance its budget in 2019/20 via known savings, additional savings and transformation projects totalling £7.5m – the additional savings and transformation projects are summarised in Appendices One and Two below. This will be in addition to the £76m of savings already delivered since 2010. Despite concerns in the past, the Council is continuing to manage its finances, in the face of the challenges.

The budget is anticipated to be in deficit in 2020/21 by £7m and a further £4m in 2021/22. However, given the range of uncertainty on arrangements post 2020, these figures can only represent reasonable guesses of the potential position.

Torbay is quite early in publishing its budget, but the Review Team expect many other Councils to publish plans with only 2019/20 in balance. Gaps beyond 2020 are likely to be bigger both absolutely and relative to size in many authorities. In a challenging national context, Torbay Council are in no worse a position than many places, and better than some.

The Review Team would make the following observations on the MTRP and Draft Budget Proposals:

- The savings present a pragmatic approach to balancing the budget.
- An additional £3.3m is added to meet predicted pressures in Children's Services, reflecting very significant in year overspending in 2018/19. Whilst this is prudent, there is a pressing need to contain Children's spending. The Council is already an outlier in this area, and cannot sustain further increases in costs without serious implications for its overall financial position.
- They seem realistically deliverable, with the major caveat being the £0.55m proposal to make procurement and contract management savings in Children's Services.
- The proposals continue to leave the Council's reserve balance at a low level - the non-earmarked general fund reserves are predicted to be just £4.6m or 4% of net budget by March 2019.
- The proposal to go for the likely 3% maximum Council Tax rise makes sense given the strategic need for the Council to protect and grow its tax base for the future.
- Officers need to begin work now Council wide, on further transformation and savings proposals for the future, to present to the incoming administration in May 2019 and give them a head start and room to manoeuvre in planning the budget for 2020 and beyond.
- The Team did not review Torbay's new investment portfolio in detail, but note the positive contribution it has made to balancing the budget. The team would highlight that the Council is required to have regard to

CIPFA and MHCLG guidance in respect of the proportionality of investment activities for any future decisions regarding the Portfolio.

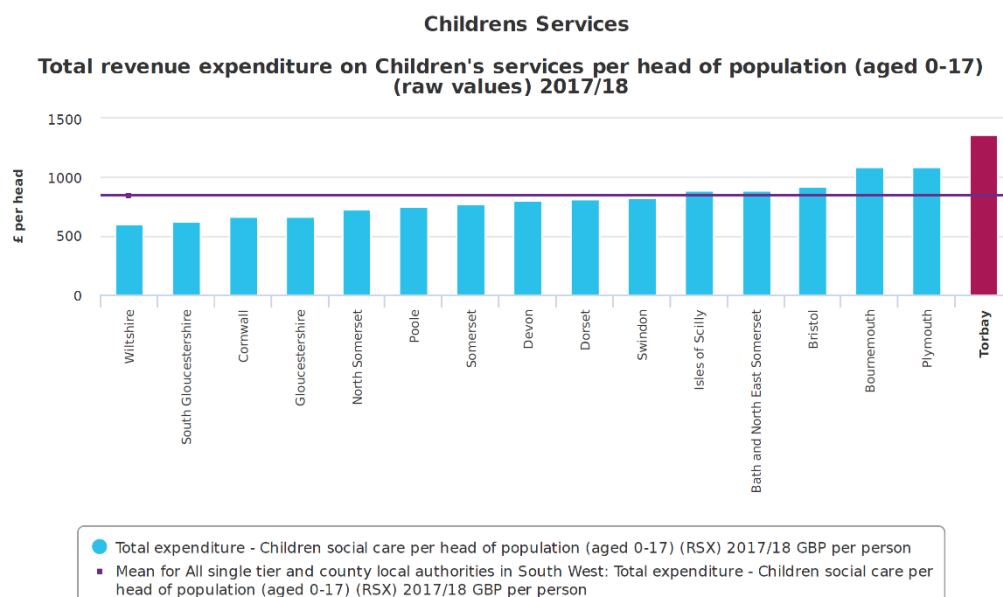
The Review Team tested views on the effectiveness of the Council's Finance Team with a number of senior service managers, and received universally positive feedback on the information, support and advice given, and on the quality of relationships. This is a laudable achievement given the pressures the Council has faced.

The Review Team also received very positive feedback on the performance of the Transformation Team, which is equally as commendable. The Transformation Team believe there is scope for the Council to use this Team further, including in Adults and Children's Services. There is also scope to extend pilots and push forward with wider, organisational transformation projects that will help drive future savings. This will include use of technology, location independent working and paperless working.

On a more general point, the Review Team felt a confidence and optimism amongst the managers with whom they met, that represents a palpable improvement from the prevailing culture 2015, when many officers felt the Council could never be viable.

Children's Services.

Torbay Council has very high numbers of looked after children and very high costs of Children's Services as a whole compared to any comparator group. The graph below for example compares spend per head of 0-17 year olds on Children's to other South West region authorities using 2017/18 data – Torbay is an outlier.



If anything marks out Torbay's financial problem as unique, it is the scale and persistence of its spending levels and pressure on Children's Services.

Following a recommendation by the DfE Commissioner, Torbay's Children's Service has a joint Director of Children's Services with Plymouth City Council. The arrangements have been formally in place since April 2018, but the new Director took up post fully from July. It is very early days to judge the effectiveness of these arrangements.

A range of views was expressed to the Review Team, with some senior members feeling they had "lost" half of a Director, and some senior managers in Children's being positive about the synergies from working with Plymouth – e.g. on Social Worker Recruitment and Placement Strategies, and the benefits that the arrangements could bring. It is essential that significant focus is given to ensure that the arrangements brings benefits for both Councils.

The position for Torbay in respect of its Children's Services is of concern. The Director of Children's Services faces significant financial challenges. Stopping the growth in Children's spending, and getting costs back closer to the expected level for an authority its size are mission critical for Torbay.

It is therefore recommended that Torbay establishes a formal saving delivery plan for Children's Services which should include an analysis of the current case load to try and determine any structural reasons as to why the Council has such a high demand for Children's services. This delivery plan should be monitored corporately at both officer and member level.

The LGA has also offered future support to Torbay to assist in the change process in Children's Services.

In addition to the position in Children's Social Care, the Council is facing considerable pressures in respect of the Higher Needs Block of the Dedicated Schools Grant. The team recognises that the Council have been proactive and established a Higher Needs Recovery Group to consider the ways in which to reduce these pressures. The group, made up of system leaders across education, health and social care have considered in detail the demands that are leading to the increased spend and they have agreed the actions required to address the same. As the Dedicated Schools Grant is ring-fenced there is no requirement for Torbay to contribute to the funding, therefore the creation of the Recovery Group, involving those whose decisions impact upon the Higher Needs Block budget, is a positive and proactive step, and should be continued.

Adult Social Care.

Torbay has an Integrated Care Organisation (ICO) with Health, that represents a highly developed partnership approach to Health and Adult Social Care (ASC), and in many ways is a model of collaborative working. The Council commits very significant budget into the arrangements, including BCF and some iBCF in return for a fixed price for social care, therefore protecting the Council from exposure to overspend in this area of increasing demand.

The risk share expires in 2020 and will need to be renegotiated well in advance of that, with a memorandum of understanding being required by the end of March 2019.

The Review Team would make the following observations as context for these negotiations:

- The NHS has enjoyed significant financial protection in its government funding since 2010, at a time when Local Government has seen year on year cash reductions.
- The arrangements in Torbay limit the capacity of the Council to achieve savings in Adult Social Care (although some £800k per annum savings are currently built into the agreement)
- Most upper tier Councils are both putting additional resources into ASC *and* seeking to drive out efficiency savings. The scope for

Torbay to do this in the current risk share arrangements is highly limited.

- This is a particular issue when Children's social care spend is at such high levels in Torbay.
- The negotiation must leave the authority in a position where it is financially sustainable as a whole and must not be conducted in isolation from the corporate position.

5. Specific actions to address the financial challenges for the longer-term

For some time now the Council has been considering the future of TOR2, its Joint Venture Company delivering a range of Environmental Services in the Bay with a total budget of c £13m pa. The contract ends in July 2020, and recently Torbay have been seeking to agree a possible early termination.

The Review Team recommend that as well as considering the early termination, there should be immediate focus on developing detailed specifications for services after the end of the contract, which in planning terms is now getting close – especially if some of the services need to be procured or if expensive vehicles and plant are to be purchased. Torbay should detail the services it wants and can afford and should seek to deliver significant ongoing savings from this process.

The review team recognise that many of the TOR2 services are public facing services which impact the built environment, but these do need to be reviewed to ensure that the arrangements for future provision enable the Council to meet public expectations in the most cost effective manner, which is unlikely to be by the same method of service delivery as under the current contractual relationship.

While on site, the Review Team have suggested a number of potential savings areas for further investigation, including pensions, alternative approaches to capital, an income generation opportunity, some possible flexibility on debt repayments, and rethinking the Council's arrangements with the TDA. More work will be required to develop these ideas into proposals, and some will inevitably fall out along the way. The LGA will provide further support in this process as required.

It is not possible to be precise about the level of savings these proposals could generate, but it could be in excess of £1m or more, if most of them come to fruition.

In addition, Torbay's s151 officer attended an LGA sponsored event in June 2018, which suggested a range of approaches to making savings. These have been reported to the management team and this provides a wider range of additional ideas to develop for the future.

The Review Team also recommend that Torbay Council review the funding of its capital programme, and where possible replace revenue, reserves or capital receipts with borrowing, and allow these resources to be used to bolster reserves to provide greater resilience in the short term. In the case of capital receipts this may involve switching them to fund revenue via the government's flexibility rules. The Team believe that up to approximately £2m could be added to reserves over the plan period by this process.

6. Future options to secure the long-term viability of services for the people of Torbay.

The Background section of this report summarises recent work in Torbay to progress structural changes to ensure its long term viability. The Review Team concur with the point reached by the Chief Executive that a major structural change is not likely in the short to medium term and Torbay should continue to plan on the basis that it is a self-standing Unitary Authority.

There are however some actions that the Council is taking or can pursue to help improve its viability;

- The Council is investigating the option of establishing Town Councils that could raise precepts and provide communities with a different set of options for future service provision. This work should be progressed to a point where members are able to make an informed decision and be capable of being implemented in April 2020 should the new administration chose to do so.
- Torbay is in discussion with Government about a possible Town Deal. This and similar approaches should continue to be pursued through the 'Torbay Together' initiative.
- Torbay should continue to explore all possible options to work regionally and sub regionally, to raise its profile and exploit any possible funding streams e.g. through the LEP.
- Torbay, in alliance with other deprived coastal communities, should lobby the government to get its characteristics recognised

in the current Fair Funding Review, in an attempt to influence the outcome. Other interest groups e.g. County Councils are already lobbying hard, and the problems facing Torbay and similar Councils need also to be on the agenda.

7. Summary Recommendations

7.1 Torbay should continue to plan on the basis that it is a self-standing Unitary Authority.

7.2 Officers need to begin work now, Council wide, on further transformation and savings proposals for the future, to present to the incoming administration in May 2019 and give them a head start and room to manoeuvre in planning the budget for 2020 and beyond.

7.3 Torbay establishes a formal saving delivery plan for Children's Services which should include an analysis of the current case load to try and determine any structural reasons as to why Torbay has such a high demand for Children's services. This delivery plan should be monitored corporately at both officer and member level.

7.4 The negotiation on the future of the ICO risk share must leave the authority in a position where it is financially sustainable as a whole and must not be conducted in isolation from the corporate position.

7.5 On the TOR2 contract, as well as considering the early termination, there should be immediate focus on developing detailed specifications for services after the end of the contract, which in planning terms is now getting close – especially if some of the services need to be procured or if expensive vehicles and plant are to be purchased. Torbay should detail the services it wants and can afford and should seek to deliver significant ongoing savings from this process.

7.6 Torbay should consider the ideas for further savings suggested by the Review Team, with a view to developing specific proposals for Member consideration.

7.7 Torbay should review the funding of its capital programme, and where possible replace revenue, reserves or capital receipts with borrowing, and

allow these resources to be used to bolster reserves to provide greater resilience in the short term.

7.8 The Council should continue to investigate the option of establishing Town Councils that could raise precepts and provide communities with a different set of options for future service provision. This work should be progressed to a point where members are able to make an informed decision and be capable of being implemented in April 2020 should the new administration chose to do so.

7.9 Torbay should continue its discussion with Government about a possible Town Deal. This and similar approaches should be pursued through the Torbay Together initiative.

7.10 Torbay should continue to explore all possible options to work regionally and sub regionally, to raise its profile and exploit any possible funding streams e.g. through the LEP.

7.11 Torbay, in alliance with other deprived coastal communities, may want to lobby the government to get its characteristics recognised in the current Fair Funding Review, in an attempt to influence the outcome. Other interest Groups e.g. County Councils are already doing so.

8. Next steps

The LGA will continue to offer support to Torbay and particularly the s151 officer in developing the proposals for additional savings summarised in section 5 above. Support will be provided via Chris West in the first instance. This support can be agreed via the LGA Adviser, Emily McGuinness.

The LGA will offer external advisory support for developing and reducing costs in Children's services. This support can be made available across both Torbay and Plymouth if this is acceptable to both authorities. This proposal can be developed and agreed through discussion with the Principal Adviser, Andy Bates.

Appendix One – Draft Proposed Savings for 2019/20

Childrens Business Support	150
Childrens Procurement and Contract Management	550
Adults Joint Commissioning team	113
Substance Misuse	90
Home Improvement Agency - Internalise	60
Environmental health income	25
Temporary Accommodation	10
Licensing	18
Members Allowances	50
Internal audit-10% reduction	20
Insurance	80
Registration of BD&M	45
Apprenticeships	212
Union Duties	10
Oldway Mansion	25
Corporate support	20
Senior Leadership team	100
Customer Services- reduced cost pf pensionms due to staff opt out	43
Customer Services- increased vacancy level 2to3%	60
Debt Recovery	26
Resort services income	20
Torbay Harbour	50
Geopark	10
Highway mtce	320
oldway premises	118
school crossing patrols	28
Asset rationalisation	36
illuminations	30

playgrounds	7
Asset management - reduction to RDA	226
Parking	5
Regeneration -payment to RDA	59
Natural Environment	125
events	164
Torbay coast & country park trust	45
<i>Sea Fisheries</i>	25
<i>Archives</i>	10
Joint ops team	50
Street lighting	25
TOTAL SAVINGS	3060

Appendix Two – Proposed Transformation Savings for 2019/20

Transformation Project	£000
Investment Portfolio	625
Commericalism Programme:	
Revenue Income Optimisation <ul style="list-style-type: none"> • Advertising inc. LED Advertising • Film Friendly offer • Amazon Lockers • Room Hire 	100
Review of Transport and Concessionary Fares	78
Council Tax/NNDR and Housing Benefit <ul style="list-style-type: none"> • Increase of empty homes premium • Removal of month empty and unoccupied discount 	300
Review of Minimum Revenue Provision	300
Total	1,403